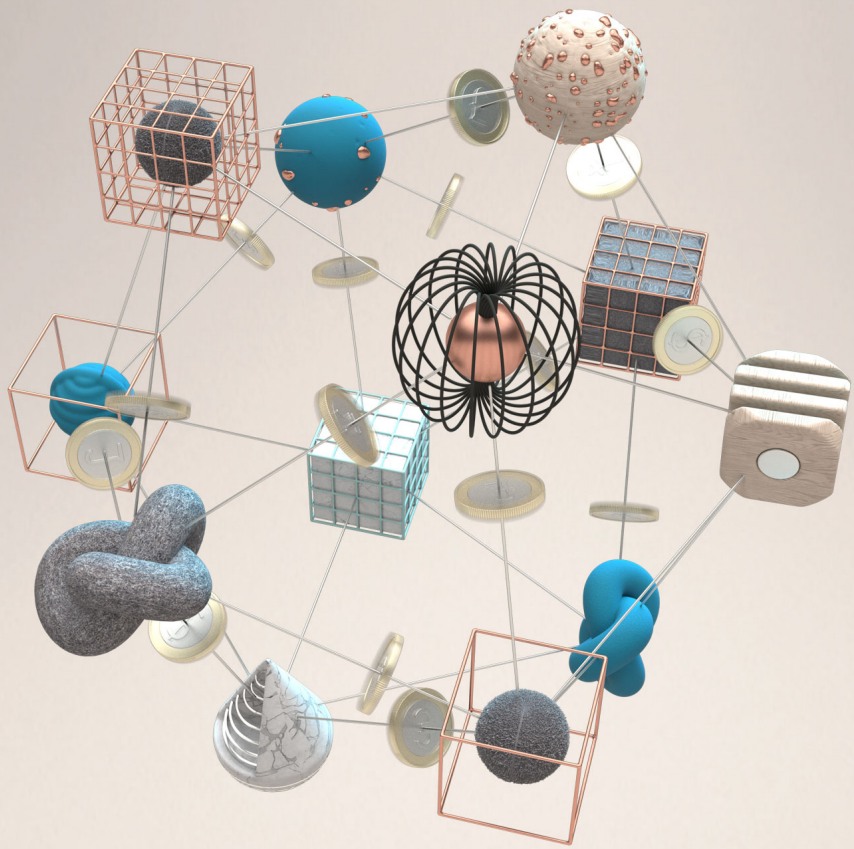

BANKING CIRCLE

Pillar 3 Report

For the financial year ending 31 December 2019

Banking Circle S.A.

December 2020

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BANKING CIRCLE

Contents

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1. Introduction

The present report constitutes the Pillar 3 disclosures of Banking Circle S.A. (herein referred to as "BC" or "the Bank") for the financial year ending 31 December 2019. On 30 December 2019, the Bank merged with its sister company, Saxo Payments A/S, a Danish Payment Institution (the "Absorbed Company"), with the effective date of the merger, for accounting purposes, being 1 January 2019. Accordingly, all operations of Saxo Payments A/S from this date are included in the 2019 financial statements for the Bank. The Pillar 3 disclosures for the Bank are in certain areas adjusted to reflect that the Bank only operated as a bank on the last day of 2019.

It corresponds with the requirements of the global regulatory framework for capital and liquidity established by the Basel Committee on Banking Supervision, also known as Basel 3. These requirements are, at the European level, implemented in the disclosure requirements as laid down in Part Eight of the "Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms" (also referred to as the "Capital Requirements Regulation" or "CRR") and the "Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms" (also referred to as the "Capital Requirements Directive IV" or "CRD IV").

The European Banking Authority (also referred to as the "EBA") has provided additional disclosure guidance in its "Final Report on the Guidelines on Disclosure Requirements under Part Eight of Regulation (EU) No 575/2013" (herein referred to as the "EBA Guidelines 2016/11"). Finally, at Luxembourg level, the CSSF Circular 17/673 also defines the sections of the EBA Guidelines 2016/11 to which the Bank is subject.

This report is divided into nine sections, as follows:

- Section 2 presents the Bank's structure, business model, governance and risk management framework;
- Section 3 presents the Bank's own funds, capital adequacy and leverage ratio;
- Section 4 presents information on credit risk;
- Section 5 presents information on market risk;
- Section 6 presents information on liquidity risk;
- Section 7 presents information on operational risk;
- Section 8 presents information on other risks;
- Section 9 presents information on remuneration.

The Bank publishes its Pillar 3 report on an annual basis.

The disclosures made in this document do not constitute financial statements and are not required to be subjected to an external audit.

2. Presentation of the Bank

2.1 Structure

The Bank is a public limited liability company (Société Anonyme) registered in Luxembourg. On 17 October 2019, the Bank was granted a credit institution license by the Commission de Surveillance de Secteur Financier (CSSF) and European Central Bank (ECB) with the licence being activated on 30 December 2019. The Bank has established and registered branches in Denmark, Germany and the UK.

The Bank is owned jointly by EQT VIII and EQT Ventures Investments S.àr.l., as well as some minority shareholders (less than 10% individually).

2.2 Business model and activities

The Bank is a global scale financial utility supporting the payment service propositions of its clients and their customers. It offers business-to-business payment solutions which have been specifically created to meet the needs of businesses who trade globally. These clients consist of a wide spectrum of financial institutions (including card acquirers, payment service providers, alternative payment method providers and FX payment providers). The (vast) majority of the Bank's clients are providing business activities qualifying as payment services and thus in turn qualifying as financial customers.

The Bank's business model and strategy builds on the observation that the actors in the financial industry are becoming more international while banks tend to become regional. Therefore, the Bank continues to provide its clients with an efficient low-cost payment service helping them to improve cash flows via enhanced speed of settlement by providing access to a global account infrastructure with the ambition to be a one-stop-shop for global payments and currency conversions. The mission is to deliver a multisided platform utilising new technology and network to provide core banking services. The Bank's business activities cover payments, currency conversions, as well as deposit accounts. These activities form the Bank's core business line.

2.3 Governance

The management bodies of the Bank are solely constituted of the Board of Directors, management body in its supervisory function and the Executive Committee, management body in its executive function.

<u>Board of Directors</u>

The Board of Directors of the Bank has the overall responsibility for the organisation and the management of the Bank's operations, including its foreign branches. It has the broadest powers for making decisions regarding the Bank and acts under the delegated authority of and is accountable to the shareholders of Banking Circle.

The Board of Directors has the ultimate responsibility for limiting and monitoring the Bank's risk exposures, for setting the capital targets and for defining the risk appetite. The Board approves the Bank's risk management strategy and overall risk tolerance level. It is also responsible for ensuring the Bank's compliance with all applicable regulatory requirements.

For the purpose of increasing its effectiveness, the Board of Directors may be assisted by specialised committees, particularly in the fields of audit, risk or remuneration, where the nature, scale and complexity of the Bank and its activities so require.

The Board members of the Bank are the following:

First name and Last name (as per passport or ID)		**Position** (any managing position)	**Appointment date** (DD/MM/YYYY)
Lars	Torpe Christoffersen	Member	11 October 2018
Mads	Munkholt Ditlevsen	Vice-chairman	11 October 2018
Wolfgang	Gaertner	Chairman	11 October 2018
Marie-Anne	Van Den Berg	Member	18 November 2019
Folke	Hjalmer Birgersson Winbladh	Member	11 October 2018

Executive Management / Committee

Both the CEO, Anders la Cour and the Deputy CEO, Laust Bertelsen are authorised managers of the Bank under Art. 7(2) of the law of 5 April 1993 on the financial sector.

Furthermore, an Executive Committee has been constituted with the authorised managers. The Executive Committee of the Bank operates as the main decision-making authority for the day-to-day operations and management and is established to act as a senior decision-making management and governance forum on behalf of the Bank and all its branches.

The Executive Committee acts under the delegated authority of and is accountable to the Board of Directors. It has the overall responsibility for developing and maintaining effective risk, liquidity and capital management principles as well as controls. It further prepares suggestions to the Board on the allocation of any risk-taking limits to the risk-taking units. Based on the limits approved by the Board, it may also enforce tighter limits on individual risks or impose additional risk mitigating techniques.

The Executive Committee may be supported by operational committees in the management of daily activities to which it can delegate decision-making power, including the:

- Onboarding Committee;
- Governance, Risk and Compliance Committee; and
- Products and Pricing Committee.

2.4 Risk management setup

2.4.1 General information on risk management, objectives and policies

Risk Management Framework

The Risk Function is established as an independent and autonomous unit within the Bank including its branches. The Risk Function is organised in a way to avoid conflict of interest and to ensure independent thinking and judgement as well as objectivity in relation to the activities controlled. It is headed by the Chief Risk Officer, who reports directly to the Authorised Management, with the administrative reporting line being to the deputy CEO. Moreover, the CRO is a non-voting advisory member of the Governance, Risk and Compliance Committee.

The Risk Function, together with the two other internal control functions – Compliance and Internal Audit – forms an integral part of the Bank's internal control framework. The Risk Function – respecting the need for independence and segregation of duties – strives for a good cooperation with the other control functions in order to facilitate an efficient and effective Enterprise Risk Management Framework.

Reporting and escalations

The CRO provides regular reports to the Board as well as to the Authorised Management regarding the overall risk profile, including risk exposures, capitalisation etc. The reporting contains, in particular, an assessment of the adequacy between the risks entered into and the available own funds as well as liquidity reserves. This is to safeguard that the Bank is and will be able to manage its risks both in normal times as well as in times of stress. Moreover, the reporting always highlights whether the current risk exposure is within the risk tolerance and appetite as decided by the Board.

The CRO submits a monthly risk report to the Authorised Management and a quarterly report to the Board. In addition, any material risk event must always be reported to the two bodies without delay.

The CRO once a year provides a summary report to the Board giving account for the activities and also including the key recommendations and the status regarding the mitigating actions. The report will be circulated to the Authorised Management for information and a copy of the report will be filed with the CSSF.

Areas of responsibility and delegated responsibilities

The Risk Function is part of the second line of defence and is in charge of the anticipation, identification, measurement, monitoring, controlling and reporting of all risks the Bank is or may be exposed to. It thus assists the Authorised Management in managing and limiting the risks the Bank is exposed to.

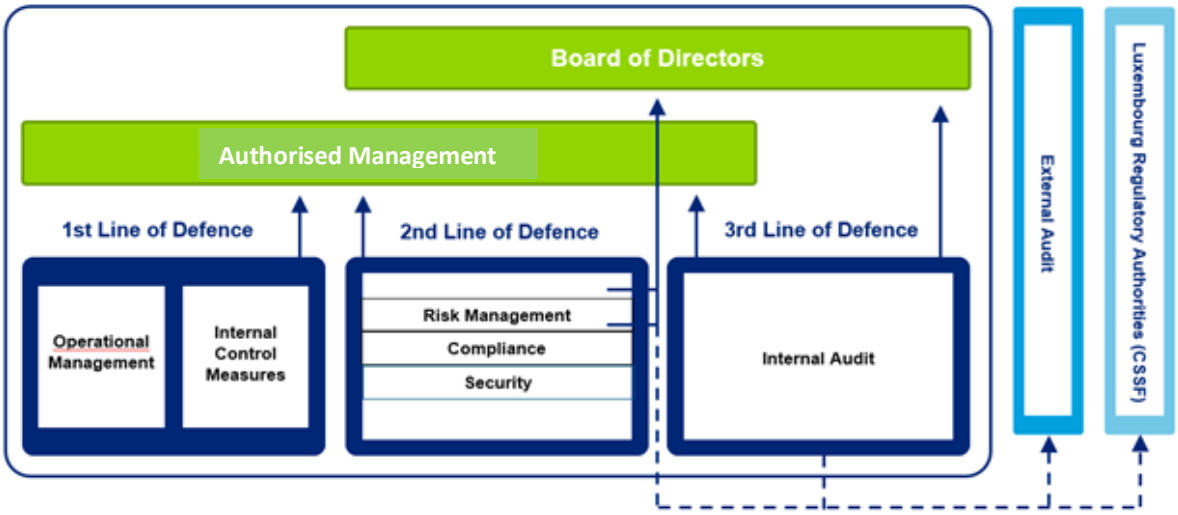
Within the Risk Function, the Information Security Officer ("ISO") is the person in charge of the organisation and management of the information security, i.e. the protection of the information. The ISO is appointed by the Authorised Management and is – like the rest of the Risk Function – independent from the operational functions and is thus released from the operational implementation of security actions. The ISO is equipped with an escalation mechanism enabling escalation of any exceptional problem to the highest level of the hierarchy, including the Board. The

normal reporting from the ISO is, however, conducted as an independent and integrated part of the overall risk reporting.

The ISO's key missions are the management of the analysis of the risks related to information, the definition of the required organisational, technical, legal and human resources, the monitoring of their implementation and effectiveness as well as the development of the action plan(s) aimed to improve the risk coverage.

Internal Governance Arrangements

To ensure a sound and prudent management of its business and the inherent risks, the Bank has established internal governance arrangements which are consistent with the three-line-of-defence model, as depicted below.



The three lines of defence structure is a conceptual delineation of an organisation's internal control levels: the first line controls, the second line monitors controls, and the third line acts as independent assurance. It also provides a framework with which the Board can understand and operate the Bank's overall risk management and internal control process.

The first line of defence consists of all departments that are neither second nor third line of defence. The first line of defence has the ownership, responsibility and accountability for directly assessing, controlling and mitigating risks in accordance with the risk strategy and tolerance as set by the Board in the risk appetite policy, something which is done together with the transverse functions (i.e. IT and Finance).

The second line of defence consists of the Risk Function and the CRO as well as the Compliance Functions headed by the Chief Compliance Officer (CCO). This second line of defence challenges, monitors and reports to the Authorised Management and the Board on the effectiveness of the Bank's risk management framework and addresses the various risk exposures of the Bank, based on sound risk assessments being appropriate to Bank's activities. It also facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation.

Internal Audit forms the Bank's third line of defence. It provides independent, objective and critical assessment on the effectiveness of the operational processes within the Bank by making use of a risk-based approach. Through its initiatives, it gives assurance to the Board and the Authorised Management on how effectively the organisation assesses and manages its risks. For independency reasons, the Chief Internal Auditor reports functionally to the Chairman of the Board of Directors and administratively (i.e. day-to-day operations) to the Authorised Manager responsible for the Internal Audit Function.

The aforementioned risk management provisions are designed to allow adequate management of the following key risks faced by BC:

- Credit risk
- Market risk
- Operational risk
- Liquidity risk
- Reputational risk

In Sections 4–8, those risks for which the Bank has allocated capital for will be elaborated further.

2.4.2 Directorships and recruitment policy

The Bank does not have a specific recruitment and diversity policy regarding the internal selection of members of the Board in place.

2.4.3 Scope of application

Disclosure has been made at the individual level of Banking Circle and there were no accounting or prudential consolidation requirements.

3. Own funds and capital adequacy

3.1 Own funds composition

The Bank's own funds consist solely of Common Equity Tier 1 (CET1) capital, considered as the capital of the highest quality with ultimate loss absorbance characteristics. The Bank is, for the calculation of the capital base, following the current Capital Requirements Regulation and Directive (CRR/CRD IV) as well as the Luxembourg regulation, while equity as reported in the balance sheet is based in applicable accounting standards and principles.

The components of own funds are consisting of the CET1 capital after relevant deductions with the development of the own funds being dependent upon its profit generating ability, dividend policy in combination with any additional equity contributions from the main shareholder. The Bank has maintained a strong capital position following the activation of the banking license and the merger with the Danish payment institute with the CET 1 – after deductions – amounting to EUR 52,748,683 as per end of December 2019. The Bank's eligible own funds after deductions consisted exclusively of CET1 capital which was mainly formed by subscribed and fully paid up capital and the corresponding share premium accounts fulfilling the requirements set out in Art. 26 (1) lit. a) and b) in connection with Art. 28 CRR.

Template 1[1]: Own funds disclosure template

Own funds disclosure template			Regulation (EU) No 575/2013 Article Reference
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	68,524,492	26 (1) (a), (b), 27, 28, 29
	of which: Instrument type 1	*N/A*	EBA list 26 (3)
	of which: Instrument type 2		EBA list 26 (3)
	of which: Instrument type 3		EBA list 26 (3)
2	Retained earnings	-4,660,860	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	31,292	26 (1)
3a	Funds for general banking risk	0	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	484 (2)
5	Minority interests (amount allowed in consolidated CET1)	0	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	26 (2)
6	Common Equity Tier 1 capital before regulatory adjustments	63,894,924	**Sum of rows 1 to 5a**

[1] Numbering of all tables and templates included herein in accordance with disclosure requirements as per EBA/GL/2016/11.

Own funds disclosure template			Regulation (EU) No 575/2013 Article Reference
Common Equity Tier 1 (CET1) capital before regulatory adjustments			
7	Additional value adjustments (negative amount)	0	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-10,495,376	36 (1) (b), 37
9	Empty set in the EU		
10	Deferred tax assets that rely on future probability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-650,865	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	0	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	0	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amount)	0	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	33 (1) (b)
15	Defined-benefit pension fund assets (negative amount)	0	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0	36 (1) (f), 42
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	36 (1) (g), 44
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 1O % threshold and net of eligible short positions) (negative amount)	0	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 1O % threshold and net of eligible short positions) (negative amount)	0	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty set in the EU		
20 a	Exposure amount of the following items which qualify for a RW of 1250 %, where the institution opts for the deduction alternative	0	36 (1) (k)
20 b	of which: qualifying holdings outside the financial sector (negative amount)	0	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	0	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258

Own funds disclosure template			Regulation (EU) No 575/2013 Article Reference
20 d	of which: free deliveries (negative amount)	0	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 1O % threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	36 (1) (c), 38, 48 (1) (a)
22	Amount exceeding the 15 % threshold (negative amount)	0	48 (1) 470 (2)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	36 (1) (i), 43, 45, 47, 48 (1) (b)
24	Empty set in the EU		
25	of which: deferred tax assets arising from temporary differences	0	36 (1) (c), 38, 48 (1) (a)
25 a	Losses for the current financial year (negative amount)	0	36 (1) (a)
25 b	Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0	36 (1) (j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	-11,146,241	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	**Common Equity Tier 1 (CET1) capital**	52,748,683	Row 6 minus row 28
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts		51, 52
31	of which: classified as equity under applicable accounting standards		
32	of which: classified as liabilities under applicable accounting standards		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties		85, 86
35	of which: instruments issued by subsidiaries subject to phase out		486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	0	Sum of rows 30, 33 and 34
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where		56 (b), 58

Own funds disclosure template			Regulation (EU) No 575/2013 Article Reference
	those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		56 (d), 59, 79
41	Empty set in the EU		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	0	Sum of rows 37 to 42
44	**Additional Tier 1 (AT1) capital**	0	Row 36 minus row 43
45	**Tier 1 capital (T1 = CET1 + AT1)**	0	Sum of row 29 and row 44
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts		62 (a) (b), 63 to 65, 66 (a), 67
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties		87, 88
49	of which: instruments issued by subsidiaries subject to phase out		486 (4)
50	Credit risk adjustments		62 (c) & (d)
51	**Tier 2 (T2) capital before regulatory adjustments**		
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities		66 point (c), 68 to 70 and 79

	Own funds disclosure template		Regulation (EU) No 575/2013 Article Reference
	where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		66 point (d), 68, 69 and 79
56	Empty set in the EU		
57	**Total regulatory adjustments to Tier 2 (T2) capital**	0	Sum of rows 52 to 56
58	**Tier 2 (T2) capital**	0	Row 51 minus row 57
59	**Total capital (TC = T1 + T2)**	52,748,683	Sum of row 45 and row 58
60	**Total risk weighted assets**	102,179,396	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	51.62%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	51.62%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	51.62%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	2,554,485	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2,554,485	
66	of which: countercyclical buffer requirement	0	
67	of which: systemic risk buffer requirement	0	
67 a	of which: Global Systemically Important Institution (G-811) or Other Systemically Important Institution (0-811) buffer	0	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	43.62%	CRD 128
69	[non relevant in EU regulation]		
70	[non relevant in EU regulation]		
71	[non relevant in EU regulation]		
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0	36 (1) (h), 46, 45 56 (c), 59, 60 66 (c), 69, 70

Own funds disclosure template			Regulation (EU) No 575/2013 Article Reference
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)	0	36 (1) (i), 45, 48
74	Empty set in the EU		
75	Deferred tax assets arising from temporary differences (amount below 1O % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	0	36 (1) (c), 38, 48
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	- Current cap on CET1 instruments subject to phase out arrangements	0	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484 (3), 486 (2) & (5)
82	- Current cap on AT1 instruments subject to phase out arrangements		484 (4), 486 (3) & (5)
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) & (5)
84	- Current cap on T2 instruments subject to phase out arrangements		484 (5), 486 (4) & (5)
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) & (5)

3.2 Capital adequacy

ICAAP Process

The bank has in place an Internal Capital Adequacy Assessment Process (ICAAP) to ensure that it keeps adequate available capital to cover all material risks over a foreseeable future from the perspective of regulators, investors and thus to optimise shareholder value in the light of the external requirements. The ICAAP report is prepared by the Risk Function on behalf of the Authorised Management and approved by the Board at least once a year in accordance with regulatory requirements. The ICAAP exercise includes a review of the management, mitigation and measurement of material risks (for both current and stressed economic conditions) in order to assess the adequacy of capital and to determine sufficient required capital levels to meet identified risks and to support the capital and liquidity policy of BC.

Capital Adequacy

The size of the own funds shall normally correspond to the sum of the capital requirements for Pillar I risks (credit, market and operational risks) and applicable capital buffers. This would translate into Total SREP capital requirements of 10.5% excluding Pillar II buffers. The Bank maintains a capitalisation to ensure both regulatory compliance and internal capital needs. The capitalisation is adequately adopted to reflect that BC is in the start-up phase with a strong growth of the business in the coming years. To support a strong capitalisation over the years it shall be noted that the qualifying shareholder has provided a letter where it commits to inject additional capital, in the event the Bank's solvency ratio – measured as Total Capital Ratio calculated in accordance with the Capital Requirements Regulation (the "CRR") – falls below 20%. The same letter provides a commitment to unconditionally support BC so that it can implement the business plan provided and remains compliant with all capital, liquidity and other applicable prudential regulations. Finally, capital planning is conducted continuously and is further elaborated upon in the yearly ICAAP.

The Bank has, in this context and as part of the Risk Appetite Policy, defined trigger (25%) and hard (20%) limits higher than the regulatory minimum requirements to ensure an adequate buffer and facilitate a proactive approach to its capitalisation. The minimum targets are as follows:

- Total capital ratio > 20%, and;
- CET, Tier 1 and Total capital ratio > the total capital requirement as stipulated by the competent authority at any point in time.

The CET1 ratio for end of December 2019 amounted to 51.6%, significantly above both the minimum regulatory requirements as well as the minimum capital ratio committed by the shareholder.

As at 31 December 2019, the Bank's total Pillar I requirements in accordance with Art. 92 CRR amounted to EUR 8,174,352 as depicted below.

31 Dec-19			
EUR	**Capital Requirement**	**Risk Exposure Amount**	**% of REA**
Credit - Institutions - Other Assets	**3,767,232** 2,232,749	**47,090,400** 27,909,365 19,181,035	**46%**
Market	**0**	**0.0**	**0%**
Operational	**4,407,120**	**55,088,996**	**54%**
Total Pillar I	**8,174,352**	**102,179,396**	**100%**

The Risk Exposure Amount for the Pillar I risks will initially only be related to credit and operational risks, with the credit risk REA stemming from interbank exposure with the operational risk capital charge being estimated based on the three-year average operational income. The capital charge for market risk is as per end of December 2019 below the threshold for calculating own funds requirements for market risk as stipulated by Art. 351 CRR.

IRRBB consists of the interest rate risk in the banking book and forms, together with any regulatory Pillar I requirements for market risk (foreign exchange), the Bank's total internal capital requirements for market risk. The Bank has as per end of December 2019 – considering its current market risk exposures – no capital charge for market risk. This does not properly reflect the Bank's market risk exposures and the Bank has thus added Pillar II capital for its market risk exposures. These capital requirements – for IRRBB – have been calculated based on the +/-200bp stress test – calculated in accordance with the requirements as laid down by the CSSF – and amounts to EUR 4,653,051 as per end of December 2019.

The Internal Solvency Needs describes the Bank's capital need from an internal perspective using a 'Pillar I plus' approach ('Pillar 1 plus' approach adopted in line with Section I.2. Proportionality of the ICAAP of CSSF Circular 07/301 (as amended)). This approach combines the Pillar I requirements with Pillar II risks. In addition, a stress test on-on/buffer is added to provide a prudent capital buffer above the current capital requirements in the event of unexpected changes to the own funds, profitability or REA.

The Bank's Internal Solvency Needs as per end of 2019 amounts to EUR 12,827,403, comprising of Pillar I capital of EUR 8,174,352 and EUR 4,653,051 in Pillar II capital and solely covered by CET1 capital.

The Bank has visualised the 'Regulatory View' by depicting a situation where the Bank's Total Capital Requirement is equal to 20% for its Pillar I risks – being the applicable minimum regulatory requirement as imposed on the Bank. The Bank will, based on the available own funds, reach this level by taking on an additional EUR 12,925,121 of Pillar I risks. Considering this, the Bank has simulated – ceteris paribus – the capital consumption in a situation where the Pillar I Total Capital Requirements equal 20%. In such simulated view, the Bank's capital needs – as per end of 2019 – amounted to EUR 32.5m, comprising of Pillar I capital of EUR 21,099,473, EUR 4,653,051 in Pillar II capital with EUR 6,593,585 relating to the Capital Conservation Buffer (CCoB). In this view, the Bank is still well capitalised with an 'excess' capital of EUR 20,402,574 if comparing the eligible Own Funds with the Total Applicable Minimum Requirements including Pillar II and buffers. In practice, however, the Bank would not be able to take on any further Pillar I risks without breaching the 20% level, thus in reality limiting the Bank's further Pillar I risk taking to EUR 12,925,121.

As per end of 2019, the total capital buffer consisted of the Capital Conservation Buffer (CCoB). The CCoB shall be covered with CET1 capital and is 2.5% of REA.

The below table reflects a point in time economic perspective as per end of year 2019 depicting the Pillar I and the Pillar II requirements related to IRRBB. No further stress testing has been added to the economic perspective. Thus, the regulatory view is visualised below (as given by the minimum applicable regulatory requirements) as well as the Internal Solvency Needs (ISN), by also depicting the capital needed to maintain a total capital ratio of at least 20% per end of 2019.

EUR	ISN Dec-19	Reg view Dec-19	Reg view 20% Dec-19
Credit	3,767,232	3,767,232	
Market	0.0	0.0	
Operational	4,407,120	4,407,120	
Total Pillar I	**8,174,352**	**8,174,352**	**21,099,473**
Market Risk (IRRBB)	4,653,051	4,653,051	4,653,051
Total Pillar II	**4,653,051**	**4,653,051**	**4,653,051**
CRD IV capital buffers - **o/w CCoB** - **o/w CCyB**	 n.a n.a	 2,554,485 0.0	 6,593,585 0.0
Total Internal Solvency Needs	**12,817,403**	**n.a.**	**n.a**
Total Applicable Minimum Requirements incl. PII and buffers	**n.a.**	**15,381,888**	**32,346,109**
CET1 capital	52,748,683	52,748,683	52,748,683
Own Funds	52,748,683	52,748,683	52,748,683
Excess Capital	**39,931,280**	**37,366,795**	**20,402,574**

3.2.1 Capital requirements

Template 2: EU OV1 Overview of RWAs

CRR-Reference	Line	Name	RWAs	Minimum capital requirements
			T	T
	1	Credit risk (excluding CCR)	47,090,400	3,767,232
Article 438(c)(d)	2	Of which the standardised approach	47,090,400	3,767,232
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach		
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach		
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA		
Article 107 Article 438(c)(d)	6	CCR	0	0
Article 438(c)(d)	7	Of which mark to market		
Article 438(c)(d)	8	Of which original exposure		
	9	Of which the standardised approach		

CRR-Reference	Line	Name	RWAs	Minimum capital requirements
	10	Of which internal model method (IMM)		
Article 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a CCP		To be calculated as the product of the value of column T with 8 %
Article 438(c)(d)	12	Of which CVA	0	0
Article 438(e)	13	Settlement risk	0	0
Article 449(o)(i)	14	Securitisation exposures in the banking book (after the cap)	0	0
	15	Of which IRB approach		
	16	Of which IRB supervisory formula approach (SFA)		
	17	Of which internal assessment approach (IAA)		
	18	Of which standardised approach	0	0
Article 438 (e)	19	Market risk	0	0
	20	Of which the standardised approach	0	0
	21	Of which IMA		
Article 438(e)	22	Large exposures	0	0
Article 438(f)	23	Operational risk	55,088,996	4,407,120
	24	Of which basic indicator approach	55,088,996	4,407,120
	25	Of which standardised approach		
	26	Of which advanced measurement approach		
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	0	0
Article 500	28	Floor adjustment		
	29	**Total**	**102,179,396**	

3.2.2 Capital buffers

Template 3: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Row		General credit exposures		Trading book exposures		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate (%)
		Exposure value for SA	Exposure Value for IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General Credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
		010	020	030	040	050	060	070	080	090	100	110	120
010	Breakdown by country												
	LU	19,181,035		0		0		1,540,530	0	0	1,540,530	100%	0 %
020	**Total**	19,181,035		0		0		1,540,530	0	0	1,540,530	100%	0 %

Template 4: Amount of institution-specific countercyclical capital buffer

Row		Column
		010
010	Total risk exposure amount	102,179,396
020	Institution specific countercyclical buffer rate	0
030	Institution specific countercyclical buffer requirement	0

3.3 Leverage ratio

Following the Basel III framework from 2010, the CRR introduced a non-risk-based measure, the leverage ratio, to limit build-up of leverage on banks' balance sheets in an attempt to contain the cyclicality of lending. The leverage ratio is calculated as the Tier 1 capital divided by an exposure measure, comprising of on-balance and off-balance sheet exposures with adjustments for certain items such as derivatives and securities financing transactions. Within the framework of the current CRR requirements, the leverage ratio is only specified as a reporting requirement. The amended CRR will introduce a binding leverage ratio requirement of 3% of Tier 1 capital, harmonised with the international BCBS standard. It further includes amendments to the calculation of the exposure measure with regards to exposures to public development banks, pass-through loans and officially granted export credits. Institutions will be required to comply with the binding leverage ratio from 28 June 2021.

The leverage ratio is calculated by the Finance Department and covered by the Bank's complementary monitoring process. It is reviewed by the Risk Function on a monthly basis as part of the on-going risk management process. Furthermore, the indicator is integrated in the Bank's risk management framework as an early warning signal (EWS).

BC is, as per end of 2019, reporting a Leverage ratio of 4.74%. The Bank is closely following the development of the Leverage Ratio and, based on the Capital and Financial Forecast, will at the time of the implementation ensure a regulatory compliant ratio.

Template 5: LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable amount
1	Total assets as per published financial statements	1,124,700,496
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	0

5	Adjustment for securities financing transactions (SFTs)	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	0
EU - 6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU - 6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-11,146,241
8	**Leverage ratio total exposure measure**	1,113,554,255

Template 6: LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,124,700,496
2	(Asset amounts deducted in determining Tier 1 capital)	-11,146,241
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	1,113,554,255
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	0
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	0
EU - 5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0

10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivatives exposures (sum of lines 4 to 10)**	0
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	0
EU - 14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	0
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	0
18	(Adjustments for conversion to credit equivalent amounts)	0
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	0
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposure measure		
20	Tier 1 capital	52,748,683
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	1,113,554,255
Leverage ratio		
22	**Leverage ratio**	4.74%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	0
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

Template 7: LRSpl: Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	1,124,700,496
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	1,124,700,496
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	1,000,010,935
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	0
EU-7	Institutions	94,362,285
EU-8	Secured by mortgages of immovable properties	0
EU-9	Retail exposures	0
EU-10	Corporate	0
EU-11	Exposures in default	0
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	30,327,276

4. Credit risk

4.1 Credit risk management

Credit risk is defined as the potential risk of a counterparty failing to meet its obligations in accordance with agreed terms. Counterparty Credit risk is defined as the risk that a counterparty fails to fulfil contractual commitments. Consequently, it is a subset of credit risk, but the counterpart credit risk exposure will – unlike credit risk – fluctuate based on market risk factors.

Credit risk for the Bank can be grouped in the following categories:

- Government Bond positions;
- Cash balances with correspondent banks.

The Bank assumes limited credit risk exposures related to the handling and placing of its excess liquidity. The Bank's assets primarily consist of a portfolio of liquid government bonds of high credit quality. The holdings have short maturities, and all qualify as Level 1 High Quality Liquid Assets (HQLA). In addition, cash placements are made with central banks serving both as HQLA and regulatory reserves. 90% of the assets are allocated in government bonds (mainly AAA or AA rated) or held as cash with central banks, with the remaining 10% kept with a limited number of correspondent banks to enable the handling of the client-driven transactions. The correspondent banks almost exclusively have a credit rating of AA to A, leading to a relatively low credit risk.

Other assets consist of tangible assets, other assets and prepayments and accrued income carrying a 100% risk weight.

4.2 Credit exposure

The Bank has assigned Fitch Ratings, Standard & Poor's and Moody's as External Credit Assessment Institutions (ECAIs) for the calculation of its own funds requirements for credit risk under the Standardised Approach.

Template 8: EU CRB-B Total and average net amount of exposures

		a
		Net value of exposures at the end of the period
1	Central governments or central banks	
2	Institutions	
3	Corporates	
4	Of which: Specialised lending	
5	Of which: SMEs	
6	Retail	
7	Secured by real estate property	
8	SMEs	
9	Non-SMEs	
10	Qualifying revolving	
11	Other retail	
12	SMEs	
13	Non-SMEs	
14	Equity	

15	**Total IRB approach**	
16	Central governments or central banks	1,000,010,935
17	Regional governments or local authorities	0
18	Public sector entities	0
19	Multilateral development banks	0
20	International organisations	0
21	Institutions	94,362,285
22	Corporates	0
23	Of which: SMEs	0
24	Retail	0
25	Of which: SMEs	0
26	Secured by mortgages on immovable property	0
27	Of which: SMEs	0
28	Exposures in default	0
29	Items associated with particularly high risk	0
30	Covered bonds	0
31	Claims on institutions and corporates with a short-term credit assessment	0
32	Collective investments undertakings	0
33	Equity exposures	0
34	Other exposures	19,181,035
35	**Total standardised approach**	**1,113,554,255**
36	**Total**	**1,113,554,255**

Template 9: EU CRB-C – Geographical breakdown of exposures

		America	*Europe*	Of which: Luxembourg	*Other*	Total
1	Central governments or central banks					
2	Institutions					
3	Corporates					
4	Retail					
5	Equity					
6	**Total IRB approach**					
7	Central governments or central banks	664,992,504	328,642,107	171,987,948	6,376,324	1,000,010,935
8	Regional governments or local authorities	0		0		0
9	Public sector entities	0		0		0
10	Multilateral development banks	0		0		0
11	International organisations	0		0		0
12	Institutions	1,461	94,360,199	2,259,466	625	94,362,285
13	Corporates	0		0		0
14	Retail	0		0		0
15	Secured by mortgages on immovable property	0		0		0
16	Exposures in default	0		0		0
17	Items associated with particularly high risk	0		0		0
18	Covered bonds	0		0		0
19	Claims on institutions and corporates with a short-term credit assessment	0		0		0
20	Collective investments undertakings	0		0		0
21	Equity exposures	0		0		0
22	Other exposures	0	19,181,035	19,181,035		19,181,035
23	**Total standardised approach**	**664,993,965**	**442,183,341**	**193,428,449**	**6,376,949**	**1,113,554,255**
24	**Total**	**664,993,965**	**442,183,341**	**193,428,449**	**6,376,949**	**1,113,554,255**

Template 10: EU CRB-D Concentration of exposures by industry or counterparty types

	Public sector	Financial sector	Non-financial Sector	Total
Central governments or central banks	1,000,010,935			1,000,010,935
Regional governments or local authorities				0
Public sector entities				0
Multilateral development banks				0
International organisations				0
Institutions		94,362,285		94,362,285
Corporates				0
Retail				0
Secured by mortgages on immovable property				0
Exposures in default				0
Items associated with particularly high risk				0
Covered bonds				0
Claims on institutions and corporates with a short-term credit assessment				0
Collective investments undertakings				0
Equity exposures				0
Other exposures			19,181,035	19,181,035
Total	**1,000,010,935**	**94,362,285**	**19,181,035**	**1,113,554,255**

Template 11: EU CRB-E Maturity of exposures

	Net exposure value					
	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
Central governments or central banks						
Institutions						
Corporates						
Retail						
Equity						
Total IRB approach						
Central governments or central banks	171,987,948	828,022,987				1,000,010,935
Regional governments or local authorities						
Public sector entities						
Multilateral development banks						
International organisations						
Institutions	94,362,285					94,362,285
Corporates						
Retail						
Secured by mortgages on immovable property						
Exposures in default						
Items associated with particularly high risk						
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective investments undertakings						
Equity exposures						
Other exposures					19,181,035	19,181,035
Total standardised approach	**266,350,233**	**828,022,987**	**0**	**0**	**19,181,035**	**1,113,554,255**
Total	**266 350 233**	**828 022 987**	**0**	**0**	**19,181,035**	**1,113,554,255**

4.3 Credit risk adjustments

As per 31 December 2019, the Bank did not have any past-due exposures, nor did it apply any credit risk adjustments.

Past due loans

The Bank defines the past due criterion as follows: The obligor is past due more than 30 days on any material credit obligation to the Bank.

Impairment of financial assets and overview of the ECL principles

The Bank records an allowance for expected credit loss (ECL) for all loans and other debt financial assets not measured at FVPL.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit losses or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses (12mECL).

The Bank has established a policy to perform an assessment at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its financial assets into Stage 1, Stage 2 and Stage 3 as described below:

- Stage 1 - When financial assets are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 assets also include facilities where the credit risk has improved, and the asset has been reclassified from Stage 2;
- Stage 2 - When an asset has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 assets also include facilities, where the credit risk has improved, and the asset has been reclassified from Stage 3;
- Stage 3 - Assets considered credit-impaired. The Bank records an allowance for the LTECL.

A significant increase in credit risk (SICR) is considered to have occurred with regard to a particular obligor when at least one of the below trigger events has been reached:

- Rating downgrade criterion: For counterparties rated as of the reporting date below the investment grade, the Bank considers a threshold level of 3 notches as an indicator of significant increase in credit risk. In other words, if the decrease in the rating of the counterparty at the given reporting date, as compared to the initial recognition, is equal or greater than 3 notches then such exposure shall be allocated into Stage 2. The ratings used for this assessment are external ratings provided by mainstream credit agencies;
- Past due criterion: The obligor is past due more than 30 days on any material credit obligation to the Bank;
- Discretionary criterion: Specific sector, country or idiosyncratic issues which could lead to the conclusion that the risk of the exposure is significantly higher than at initial recognition may lead to the acknowledgement of a SICR. For financial assets for which the Bank has no reasonable expectations of recovering, either the entire outstanding amount, or a proportion thereof, the

gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECL

The Bank calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio;
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments;
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately.

The model used to estimate the PD is based on statistical and historical observations and external data provided by mainstream credit agencies is used. This methodology is deemed as appropriate with respect to the overall materiality of this model, the Bank's underlying risks, as well as the size and complexity of the Bank's operations. For the purpose of determining the EAD of "Loans and advances to credit institutions", the Bank considers current outstanding balance as the carrying amount at the time of default. For "Debt securities issued by public bodies", the EAD is calculated by summing up the book value of the security at reporting date and the estimated accrued interest of the same security. The estimate of the LGD is solely based on regulatory-provided data.

ECL for debt securities measured at fair value through OCI

The ECL for debt securities measured at FVOCI do not reduce the carrying amount of these financial assets in the balance sheet, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the financial assets.

4.4 Credit risk mitigation techniques

Management, Measurement and Mitigation of Credit and Counterparty Risks

The Bank has a risk profile in relation to credit risk that is low, and it is based on the principles as defined in the Risk Appetite Policy (see Section 3.2). In addition, the following shall apply:

- The Bank has a clear and unambiguous guideline for the selection of counterparts for liquidity management and FX (spot) trading, including type of counterpart as well as credit rating. The Board of Directors shall approve specific credit limits for all credit exposures;

- Credit risk in relation to FX Spot positions with counterparties or clients are secured with collateral or margin agreements. All positions with clients are liquidated when margin utilisation exceeds certain pre-defined levels;
- Settlement risk shall, to the extent possible, be reduced by delivery versus payment settlement or other settlement agreements, which reduce settlement risk;
- The Board of Directors receives management information depicting the credit exposures on a regular basis, at least quarterly;
- Reporting and control is done on a daily basis, with the Risk Function responsible for reporting and escalating any limit breaches;
- Limit breaches are rectified without undue delay and in turn be reported (either immediately or in the next regular report depending on the situation). If for any reason a Board limit breach cannot be rectified immediately, the Board of Directors must be notified without undue delay and a temporary mandate increase must be sought;
- In light of the Capital Requirements Regulation, the Bank ensures at all times that Large Exposures do not become excessive in relation to its capital base as further limited in the Risk Appetite Policy, and that any breaches should be reported to the Board and the CSSF and be rectified without delay.

The Bank is monitoring its credit and counterparty risk exposures. The regulatory capital is calculated based on the standardised method to credit risk as defined in CRR/CRD IV. Moreover, the Bank has – in order to ensure compliance with the Large Exposure regime – a Risk Appetite measure in place to limit the exposure towards individual clients or groups of connected clients.

As at 31 December 2019, the Bank did not apply any credit risk mitigation techniques.

Template 12: EU CR5 Standardised approach

Exposure classes	Risk weight																Total (q)	Of which rated (r)
	0% (a)	2% (b)	4% (c)	10% (d)	20% (e)	35% (f)	50% (g)	70% (h)	75% (i)	100% (j)	150% (k)	250% (l)	370% (m)	1250 % (n)	Other s (o)	Deducted (p)		
Central governments or central banks	1,000,010,935	0	0	0	0	0	0	0	0	0	0	0	0	0	0		1,000,010,935	0
Regional government or local authorities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0
Public sector entities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0
Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0
International organisations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0
Institutions	0	0	0	0	64,239,258	0	30,123,027	0	0	0	0	0	0	0	0		94,362,285	0

Corporates	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0
Retail	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0
Secured by mortgages on immovable property	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0
Exposures in default	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0
Exposures associated with particularly high risk	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0
Covered bonds	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0
Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0
Collective investment undertakings	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0

Equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0
Other items	0	0	0	0	0	0	0	0	0	19,181,035	0	0	0	0	0		19,181,035	0
Total	1,000,010,935	0	0	0	64,239,258	0	30,123,027	0	0	19,181,035	0	0	0	0	0		1,113,554,255	0

4.5 Counterparty credit risk

Counterparty Credit risk is defined as the risk that a counterparty fails to fulfil contractual commitments. Consequently, it is a subset of credit risk, but the counterpart credit risk exposure will – unlike credit risk – fluctuate based on market risk factors.

As per 31 December 2019, the Bank did not have any derivative exposures and consequently has not been exposed to counterparty credit risk.

4.6 Asset encumbrance

The Bank's main sources of asset encumbrance are:

- Collateral provided for client deposits;
- Regulatory minimum reserve requirements; and
- Margin requirements from FX spot and forwards.

Encumbered Assets means assets which are subject to any legal, contractual, regulatory or other restriction preventing the institution from liquidating, selling, transferring, assigning or, generally, disposing of those assets via an outright sale or a repurchase agreement. If an asset is subject to any form of arrangements to secure, collateralize or credit enhance any transaction from which it cannot be freely withdrawn, shall be thus be treated as encumbered.

The part of debt securities portfolio which was pledged as collateral against amounts owed to credit institutions amounted to EUR 443,836,400 as per end of December 2019.

Asset Encumbrance as of 31 December 2019

EUR	**Dec-19**	
	EUR	%
Encumbered Assets		
- Secured lending (safeguarding)	443,836,400	39%
- regulatory reserves with central banks	-	0%
Total assets	1,124,700,496	100%

In line with the regulatory requirements – as the encumbrance ratio is above 15% – the Bank is calculating and reporting the asset encumbrance ratio on a monthly basis. The calculation and related reporting shall be prepared by Finance department and be monitored by the Risk Function. Although not yet a Risk Appetite measure the Quarterly risk report to the Authorised Management and Board of Directors contains information re Banking Circle asset encumbrance. Going forward, Banking Circle also foresee regulatory minimum reserve requirements with central banks in turn also being a source for encumbrance.

The Bank's asset encumbrance is managed in accordance with the Asset Encumbrance Policy defining its measurement, management and governance.

Template 13: Encumbered and unencumbered assets

		Carrying amount of the encumbered assets		Fair value of encumbered assets		Carrying amount of the unencumbered assets		Fair value of unencumbered assets	
			Of which notionally eligible EHQLA and HQLA		**Of which notionally eligible EHQLA and HQLA**		**Of which EHQLA and HQLA**		**Of which EHQLA and HQLA**
		010	030*	040	050*	060	080*	090	100*
010	**Assets of the reporting institution**	443,836,400				680,864,096			
030	Equity instruments	0				0			
040	Debt securities	443,836,400		443,836,400		384,186,587		384,186,587	
050	of which: covered bonds	0		0		0		0	
060	of which: asset-backed securities	0		0		0		0	
070	of which: issued by general governments	443,836,400		443,836,400		384,186,587		384,186,587	
080	of which: issued by financial corporations	0		0		0		0	

090	of which: issued by non-financial corporations	0		0		0		0	
120	Other assets	0				30,327,276			

Template 14: Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs**
		010 [The median values of the item 'Matching liabilities, contingent liabilities or securities lent' as reported in column 010 of Template F 32.04 (AE-SOU) of Annex XVI to Implementing Regulation (EU) No 680/2014. Fair value disclosed is the median value of the different fair values observed at the end of each reporting period considered for the computation of the median. Liabilities without any associated funding, such as derivatives, shall be included].	030 [The amount of the assets, collateral received and own securities issued other than covered bonds and asset-backed securities that are encumbered as a result of the different types of transactions hereby reported. To ensure consistency with the criteria in Templates A and B, assets of the institution registered in the balance sheet shall be disclosed at the median value of their carrying amount, whereas re-used collateral received and encumbered own securities issued other than covered bonds and asset-backed securities shall be disclosed at the median value of their fair value. Fair value disclosed is the median value of the different fair values observed at the end of each reporting period considered for the computation of the median. Assets encumbered without matching liabilities shall also be included].
010	**Carrying amount of selected financial liabilities** The median value of the item 'Carrying amount of selected financial liabilities' as reported in row 010 of Template F 32.04 (AE-SOU) of Annex XVI to Implementing Regulation (EU) No 680/2014.	443,836,400	443,836,400

5. Market risk

5.1 Market risk management

Market risk

Description of trading activities

Market risk is defined as the risk of a loss in value as a result of changes in market rates and parameters that affect the market values, e.g. interest rates, FX rates and equity prices.

Market risk in the Bank can be grouped in the following categories:

- Market risk stemming from client transactions (i.e. forex); with forex risk to be fully hedged bearing in mind the need to conduct an efficient risk management and thus allowing for smaller, limited open positions.
- Market risk resulting from the investment of liquidity in High Quality Liquid Assets held to ensure LCR compliance on a daily basis (i.e. interest rate);

The Bank's business model builds upon the provision of payment services to clients. This requires clients to maintain current accounts with the Bank. Clients deposit and receive funds on these accounts for/through the transactions executed via the Bank's payment services platform. Consequently, the deposit amounts on those accounts can fluctuate by clients and over time.

To manage the liquidity risk stemming from those deposits, the Bank maintains a portfolio of highly liquid bonds which could be quickly liquidated in a stress situation to counter deposit withdrawals from clients. These bonds also qualify as High-Quality Liquid Assets (HQLA) for the purpose of maintaining a sufficiently high Liquidity Coverage Ratio (LCR).

Therefore, IRRBB at the Bank arises primarily from the maturity mismatch between the bond holdings on the asset side (with maturities ranging up to one year) and the client deposits on the liability side (with an overnight maturity).

The Bank's Treasury department is in charge of managing the Bank's overall liquidity including the bond portfolio in line with the risk appetite defined for the various risk types, including credit risk, liquidity risk and IRRBB.

Currency risk (Foreign-exchange risk)

Description of how the Bank measures, controls and manages its currency risk

The Bank's currency risk stems from client transactions. The Bank's aggregate FX position as per year end 2019 and amounted to EUR 31,452 with the biggest open position – in an individual currency – being EUR 3,841.

The foreign exchange exposure is kept on a very low-level reflecting the Bank's strategy to fully hedge the client driven flow. Considering the very limited time period – with the Bank fully activating the banking license on 30 December 2019 – only very limited historical data is available since inception.

Description of how the Bank measures, controls and manages its interest rate risk

Interest rate risk results from the investment of liquidity in High Quality Liquid Assets held to ensure LCR compliance on a daily basis.

The Bank has classified its bond portfolio as being part of the Banking Book considering the instrument classification and trading intention, i.e. the Bank holds a bond portfolio for the purpose of ensuring sufficient HQLA for the Liquidity Coverage Ratio requirements and calculations with the currency composition matching the liability side client deposits. The Bank maintains the portfolio to ensure an efficient management of its HQLA and is normally only changing the composition to reflect changes in the underlying client deposits and thus not for short term speculative gains.

The interest rate risk stems from the placement in government bonds driven by the handling of its excess liquidity. In particular, the Bank maintains a portfolio of high-quality liquid assets – minimum long-term credit rating AA- (or equivalent). The bonds shall be of short maturity and primarily be held to ensure compliance with the Liquidity Coverage Ratio requirements (LCR) and the upper limit will – considering the limited credit risk – be limited by the interest net sensitivity limit.

The Bank monitors the interest rate risk-taking via a net interest rate sensitivity taking into consideration two forms; interest rate sensitivity of economic value (EV) and interest rate sensitivity of net interest income (NII). The EV – monitored daily – measures the impact of interest rate changes to market value whereas NII – monitored / calculated annually as part of the ICAAP – measures the impact of interest rate change on the earnings over a one-year period. In addition to these measures, the average duration of its portfolio is also being monitored.

Analysis of interest rate risks as at 31 December 2019

The Bank reports the results of the +/-200bps shift on a half yearly basis to the CSSF with the regulatory reporting requires a flooring of rates becoming negative in the -200bps scenario at 0% as presented in the below table.

Interest rate sensitivities – flooring applied and as reported to the CSSF – as per 31 December 2019

EUR	+200bps	-200bps
Total (all currencies combined)	-4,653,051	3,201,178
% of own funds	-8.80%	6.06%

In addition to the economic value, the Bank reports the duration of the banking book half-yearly to the CSSF. The below table indicates the average duration of assets and liabilities for the major currencies. The duration, both on the asset and liability is short term, with the gap driven by the duration of the bond portfolio which has an average duration of 0.17 years Vs a liability side where all deposits are overnight. In this context, it can be argued that the part of deposits categorised as operational deposits are stickier and could motivate a higher duration on the liability side, something which is also supported by the run-off analysis. This is not formally applied, but something considered in the overall assessment of the duration gap that the Bank is exposed to. Please refer to the below table for the duration profile of the banking book as per end of 2019.

Year as per year end	Asset	Liabilities
EUR	0.059	0.003
USD	0.254	0.003
GBP	0.095	0.003
Total (all currencies combined)	0.173	0.003

The last IRRBB measure monitored by the Bank is the analysis of the sensitivity of net interest income to changes in interest rates. IRRBB is managed in accordance with the IRRBB Policy which defines the fundamental principles, measurement and governance for its management.

5.2 Market risk exposure

As at 31 December 2019 the Bank, apart from non-material exposures to FX risk amounting to less than two percent of the Bank's own funds, has not been exposed to market risk.

6. Liquidity risk

6.1 Liquidity risk management

Liquidity Risk is defined as:

1. the risk that the cost of funding rises to disproportionate levels or in worst case prevents BC from continuing as a going concern under its current business model;

2. the risk that the Bank does not have sufficient liquidity to fulfil its payment obligations as and when they fall due;

3. the risk that the Bank does not comply with regulatory liquidity requirements, e.g. the Liquidity Coverage Ratio.

The Bank is primarily exposed to liquidity risk in relation to its payment operations with the exposure stemming from on-balance sheet obligations. These risks could materialise in a negative cash-flow mismatch, something that could occur both end of day as well as intraday.

The Bank maintains a conservative liquidity and funding risk profile – ensuring resilience to both short and medium-term external stress – by maintaining an adequate buffer of high-quality liquid assets to be able to withstand longer periods of stress without the need to conduct forced sale of assets. The Bank ensures LCR compliance on a daily basis. The overall requirements for the Bank's management and control of its liquidity risks as laid out in the 'Liquidity Risk Policy' with the liquidity measure included in the 'Risk Appetite Policy'.

Moreover, the Bank has in place a Liquidity Continuity Plan (LCP) depicting the strategy for the handling of a potential liquidity crisis. The Bank also performs liquidity risk stress testing on a regular basis and annually as part of the ILAAP to continuously to evidence it will be able to withstand also stressed situations.

<u>Liquidity Stress Testing</u>

Liquidity stress testing is an integrated part of the Bank's liquidity risk management framework. The Bank conducts liquidity stress testing either as qualitative scenarios and / or by implementing quantitative measures conducted in accordance with the relevant circulars and guidelines from the CSSF and EBA, taking into account the nature and complexity of its business activities. The key objective with the stress testing is to identify the key liquidity risk drivers and stress scenarios which could impair the Bank's ability to meet its future cash flow obligations as they come due. The stress testing framework must be reviewed and revised on an ongoing basis, at least annually, to reflect changes in the operating environment or risk profile of the Bank. The stress testing as well as any underlying documentation is included in the yearly ILAAP being presented to and approved by the Board of Directors.

6.2 Liquidity risk exposure

In 2019, the Bank only reported the LCR ratio as of December 2019.

Template 1515: LCR disclosure template on quantitative information of LCR which complements Article 435 (1f) CRR (Annex II)

Scope of consolidation (solo/consolidated) **Currency and units (XXX million)**		**Total unweighted value (average)**	**Total weighted value (average)**
Quarter ending on (DD Month YYY)		Q4	Q4
Number of data points used in the calculation of averages			
High-quality liquid assets			
1	Total high-quality liquid assets (HQLA)		552,182,366
Cash-Outflows			
2	Retail deposits and deposits from small business customers, of which:	0	0
3	Stable deposits	0	0
4	Less stable deposits	0	0
5	Unsecured wholesale funding	596,033,065	451,528,400
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	192,672,887	48,168,222
7	Non-operative deposits (all counterparties)	403,360,178	403,360,178
8	Unsecured debt	0	0
9	Secured wholesale funding		0
10	Additional requirements	0	0
11	Outflows related to derivative exposures and other collateral requirements	0	0
12	Outflows related to loss of funding on debt products	0	0
13	Credit and liquidity facilities	0	0

14	Other contractual funding obligations	5,262,098	5,049,795
15	Other contingent funding obligations	0	0
16	**TOTAL CASH OUTFLOWS**		456,578,195
Cash-Inflows			
17	Secured lending (e.g. reverse repos)	0	0
18	Inflows from fully performing exposures	94,368,619	94,368,619
19	Other cash inflows	0	0
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		0
EU-19b	(Excess inflows from a related specialised credit institution)		0
20	**Total Cash Inflows**	94,368,619	94,368,619
EU-20a	Fully exempt inflows	0	0
EU-20b	Inflows subject to 90% cap	0	0
EU-20c	Inflows subject to 75% cap	94,368,619	94,368,619
TOTAL ADJUSTED VALUE			
21	LIQUIDITY BUFFER		552,182,366
22	TOTAL NET CASH OUTFLOWS		362,209,576
23	LIQUIDITY COVERAGE RATIO (%)		152.4%

Sources of Liquidity

The Bank has identified the following sources of liquidity (presented in order of priority):

- Access to the buffer of High-Quality Liquid Assets (HQLA) incl. Central banks;
- Access to excess liquidity placed on the interbank markets.

It is assumed the Bank will have full and unrestricted access to its HQLA (including both the bond portfolio as well as the unencumbered placement with the central bank), in turn providing access to available funds amounting to EUR 552,182,366 as at the end of December 2019 where the Bank deems the reliability as high and also including a low if any costs associated with its activation. Considering the Bank's balance sheet, full and unrestricted access to the HQLA will enable the Bank to handle its liquidity needs also in a severely stressed scenario without having an LCR below 100%.

In addition, the Bank also has access to the funds placed on the interbank market and considering that these normally are rated AA or A, no restriction in terms of their access (unless a default of any of these counterparties). Considering the rating, the reliability of these funds must be deemed relatively high also in a stressed scenario.

The Bank is primarily funded by customer deposits placed for the purpose of meeting their upcoming payment obligations. In this context, the Bank shall maintain a conservative liquidity and funding risk profile – ensuring resilience to both short and medium-term external stress – by maintaining an adequate buffer of high-quality liquid assets to be able to withstand longer periods of stress without the need to conduct forced sale of assets, with BC to ensure LCR compliance on a daily basis. The Bank has assessed the key liquidity risk driver 'currency mismatch' that would impact its liquidity position as 'Low' with its exposure to currency mismatch being practically non-existent considering that the balance sheet is hedged from a forex perspective.

In this context, it shall be noted that the main shareholder maintains a firm commitment to support BC so that it remains compliant with all capital, liquidity and other applicable prudential regulations and thus will be able to cover upcoming funding needs.

The Bank's significant currencies as at 31 December 2019 were EUR, USD and GBP.

7. Operational risk

Operational risk is defined as the risk of direct or indirect financial losses due to failure attributable to technology, employees, procedures or external events. The definition includes legal and compliance risk but excludes reputational risk. Operational risk is inherent in all activities within the organisation, in outsourced activities and in all interactions with external parties. The Information Security Risk Policy are also important components of the Bank´s operational risk framework.

Compliance risks are defined as the risks of non-compliance with certain applicable laws, regulations rules, self-regulatory standards and codes of conduct ('compliance rules').

Legal Risk is the risk of loss which primarily caused by: i) a defective transaction; ii) a claim (including a defence to a claim or a counterclaim) being made or some other event occurring which results in a liability for the Bank or other loss (for example, as a result of the termination of a contract); iii) failing to take appropriate measures to protect assets owned by the Bank, or; iv) change in law.

The management of operational risk is an integral part of the Bank's handling of its risks with key processes in place, including change risk management and approval process on key initiatives (including targeted initiatives for outsourced activities) and incident reporting.

Measurement of Operational Risk

An operational incident is an event leading to the actual outcome of a business process to differ from the expected outcomes, due to inadequate or failed processes, people, systems, or due to external events.

The Bank is recording the experienced operational risk incidents including financial loss, if any. The Risk Function is monitoring the development of operational risk incidents in its Risk Appetite Policy which is regularly – at least quarterly – reported to the Authorised Management and the Board of Directors. Considering the nature of the business, the Bank is also specifically monitoring and reporting on security related incidents. Moreover, all material incidents – not only those with a monetary impact – are being recorded and analysed, including a proper root cause analysis. Clear approval routines are in place to secure awareness and ensuring focus on mitigating actions, if any.

Management and Mitigation of Operational Risk

The operational risk management framework defines standards, tools and processes to support the organisation in proactively identifying, assessing, monitoring and managing/mitigating operational risks to the largest extent possible at reasonable cost.

Moreover, management of operational risks is part of the management's responsibilities where the Bank aims to minimise the (financial) impact from any operational risk incidents experienced. The Bank has a number of key processes used for the identification of these risks on a continuous basis, measuring risk exposure as well as for the management of mitigating actions.

Incident Reporting

The Bank has an incident management process that defines escalation, assessment, investigation and resolution roles and responsibilities. The Bank shall ensure that material events are documented and reported accordingly and dealt with immediately to minimise the damage and prevent

reoccurrence. Events of material significance and any other event deemed as significant and important for authorities to be informed about, shall be reported to the relevant authorities.

Change Risk Management and Approval / Product Approval

Introduction of new products, services, processes and systems constitute a significant source of potential operational risks and requires risk assessment. Consequently, all such changes should be subject to a formal, internal risk assessment and approval process to ensure that all inherent risks are well understood, can be mitigated, managed or are accepted before approving new or changed products, services, markets, processes, IT systems, or substantial changes to the operations or the organisation.

Risk and control Self Assessments (RCSAs)

Operational Risk is monitored through regular self-assessment processes, at least annually. The purpose is to assess the quality of internal controls, ensure that all material operational risks are captured and reassessed in a systematic and timely manner and identify areas of improvements. Operational risk is an integral part of the activities conducted by the Bank, in its outsourced activities and in any interactions with third parties. To determine the potential operational risk exposures, the assessments should, as a minimum, take the following elements into consideration:

- Specific operational risks associated with its business model and activities;
- Integration, stability and suitability of IT systems;
- Manual routines and non-integrated IT systems;
- Dependence on external factors, including subcontractors and the risk with outsourced activities;
- Employees´ capabilities in relation to the complexity of the task;
- The effectiveness and robustness of material business procedures and processes etc.;
- Organisation, including the extent of internal controls and possible inability to establish proper segregation of duties;
- Theft and fraud;
- Regulatory non-compliance;
- Reputational;
- Handling of data;
- Physical security;
- Model risk.

Business Continuity & Crisis Management (BC&CM)

BC&CM ensure that the Bank builds and maintains the appropriate levels of resilience and readiness to safeguard its shareholders, assets, employees, clients, reputation, the interest of the authorities and other stakeholders of the Bank, as well as the ability to continue activities, processes and services. Business Continuity requires pre-considered measures and actionable steps to be taken in preparation

for unexpected and disruptive events. Crisis Management ensures that extraordinary events or crisis are identified, escalated and managed to minimise impact.

Raise Your Concern / Whistleblowing

Any employee observing possible misconduct, i.e. act of behaviours by employees or associates which are in conflict with the Bank's Code of Conduct, or possibly violating laws and regulations, is encouraged to come forward and voice these concerns in accordance with a defined process.

Training and Awareness Programmes

The Bank has in place a compliance training programme where all employees must undergo a programme of training modules and, for each one, pass an individual self-assessment test. The programme contains tailored trainings and includes; Anti-Bribery and Anti-Corruption; Anti-Money Laundering and Information Security and Cyber Risk Awareness. In addition, the Bank regularly conducts information sessions for new joiners to ensure a common understanding of the governance framework.

Compliance governance

The Bank has, in accordance with regulation, established a Compliance function with a dedicated team which is headed by the appointed Chief Compliance Officer covering the full legal entity including the branches.

The Compliance function is part of the Bank's second line of defence and is in charge of the anticipation, identification, measurement, monitoring, control and reporting of all compliance related risks to which the Bank is or may be exposed. It is the purpose of the Compliance function to control and minimise compliance risk, which is defined as the risk that the Bank may suffer as a result of its failure to comply with applicable laws, regulations, code of conduct and standards of good practice. Compliance risk comprises regulatory risk, including the risk of sanctions and certain aspects of operational risk.

The Bank also has in place a first line of defence KYC Team. The objectives of the KYC Team function are to anticipate, identify and assess and monitor the KYC risks as defined in the Bank´s AML Policy and thus to assist Authorised Management in limiting and mitigating these risks. To meet these objectives, the KYC Function:

- Anticipates, identifies and assesses the KYC risks (as defined in the AML Policy within the organisation);
- Controls and monitors all measures taken to mitigate the KYC risks;
- Acts as an adviser in KYC within the organisation;
- Reports accordingly to Authorised Management as appropriate.

8. Other risks

8.1 Exposures in equities in the banking book

As of 31 December 2019, the Bank did not have any exposures in equities in its banking book.

8.2 Exposures to securitisation positions

As of 31 December 2019, the Bank did not have any exposures to securitisations positions.

9. Remuneration

9.1 Qualitative information on remuneration

9.1.1 Remuneration Policy

The Board of Directors has implemented a Remuneration Policy providing guidelines on compensation and benefits at the Bank in line with its activities, objectives, values and long-term interests.

The Remuneration Policy applies to all members of the Bank's staff, including Authorised Management, with specific provisions on variable remuneration applicable to material risk takers. Further, the Policy applies to any Remuneration awarded to the Board of Directors.

9.1.2 Decision-making process used for determining the Remuneration Policy

In line with CSSF Circular 11/505, the Bank applies remuneration principles proportionate to its size, nature, scope, complexity of its activity and internal organisation.

In line with the principle of proportionality and so as to provide further guarantees in terms of independence, the implementation of the Policy by the Board of Directors shall be subject, on an annual basis, to a review by the Risk and Compliance functions, as regards to its compliance with the applicable regulations and the principles and procedures defined by the Board. Any conflicts of interest are therefore avoided since none of the members of the Board of Directors are involved in any executive function within the Bank, hence allowing for complete independence.

The results of the review are communicated to the Control Function and the Board of Directors. The latter is responsible for ensuring that the results of the review are duly dealt with.

The Internal Audit Function periodically (at least on an annual basis) carries out an independent audit of the design, implementation and effects of the Bank's Remuneration Policy.

The People Function is closely involved in the design of the policy and is responsible for its regular review with the assistance of the Legal and Control Functions. It is responsible for the preparation/update of the Policy, monitoring of the consistent application of the Policy and the contractual implementation of applicable terms. Moreover, the People Function together with the Control Function conducts an annual assessment of which persons should be deemed to be material risk takers. The identification process is reviewed by the Authorised Management and validated by the Board of Directors, which has overall responsibility for the Policy.

9.1.3 Ratios between fixed and variable remuneration

The total amount of variable remuneration awarded to any member of staff is limited to a certain percentage of their total fixed remuneration, depending on their function within the Bank. Subsequently, the variable remuneration may not exceed:

- 50% for members of the Authorised Management;
- 45% for Control Functions;
- 100% for other material risk takers not mentioned above.

In some exceptional cases, variable remuneration of material risk takers may exceed the described thresholds, however, never exceeding 200% of the fixed remuneration. In such cases, the procedure set out in Art. 94 (g) of CRD IV (and CSSF Circular 15/662) applies.

9.1.4 Performance criteria on which the entitlement to shares, options or variable components of remuneration is based

The Bank has available a global bonus scheme in the form of an Options Programme which is applicable to the Bank's staff, including Authorised Management.

Bonuses awarded under this Options Programme are in the form of Options, which are share-based instruments providing the recipient with a right to subscribe for a share in the parent company of the Bank (or receive cash equivalents upon exercise of the Option). Any Option awarded is subject to the Options Programme which is based on the following key principles:

- The exercise is subject to the occurrence of certain well-defined exercise events, among which is a transfer of significant parts of the shares of Banking Circle, directly or indirectly, to a party independent of the present owners;
- Options are subject to a vesting mechanism, according to which recipients' ownership rights in the Options are conditional through a period of five years after award of the Option;
- Leaver mechanisms apply to Options, meaning that the recipient may forfeit their Options if their employment with the Bank is terminated by the recipient or by the Bank for cause, including by reason of potential breach of conduct rules or similar.

The Options Programme thus provides a high degree of alignment between the long-term interests of the Bank and its employees, including in terms of sustainability of its financial position and business and compliance with laws and regulations. Further, the fact that a large majority of staff, including Authorised Management, is eligible for variable remuneration only in the form of Options (i.e. employees other than sales staff which are part of the sales commission programme) means that the general bonus scheme does not impair the financial and liquidity position of the Bank, since the costs of issuing Options are borne by the indirect shareholders of the Bank.

The Bank uses a set of performance criteria, which are the basis for the annual assessment of performance. These performance criteria consist of an appropriate combination of quantitative and qualitative criteria which ensure alignment with the activities, objectives, values, risk appetites and long-term interests of the Bank.

The individual variable remuneration is based on the annual assessment of performance carried out by each direct report (Manager) with respect to members of his/her business unit. The individual variable remuneration of the Authorised Management and the Heads of Control Functions are based on an annual assessment of performances carried out by the Board of Directors. Evaluation of performance criteria are in accordance with the Performance Management programme, developed and maintained by the People department and approved by Authorised Management. The final attribution of variable remuneration is to be reviewed by the Board of Directors as to ensure the allocated amounts are defined as being within the remuneration budget as well as reflecting overall evaluation results.

9.2 Quantitative information on remuneration

As mentioned in the introduction to the report, the Bank only operated as a bank on the last day of 2019, where it was merged with the sister company Saxo Payments A/S (the absorbed company). Prior to that, the Bank did not have any employees. From an accounting perspective, the merger took place at January 1, 2019. Accordingly, the 2019 financial statements for the Bank include mainly the activities from the absorbed company. The quantitative information on remuneration includes the absorbed company.

At the institution, no staff member has been remunerated EUR 1,000,000 or more during the time it operated under a banking license in 2019 (which effectively concerns the last day of the year).

For further quantitative information on remuneration, please refer to the Bank's financial statement.

10. Appendices

Disclosure Index

#	Source	Disclosure Reference	Name	CRR article	Reference Section
1	EBA/GL/2016/11	EU OVA	Institution risk management approach	Article 435 (1)	Section 2.4.1
2	EBA/GL/2016/11	-	Directorships and recruitment policy	Article 435 (2)	Section 2.4.2
3	EBA/GL/2016/11	EU LI1	Differences between accounting and regulatory scopes of consolidation	Article 436 (b)	Section 2.4.3
4	EU 1423/2013	Annex IV	Own funds disclosure template	Article 437 (1)	Section 3.1
5	EU 1423/2013	Annex II	Capital instruments' main features template	Article 437 (1)(b)	Section 3.1
6	EBA/GL/2016/11	EU OV1	Overview of RWAs	Article 438 (c)-(f)	Section 3.2.1
7	EU 2015/1555	Annex I Table 1	Geographical distribution of credit exposure relevant for the calculation of the countercyclical capital buffer	Article 440 (a)	Section 3.2.2
8	EU 2015/1555	Annex I Table 2	Amount of institution-specific countercyclical capital buffer	Article 440 (b)	Section 3.2.2
9	EU 2016/200	LRQua	General qualitative information about leverage	Article 450 (d)-(e)	Section 3.3
10	EU 2016/200	LRSum	Summary reconciliation of accounting assets and leverage ratio exposures	Article 450 (b)	Section 3.3
11	EU 2016/200	LRCom	Leverage ratio common disclosure	Article 450 (a)	Section 3.3
12	EU 2016/200	LRSpl	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	Article 450 (a)	Section 3.3
13	EBA/GL/2016/11	EU CRA	General qualitative information about credit risk	Article 435 (1)	Section 4.1
14	EBA/GL/2016/11	EU CRD	Qualitative disclosure requirements on institutions' use of external credit ratings under the standardized approach for credit risk	Article 444 (a) – (d)	Section 4.2
15	EBA/GL/2016/11	EU CRB-B	Total and average net amount of exposures	Article 442 (c)	Section 4.2
16	EBA/GL/2016/11	EU CRB-C	Geographical breakdown of exposures	Article 442 (d)	Section 4.2
17	EBA/GL/2016/11	EU CRB-D	Concentration of exposures by industry or counterparty types	Article 442 (e)	Section 4.2
18	EBA/GL/2016/11	EU CRB-E	Maturity of exposures	Article 442 (f)	Section 4.2
19	EBA/GL/2016/11	EU CRB-A	Additional disclosure related to the credit quality of assets	Article 442 (a)-(b)	Section 4.3
20	EBA/GL/2016/11	EU CR1-D	Ageing of past-due exposures	Article 442 (g)	Section 4.3

#	Source	Disclosure Reference	Name	CRR article	Reference Section
21	EBA/GL/2016/11	EU CRC	Qualitative disclosure requirements related to CRM techniques	Article 453 (a)-(e)	Section 4.4
22	EBA/GL/2016/11	EU CR5	Standardized approach	Article 444 (e)	Section 4.4
23	EBA/GL/2016/11	EU CCRA	Qualitative disclosure requirements related to CCR	Article 439	Section 4.5
24	EU 2017/2295	Template A	Encumbered and unencumbered assets	Article 443	Section 4.6
25	EU 2017/2295	Template C	Sources of encumbrance	Article 443	Section 4.6
26	EBA/GL/2016/11	EU MRA	Qualitative disclosure requirements related to market risk	Article 435	Section 5.1
27	EBA/GL/2016/11	EU MRA	Disclosure requirements related to IRRBB	Article 435	Section 5.1
28	EBA/GL/2016/11	EU MR1	Market risk under the standardized approach	Article 445	Section 5.2
29	EBA/GL/2017/01	Annex I EU LIQA	Liquidity risk management	Article 435 (1)	Section 6.1
30	EBA/GL/2017/01	Annex II EU LIQ1	LCR disclosure template	Article 435 (1)(f)	Section 6.2
31	EBA/GL/2017/01	Annex II EU LIQ1	Qualitative information on LCR which complements the LCR disclosure template	Article 435 (1)(f)	Section 6.2
32	EU 575/2013	-	Qualitative Information about operational risk	Article 435 & 446	Section 7
33	EU 575/2013	-	Qualitative information on exposures in equities in the banking book	Article 447 (a)	Section 8.1
34	EU 575/2013	-	Qualitative information about exposure to securitization positions	Article 449	Section 8.2
35	EBA/GL/2015/22	-	Remuneration policy	Article 450 (1	Section 9.1.1
36	EBA/GL/2015/22	-	Information about the “identified” staff	Article 450 (1)	Section 9.1.2
37	EBA/GL/2015/22	-	Information on decision making for determining remuneration policy	Article 450 (1)(a)	Section 9.1.3
38	EBA/GL/2015/22	-	Information on the link between pay and performance	Article 450 (1)(b)	Section 9.1.4
39	EBA/GL/2015/22	-	Most important design characteristics of the remuneration system	Article 450 (1)(c)	Section 9.1.4
40	EBA/GL/2015/22	-	The ratios between fixed and variable remuneration	Article 450 (1)(d)	Section 9.1.3
41	EBA/GL/2015/22	-	Performance criteria for variable remuneration	Article 450 (1)(e)	Section 9.1.4
42	EBA/GL/2015/22	-	The main parameters and rationale for any variable component scheme and any other cash benefits	Article 450 (1)(f)	Section 9.1.4
43	EBA/GL/2014/08	Annex 1	Information on remuneration for all staff	Article 450 (1)(h)	Section 9.2

#	Source	Disclosure Reference	Name	CRR article	Reference Section
44	EBA/GL/2014/08	Annex 2	Information on remuneration of identified staff	Article 450 (1)(h)	Section 9.2
45	EBA/GL/2014/08	Annex 3	Information on identified staff remunerated EUR 1 million or more per financial year	Article 450 (1)(i)	Section 9.2

List of regulatory templates

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