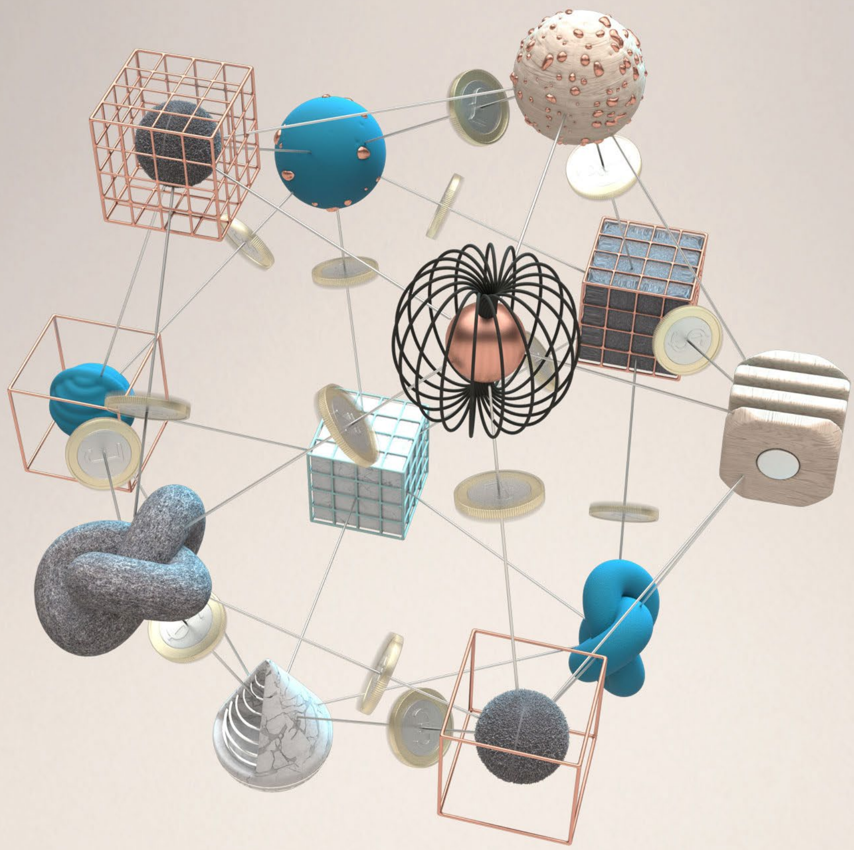

BANKING CIRCLE

Pillar 3 Report

For the financial year ending 31 December 2021

Banking Circle S.A.

June 2022

bankingcircle.com

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 2021.

It corresponds with the requirements of the global regulatory framework for capital and liquidity established by the Basel Committee on Banking Supervision (also referred to as the “BCBS”), 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.

On 11 December 2018 the BCBS published an updated framework on Pillar 3 disclosure requirements. The revised Pillar 3 framework reflects the Committee’s December 2017 Basel III post-crisis regulatory reforms. Most of the points addressed in the updated Pillar 3 disclosure framework are already covered in the CRR II.

The CRR II amends the disclosure requirements under Part Eight of the CRR to implement the new international standards and reflect the regulatory changes introduced by CRR II. The CRR II amends the CRR in several aspects, namely the leverage ratio, the net stable funding ratio (NSFR), requirements for own funds and eligible liabilities, counterparty credit risk, and introduces clarifications regarding disclosures on remuneration. In addition, it includes new disclosure requirements on performing, non-performing and forborne exposures, and on collateral and financial guarantees received.

In this context, and as required in Article 434a of the CRR II, EBA developed implementing technical standards (ITS) specifying uniform disclosure formats seeking consistency of disclosure formats with the BCBS Pillar 3 standards. Thus, the EBA ITS promotes consistency between the disclosure and the reporting frameworks. Moreover, the ITS include several proportionality measures, and the CRR II provides definitions for ‘small and less complex institutions’ and ‘large institutions’ that support proportionality of Pillar 3 disclosures.

The ITS is adopted by the European Commission and applicable as of 28 June 2021.

This report is divided into ten 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, leverage ratio and net stable funding 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;
— Section 10 presents an introduction to ESG risk.

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.

1.1 Key metrics

The purpose of the Pillar 3 disclosure report is to give information on the risk management of the Bank as at end December 2021. All figures presented within this document are shown in EURs.

Template EU KM1[1]: Key Metrics Template

		Amounts	
Available own funds		**2021**	**2020**
1	Common Equity Tier 1 (CET1) capital	111,111,087	36,065,367
2	Tier 1 capital	111,111,087	36,065,367
3	Total capital	111,111,087	36,065,367
Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount	170,432,105	72,532,812
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	65.19%	49.72%
6	Tier 1 ratio (%)	65.19%	49.72%
7	Total capital ratio (%)	65.19%	49.72%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
EU 7a	Additional CET1 SREP requirements (%)	0.00%	0.00%
EU 7b	Additional AT1 SREP requirements (%)	0.00%	0.00%
EU 7c	Additional T2 SREP requirements (%)	0.00%	0.00%
EU 7d	Total SREP own funds requirements (%)	8.00%	0.00%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.50%	2.50%

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

EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.50%	0.01%
EU 9a	Systemic risk buffer (%)	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer	0.00%	0.00%
11	Combined buffer requirement (%)	3.00%	2.51%
EU 11a	Overall capital requirements (%)	11.00%	10.51%
12	CET1 available after meeting the total SREP own funds requirements (%)	97,476,518	Not applicable
Leverage ratio			
13	Leverage ratio total exposure measure	2,115,606,437	1,556,863,650
14	Leverage ratio	5.25%	2.32%[2]
Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)			
EU 14a	Additional CET1 leverage ratio requirements (%)	0.00%	Not applicable
EU 14b	Additional AT1 leverage ratio requirements (%)	0.00%	Not applicable
EU 14c	Additional T2 leverage ratio requirements (%)	0.00%	Not applicable
EU 14d	Total SREP leverage ratio requirements (%)	3.00%	Not applicable
EU 14e	Applicable leverage buffer	0.00%	Not applicable
EU 14f	Overall leverage ratio requirements (%)	3.00%	Not applicable
Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	1,109,927,436	566,270,591
EU 16a	Cash outflows - Total weighted value	948,745,248	740,610,696
EU 16b	Cash inflows - Total weighted value	393,494,343	453,878,629
16	Total net cash outflows (adjusted value)	555,250,904	286,732,067
17	Liquidity coverage ratio (%)	199.90%	197.49%
Net Stable Funding Ratio			
18	Total available stable funding	463,263,536	224,604,522

[2] The Bank was fully compliant with the applicable minimum requirement at 28 June 2021. See section 3.4 below for details.

19	Total required stable funding	189,712,961	104,534,630
20	NSFR ratio (%)	244.19%	214.86%

2. Presentation of the Bank

2.1 Structure

The Bank is a public limited liability company (Société Anonyme) registered in Luxembourg, and a credit institution licensed by the Commission de Surveillance de Secteur Financier (CSSF) and European Central Bank (ECB).

The Bank is owned jointly by EQT VIII (through B Circle Holding S.A., Moneyball Bidco S.àr.l., BC Midco PTE. LTD and Moneyball Topco PTE. Ltd), EQT Ventures Investments S.àr.l., and some minority shareholders (less than 10% individually). It is headquartered in Luxembourg, and has branches in London, Munich, and Copenhagen.

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 (PSPs), alternative payment method providers and FX payment providers). The Bank's clients provide business activities qualifying as payment services and thus in turn qualifying as financial customers.

The Bank is directly and indirectly participating in various payment clearing schemes and to provide clearing – in the context of payments – and is the core service of the Bank's business model. This is done by providing clients with access to a global account infrastructure where they can perform local payments in different currencies globally and have local accounts in many parts of the world thus using the clearing mechanisms as if it were a direct member. Moreover, the Bank provides access to clearing mechanisms including Single Euro Payments Area (SEPA), TIPS, DKK, Faster Payments, Clearing House and Payment Service (CHAPS), and via the usage of SWIFT. Simultaneously providing a sophisticated reconciliation process e.g. inflows from both Payment Service Providers and credit card schemes are collected on the same accounts and reconciled conveniently before settling to merchants.

Therefore, the Banks's value proposition thus enables a fast and cost-effective way for the clients to make and receive local and cross border payments. The clients can access clearing mechanisms / payment methods as depicted above being accompanied by a wide range of local pay-out and collection capabilities.

The mission remains 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, with support from the sub-committees mentioned below.

Board of Directors

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 the Bank.

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[3]	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	Hjalmar Birgersson Winbladh	Member	11 October 2018

Executive Management / Committee

Both the CEO, Laust Bertelsen, and the Chief Financial Officer, Michael Hansen, are authorised managers of the Bank under Art. 7(2) of the law of 5 April 1993 on the financial sector.

Anders La Cour resigned from his CEO position on 30 September 2021 and Michael Hansen was appointed on 1 October 2021.

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.

[3] Lars Torpe Christoffersen resigned from his Class B Director position on 5 January 2022 and has not been replaced

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 sub-committees in the management of daily activities to which it can delegate decision-making power, including the:

Onboarding Committee

The Onboarding Committee (OCM) purpose is assessing, within the business scope and risk appetite of the bank, as defined and decided by the Board of Directors, the onboarding of clients within the Head Office and Branches of Banking Circle. In addition, the OCM also ensures that client relationships are managed on an ongoing basis, including approving the acceptable business risks.

The OCM's main objective is to address and decide on measures related to client and market risk topics, including AML risk, KYC/ODD risk, and customer pricing risk.

Financial Risk Assets & Liabilities Committee

The Financial Risks and Assets and Liabilities Committee (FALCO) has overall responsibility to oversee and assess the management of the bank's assets and liabilities, including the capital and liquidity risk matters, in accordance with the strategy and risk appetite. The FALCO's main objective is to address and decide on measures related to financial risk topics, including but not limited to Asset & Liability Management, Market Risk, Interest Rate Risk in the Banking Book (IRRBB), Asset Encumbrance, Capital Risk, Solvency Risk, Credit Risk, Settlement Risk, Liquidity Risk and Financial Reporting Risk.

Governance, Risk and Compliance Committee

The Governance, Risk and Compliance Committee (GRCC) purpose is to establish, assess, and develop internal risk, compliance and governance structures of the Head Office and Branches of Banking Circle, and provide guidelines to continuously maintain appropriate governance structures and ensure compliance with the regulatory landscape.

The GRCC's main objective is to address and decide on measures related to Compliance risk topics, including Governance, Internal Control, and non-Financial risk as delegated by the EXCO.

Products and Pricing Committee

The Product and Pricing Committee (PPC) approves, within the business scope and risk appetite defined by the Board of Directors, any significant product change within the Head Office and Branches of the Bank.

The PPC's main objective is to address and decide on measures related to any type of product risks, including product pricing risk and the new product approval process.

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 (CRO), who reports directly to the Authorised Management, with the administrative reporting line being to the CFO. Moreover, the CRO is a non-voting advisory member of the GRCC, FALCO and PPC.

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 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 Department is part of the second line of defence and shall ensure all business units anticipate, identify, assess, measure, monitor, manage and duly report all the risks to which BC is or may be exposed to. It shall carry-out its tasks continuously and without delay. It shall be a central element of the internal governance and organisation of the institution dedicated to limiting risks. It shall inform and advise the Board and assist the Authorised Management, propose improvements in the risk management framework and actively participate in decision-making processes, ensuring the appropriate attention is given to risk considerations. The ultimate responsibility for the decisions regarding risks shall remain, however, with the business units which take the risks, and finally with the Authorised Management and the Board. The scope and coverage shall be comprehensive and cover all risks, as well as the whole institution including any branches. The Authorised Management has, however, delegated certain responsibilities to other individuals or functions.

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 shall be appointed by the Authorised Management and is – like the rest of the Risk Function – independent from the operational functions and shall thus be released from the operational implementation of security actions. The ISO shall be 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 shall, however, be conducted as an independent and integrated part of the overall risk reporting and will include to ensure that ICT and security risks are identified, measured, assessed, managed, monitored and reported.

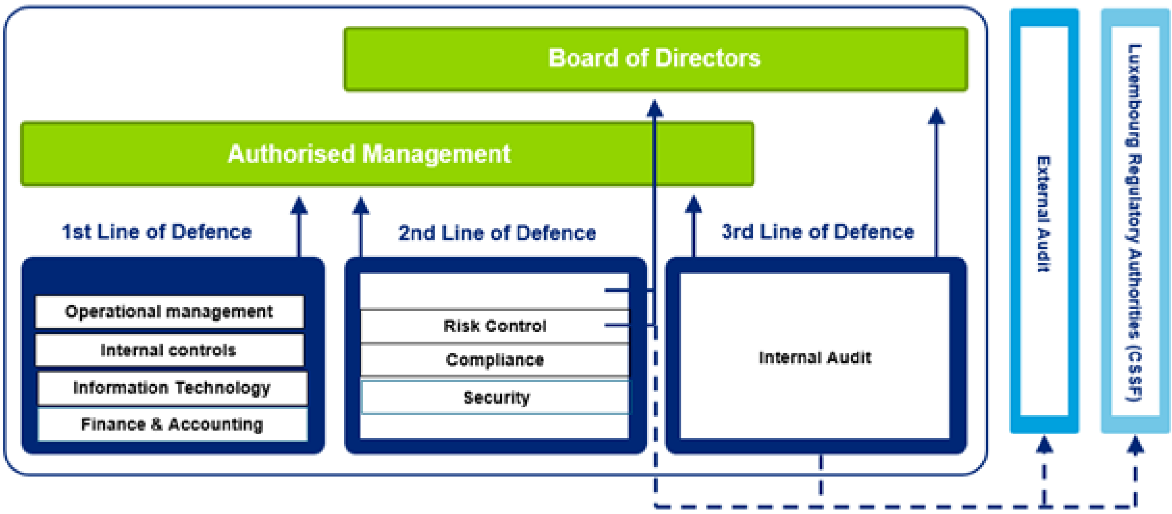
The ISOs key missions are the management of the analysis of the risks related to information, the definition of the required organisational, technical, legal and human resources, the monitoring of their implementation and effectiveness as well as the development of the action plan(s) aimed to improve the risk coverage. The ISO shall, based on BC's risk appetite in relation to Information and Cyber Risks as defined in the Risk Appetite Policy exercise his/her duties in accordance with the responsibilities and standards depicted in the Information Security Policy. The ISO is appointed as responsible for the Information and Communication Technology and security risk control function thus being directly accountable to the management body and responsible for monitoring and controlling adherence to the ICT and security risk management framework.

Moreover, the ISO should oversee the responsibilities delegated to the Chief Information Officer (CIO) as regards to the management of IT risks. The CIO is appointed as Responsible for the Information and Communication Technology (ICT) function (aka 'IT Officer').

The Risk Function also has current responsibility for the provision of a Data Protection Officer (DPO) for BC. Whilst this role nominally sits within the Risk department the DPO reports to the Board of Directors and the Authorised Management in all issues relating to protection of Personal Data and compliance with the various regulatory regimes (including GDPR) that the Bank is subjected to.

<u>Internal Governance Arrangements</u>

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 facilitates the Board's oversight and handling of 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, headed by 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.

The third line of defence consists of the Internal Audit function, headed by the Chief Internal Auditor (CIA). 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 CIA 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

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, however the Bank does have a recruitment procedure that applies to the appointment of the Board members. The procedure specifies the recruitment strategy of the Bank, which aims to always avoid any direct or indirect discrimination and ensures a diverse selection of candidates, with the appropriate sills and competences, are considered and ultimately appointed.

2.4.3 Scope of application

The Pillar 3 disclosure has been prepared on a solo basis.

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 consist 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 with the CET 1 – after deductions – amounting to EUR 111,111,087 as per end of December 2021. 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 EU CC1: Composition of regulatory own funds

		Amounts	Regulation (EU) No 575/2013 Article Reference
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	171,177,145	26 (1) (a), (b), 27, 28, 29
	of which: Instrument type 1	*171,177,145*	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	-38,325,578	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves)	1,329,039	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	134,180,605	**Sum of rows 1 to 5a**

Common Equity Tier 1 (CET1) capital before regulatory adjustments			
7	Additional value adjustments (negative amount)	-929,109	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-9,662,004	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)	-12,478,405	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	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		
20a	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)
20b	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
20d	of which: free deliveries (negative amount)	0	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10 % 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 17.65 % 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)
25a	Losses for the current financial year (negative amount)	0	36 (1) (a)
25b	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)**	-23,069,519	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	**Common Equity Tier 1 (CET1) capital**	111,111,087	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 those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58
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)**	111,111,087	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**	0	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2		63 (b) (i), 66

	instruments and subordinated loans (negative amount)		(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 where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		66 point (c), 68 to 70 and 79
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)**	111,111,087	Sum of row 45 and row 58
60	**Total risk exposure amounts**	170,432,105	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	65.19%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount)	65.19%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	65.19%	92 (2) (c)
64	Institution CET1 overall capital requirements	7.50%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.50%	
67	of which: systemic risk buffer requirement	0.00%	
67a	of which: Global Systemically Important Institution (G-S11) or Other Systemically Important Institution (0-S11) buffer requirement	0.00%	
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	57.19%	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
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 17.65 % 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 17.65%) 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	1,736,629	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		484 (5), 486

	arrangements		(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 changes after the reporting date

On 28 April 2022 and 17 June 2022, the Bank received capital injections of EUR 15,000,000 and EUR 35,000,000.

3.3 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[4] capital requirements of 8%, excluding Pillar II buffers, Capital Conservation buffer and Countercyclical Capital buffer.

The Bank maintains a capitalisation to ensure both regulatory compliance and internal capital needs. The capitalisation is adequately adopted to reflect that the Bank is still in the start-up phase with an ambitious 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 the Bank so that it can implement the business plan and remain compliant with all capital, liquidity, and other applicable prudential regulations. Finally, capital planning and stress testing is conducted continuously and is further elaborated upon in the yearly ICAAP.

[4] The Bank received its SREP feedback in Q4 2021, and it is applicable as at 1 January 2022. This will be reflected in the next update.

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 hard limits are as follows:

- Total capital ratio > 20%;
- CET, Tier 1 and Total capital ratio > overall capital requirements (OCR) and total SREP[5] capital requirements (TSCR) and combined buffer requirement; and
- Leverage ratio > 3%

CET1 capital, Pillar I and Risk Exposure Amounts as per 31 December 2021

Banking Circle's own funds consists solely of Common Equity Tier 1 (CET1) capital, considered as the capital of the highest quality with ultimate loss absorbance characteristics. Banking Circle 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 CET1 ratio for end of December 2021 amounted to 65.19%, significantly above both the minimum regulatory requirements as well as the minimum capital ratio committed by the shareholder.

As at 31 December 2021, the Bank's total Pillar I requirements in accordance with Art. 92 CRR amounted to EUR 13,634,568 as depicted below.

Table 1 - Pillar I requirements

EUR	Capital Requirement	Risk Exposure Amount	% of REA
Credit	**11,114,425**	**138,930,319**	**82%**
Institutions	7,161,790	89,522,375	
Corporates	39.236	490,455	
Other Assets	3,913,399	48,917,489	
Market	**0**	**0**	**0%**
Operational	**2,520,143**	**31,501,786**	**18%**
Total Pillar I	**13,634,568**	**170,432,105**	**100%**

Risk exposure amounts – Credit

Banking Circle assumes limited credit risk exposures related to the handling and placing of its excess liquidity. Banking Circle's assets primarily consist of a portfolio of liquid government bonds of high credit quality. The holdings are having short maturities, and all qualifies as Level 1 High Quality

[5] Is effective as at 1 January 2022

Liquid Assets (HQLA). In addition, cash placements are made with central banks serving both as HQLA and regulatory reserves. 85% of the assets are allocated in government bonds (minimum long term credit rating AA-) or held as cash with central banks with the remaining 15% kept with a limited number of correspondent banks to enable the handing of the client driven transactions. The correspondent banks have a credit rating of at least investment grade 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.

Risk exposure amounts – Market

Banking Circle has classified its bond portfolio as being part of the Banking Book considering the instrument classification and trading intention, i.e. Banking Circle 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. Banking Circle 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.

Risk exposure amounts – Operational

Banking Circle calculates the risk exposure amount in relation to operational risk using the basic indicator method i.e. 15% of operating income. The total risk exposure amount in relation to operational risk under Pillar I amounts to EUR 31,501,786.

Pillar II "add-ons"

The Bank has as per end of December 2021 – considering its current market risk exposures – no capital charge for market risk. This does not reflect the Bank's market risk exposures and the Bank has thus considered and added a Pillar II capital charge for its market risk exposures. 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. 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 8,166,592 as per end of December 2021.

In addition, the Bank believes the operational risk requirement is not in line with the Bank's growth ambitions and thus has added a Pillar II capital for its operational risk exposures. This add on has been calculated using the basic indicator approach, however adjusting the calculation, given the lack of historical financial information available, and uses the actuals for years ending 2020 and 2021, and budgeted projected incomes for 2022, to provide the 3-year period. This calculation amounts to EUR 4,688,733.

Internal Solvency Needs (ISN)

The ISN 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 20/753 (as amended)). This approach combines the Pillar I requirements with Pillar II risks. In addition, a stress test add-on/buffer is added to provide a prudent capital buffer above the current capital requirements in the event of unexpected obligations or changes to the own funds, profitability or REA.

The Bank's Internal Solvency Needs as per end of 2021 amounts to EUR 23,969,750[6] comprising of Pillar I capital of EUR 11,114,425 and EUR 12,855,325 in Pillar II capital and solely covered by CET1 capital.

As per end of 2021, the total capital buffer consisted of the CCoB and CCyB and is covered with CET1 capital and is 2.5% and 0.50% of REA respectively.

The below table reflects a point in time economic perspective as per end of year 2021 depicting the Pillar I and the Pillar II requirements related to IRRBB and Operational risk. It should be noted that the capital charge, in all views, is taken as the higher of the Pillar I or Pillar II requirement. 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 2021.

Table 2 – Internal solvency needs, capital requirements and own funds

	ISN	Reg view[7]
Credit	11,114,425	11,114,425
Market	0	0
Operational	2,520,143	2,520,143
Total Pillar I	**13,634,568**	**13,634,568**
Market Risk (IRRBB)	4,688,733	4,688,733
Operational	8,166,592	8,166,592
Total Pillar II	12,855,325	12,855,325
CRD IV capital buffers		
- o/w CCoB	n.a	3,913,399
- o/w CCyB	n.a	852,161
Total CRD IV capital buffers	**n.a.**	**4,765,560**

[6] This figure is the higher of the pillar I and pillar II requirements for operational risk.
[7] This is effective from 1 January 2022.

Total Internal Solvency Needs	**23,969,750**	**n.a.**
Total Applicable Minimum Requirements incl. PII and buffers	**n.a.**	**28,735,310**
CET1 capital	111,111,087	111,111,087
Own Funds	111,111,087	111,111,087
Excess Capital	**87,141,337**	**82,375,777**

3.3.1 Capital requirements

Template EU OV1: Overview of risk weighted exposure amounts

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		2021	2020	2021
1	Credit risk (excluding CCR)	138,930,319	50,805,090	11,114,426
2	Of which the standardised approach	138,930,319	50,805,090	11,114,426
3	Of which the foundation IRB (FIRB) approach	0	0	0
4	Of which: slotting approach	0	0	0
EU 4a	Of which: equities under the simple risk weighted approach	0	0	0
5	Of which the advanced IRB (AIRB) approach	0	0	0
6	Counterparty credit risk - CCR	0	0	0
7	Of which the standardised approach	0	0	0
8	Of which internal model method (IMM)	0	0	0
EU 8a	Of which exposures to a CCP	0	0	0
EU 8b	Of which credit valuation adjustment - CVA	0	0	0
9	Of which other CCR	0	0	0
15	Settlement risk	0	0	0
16	Securitisation exposures in the non-trading book (after the cap)	0	0	0
17	Of which SEC-IRBA approach	0	0	0
18	Of which SEC-ERBA (including IAA)	0	0	0
19	Of which SEC-SA approach	0	0	0
EU 19a	Of which 1250%	0	0	0
20	Position, foreign exchange and commodities risks (Market risk)	0	1,227,577	0
21	Of which the standardised approach	0	1,227,577	0
22	Of which IMA	0	0	0
EU 22a	Large exposures	0	0	0
23	Operational risk	31,501,786	20,500,146	2,520,143

EU 23a	Of which basic indicator approach	31,501,786	20,500,146	2,520,143
EU 23b	Of which standardised approach	0	0	0
EU 23c	Of which advanced measurement approach	0	0	0
24	**Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)**	0	0	0
29	**Total**	170,432,105	72,532,812	13,634,568

3.2 Capital buffers

Template EU CCyB1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	a	b	c	d	e	f	g	h	i	j	k	l	m
	General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures Exposure value for non-trading book	Total exposure value	Own fund requirements				Risk-weighted exposure amounts	Own fund requirements weights (%)	Countercyclical buffer rate (%)
	Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models			Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the non-trading book	Total			
Breakdown by country:													
Luxembourg	48,917,489	0	0	0	0	48,917,489	3,913,399	0	0	3,913,399	6,114,686	100%	0.50%
Total	48,917,489	0	0	0	0	48,917,489	3,913,399	0	0	3,913,399	6,114,686	100%	

Template EU CCyB2: Amount of institution-specific countercyclical capital buffer

Row		Column
		010
010	Total risk exposure amount	170,432,105
020	Institution specific countercyclical buffer rate	0.50%
030	Institution specific countercyclical buffer requirement	852,161

3.4 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. The amended CRR has a binding leverage ratio requirement of 3% of Tier 1 capital, harmonised with the international BCBS standard. It also 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.

The leverage ratio is calculated by the Finance Department, measured as part of the Risk Appetite and reported on monthly basis by the Risk Function.

The Bank, as per end of 2021, reported a Leverage ratio of 5.25%.

Template EU LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable amount
1	Total assets as per published financial statements	2,137,827,005
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	0
4	(Adjustment for temporary exemption of exposures to central bank (if applicable))	0
5	(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 point (i) of Article 429a(1) CRR)	0
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	0
7	Adjustment for eligible cash pooling transactions	0
8	Adjustments for derivative financial instruments	0
9	Adjustment for securities financing transactions (SFTs)	0
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	0
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-22,140,409
EU-11a	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (c) of Article 429a(1) CRR)	0
EU-11b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (j) of Article 429a(1) CRR)	0
12	Other adjustments	-80,159
13	**Leverage ratio total exposure measure**	2,115,606,437

Template EU LR2: LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures	
		2021	2020
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	2,137,746,846	1,585,069,891
2	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0	0
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0	0
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	0	0
5	(General credit risk adjustments to on-balance sheet items)	0	0
6	(Asset amounts deducted in determining Tier 1 capital)	-22,140,409	-28,206,241
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	2,115,606,437	1,556,863,650
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	0	0
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	0	0
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	0	0
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach	0	0
EU-9b	Exposure determined under Original Exposure Method	0	0
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	0	0
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	0	0
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	0	0
11	Adjusted effective notional amount of written credit derivatives	0	0
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0
13	**Total derivatives exposures**	0	0
Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	0	0

15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0	0
16	Counterparty credit risk exposure for SFT assets	0	0
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	0	0
17	Agent transaction exposures	0	0
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)	0	0
18	**Total securities financing transaction exposures**	0	0
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	0	0
20	(Adjustments for conversion to credit equivalent amounts)	0	0
21	(General provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	0	0
22	**Off-balance sheet exposures**	0	0
Excluded exposures			
EU-22a	(Exposures excluded from the leverage ratio total exposure measure in accordance with point (c) of Article 429a(1) CRR)	0	0
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a (1) CRR (on and off-balance sheet))	0	0
EU-22c	(-) Excluded exposures of public development banks - Public sector investments	0	0
EU-22d	(Excluded promotional loans of public development banks: - Promotional loans)	0	0
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units)	0	0
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	0	0
EU-22g	(Excluded excess collateral deposited at triparty agents)	0	0
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)	0	0
EU-22i	(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)	0	0
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)	0	0
EU-22k	(Total exempted exposures)	0	0
Capital and total exposure measure			

23	**Tier 1 capital**	111,111,087	36,065,367
24	**Leverage ratio total exposure measure**	2,115,606,437	1,556,863,650
Leverage ratio			
25	Leverage ratio	5.25%	2.32%
EU-25	Leverage ratio (without the adjustment due to excluded exposures of public development banks - Public sector investments) (%)	5.25%	2.32%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	5.25%	2.32%
26	Regulatory minimum leverage ratio requirement (%)	3%	not applicable
EU-26	Additional leverage ratio requirements (%)	not applicable	not applicable
27	Required leverage buffer (%)	not applicable	not applicable
Choice on transitional arrangements and relevant exposures			
EU-27	Choice on transitional arrangements for the definition of the capital measure	not applicable	not applicable
Disclosure of mean values			
28	Mean value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	0	0
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	0	0
30	Total exposures (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	2,115,606,437	1,113,554,255
30a	Total exposures (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	2,115,606,437	1,113,554,255
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	5.25%	2.32%

31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	5.25%	2.32%

Template EU LR3 - 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:	2,137,746,846
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	2,137,746,846
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	1,822,583,539
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	-
EU-7	Institutions	243,614,954
EU-8	Secured by mortgages of immovable properties	-
EU-9	Retail exposures	-
EU-10	Corporate	490,455
EU-11	Exposures in default	-
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	71,057,899

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:

- Central bank placements and government bond positions;
- Cash balances with correspondent banks;
- Positive net market values of FX spot contracts with a counterparty or client in excess of posted collateral
- Intra-day credit facilities with settlement risk characteristics – and further described in section below

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 approved central banks and serves both as HQLA and regulatory reserves. The bond portfolio – together with any cash placements made with approved central banks – amount to minimum 85% of the asset allocation with the remaining 15% 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.

<u>Structure and organisation of credit risk management</u>

The Credit function, which sits under Finance and headed by the CFO, is responsible for supporting the Bank in its credit related activities, more specifically within the following main areas:

- Defining, establishing and maintaining the appropriate credit risk procedures and processes in adherence with the Credit Risk Policy of the Bank;
- Review of the credit and counterpart proposals and prepare recommendations for the credit granting authorities of the bank. This process shall include a review of existing counterparts limits, and proposals for maintaining, decreasing or increasing limits;
- Daily monitoring of credit lines thus ensuring the credit risk exposure remains within the approved limits. Consequently, raise and escalate any instances where breaches or limits are exceeded;
- Maintenance of the credit line and limit repository;

- Ensure reports used for monitoring purposes, where applicable, are validated and fit for purpose;

The Risk function, which is headed by the CRO, is in charge of monitoring, and reporting Credit Risk in line with the policies and procedures sets out by the Authorised Management. Hence, the Risk Department supports the Authorised Management in ensuring Credit Risk exposures are in line with the risk appetite limits in place. Risk achieves this more specifically within the following main areas:

- Ensuring adherence of the Credit Risk Policy;
- Review and challenge the credit and counterpart proposals;
- Second line monitoring of credit lines, i.e. monitoring the activities of the first line of defence. This mainly relates to the compliance of the Treasury department with the applicable mandate instructions and limits, but also include monitoring the exposures are within limits;
- If breaches are not escalated, Risk will raise and escalate to either Credit department or Treasury;
- Any hard limits must be investigated and documented by the Risk department, and thus must also follow progress on the agreed mitigating / remediating actions;
- Ensure risk reports used for monitoring purposes, where applicable, are tested, validated and fit for purpose;
- Prepare monthly indicator reporting and risk reports delivered to AM and BoD, including details of exposures, breaches and any other information deemed necessary or pertinent to be shared;
- Notify and report to the regulator if any hard limit breaches trigger regulatory thresholds. This report must include detail on what occurred, how it occurred, any mitigating or remediating actions and changes in the control environment going forward.

4.2 Credit exposure and ratings

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.

ECAIs supports the standardised approach and securitisation framework of prudential regulation through the mapping of each of their credit assessments to the corresponding risk weights. The Bank ensures the ECAIs meet the eligibility criteria as set by the BCBS.

If the Bank's client or counterpart does not have an external rating, they will be internally rated - based upon information from the client, and other external sources. The client's ratings are combined with a qualitative evaluation of the client's creditworthiness – carried out by a dedicated person in the Credit Risk Management unit in order to assign an internal rating to the client.

Template EU CR4 – Standardised Approach – Credit risk exposure and CRM effects

	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWEA	RWEA density (%)
		a	b	c	d	e	f
1	Central governments or central banks	1,822,595,199	0	1,822,595,199	0	0	0.00%
2	Regional government or local authorities	0	0	0	0	0	0.00%
3	Public sector entities	0	0	0	0	0	0.00%
4	Multilateral development banks	0	0	0	0	0	0.00%
5	International organisations	0	0	0	0	0	0.00%
6	Institutions	243,615,625	0	243,615,625	0	89,522,375	36.75%
7	Corporates	490,455	0	490,455	0	490,455	100.00%
8	Retail	0	0	0	0	0	0.00%
9	Secured by mortgages on immovable property	0	0	0	0	0	0.00%
10	Exposures in default	0	0	0	0	0	0.00%
11	Exposures associated with particularly high risk	0	0	0	0	0	0.00%
12	Covered bonds	0	0	0	0	0	0.00%
13	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0.00%
14	Collective investment undertakings	0	0	0	0	0	0.00%
15	Equity	0	0	0	0	0	0.00%

16	Other items	48,917,489	0	48,917,489	0	48,917,489	100.00%
17	**Total**	2,115,618,769	0	2,115,618,769	0	138,930,319	6.57%

Template EU CQ3 Credit quality of performing and non-performing exposures

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	Cash balances at central banks and other demand deposits	1,138,103,654	1,138,103,654										
010	Loans and advances												
020	*Central banks*												
030	*General governments*												
040	*Credit institutions*												
050	*Other financial corporations*												
060	*Non-financial corporations*												

070	*Of which SMEs*												
080	*Households*												
090	Debt securities	928,106,499	928,106,499										
100	*Central banks*												
110	*General governments*	928,106,499	928,106,499										
120	*Credit institutions*												
130	*Other financial corporations*												
140	*Non-financial corporations*												
150	Off-balance-sheet exposures												
160	*Central banks*												
170	*General governments*												
180	*Credit institutions*												
190	*Other financial corporations*												
200	*Non-financial corporations*												
210	*Households*												
220	***Total***	2,066,210,153	2,066,210,153										

Template EU CQ4: Quality of non-performing exposures by geography

		a	b	c	d	e	f	g
		Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
010	***On-balance-sheet exposures***	***2,066,210,824***	***0***	***0***	***0***	***-12,332***		0
020	*United States*	201,970,349	0	0	0	-1,873		0
030	*Luxembourg*	771,349,563	0	0	0	-17		0
040	*France*	80,168,448	0	0	0	-2,182		0
050	*Germany*	556,706,364	0	0	0	-6,808		0
060	*United Kingdom*	315,331,907	0	0	0	-505		0
070	*Other countries*	140,684,194	0	0	0	-947		0
080	***Off-balance-sheet exposures***	***0***	***0***	***0***			***0***	
090	*Country 1*	0	0	0			0	
100	*Country 2*	0	0	0			0	
110	*Country 3*	0	0	0			0	
120	*Country 4*	0	0	0			0	
130	*Country N*	0	0	0			0	
140	*Other countries*	0	0	0			0	
150	***Total***	2,066,210,824	0	0	0	-12,332	0	0

4.3 Credit risk adjustments

As per 31 December 2021, 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 12m ECL. 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.

The calculation of ECL

The Bank calculates ECL based on a probability-weighted estimate of credit losses (i.e. the present value of cash shortfalls) over the expected life of a financial asset. For a financial asset that is credit-impaired, the ECL are the difference between the asset's gross carrying amount and the present value of its estimated future cash flows.

Expected credit losses are calculated up to maturity, if maturity is less than one year. The financial asset in scope of impairment (thus under the model scope) are ‘cash and cash equivalent’ (cash in hand, balances with central banks and loans and advances to credit institutions) without contractual maturity (with an implicit overnight maturity) and plain vanilla sovereign bonds (with contractual maturity).

4.3.1 Forborne exposure and non-performing loans

As per 31 December 2021, the Bank did not have any forborne exposure nor any non-performing loans.

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. 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 approves 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;
- Intra-day exposures, to the extent possible, are reduced by Delivery Versus Payment settlement or other settlement agreements, which reduce settlement risk;
- Settlement risk is normally assumed toward counterparties with a minimum rating. The Bank may however, on a selective basis and after careful consideration, allocate a part of the overall limit to counterparties with a lower rating. Any such exposures are subject to increased reviews, i.e. every 6 months and the Bank will always strive to require relevant collateral, something which is a firm requirement for any risks below BBB-;
- 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 are notified without undue delay and a temporary mandate increase may 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 are reported to the Board and the CSSF and rectified without delay.

The Bank monitors 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 2021, the Bank did not apply any credit risk mitigation techniques.

Template EU CR5 - Standardised approach

	Exposure classes	Risk weight															Total (q)	Of which unrated (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)	Others (o)		
1	Central governments or central banks	1,822,595,199	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,822,595,199	0
2	Regional government or local authorities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3	Public sector entities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4	Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5	International organisations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6	Institutions	0	0	0	0	107,617,008	0	135,998,335	0	0	0	0	0	0	0	0	243,615,343	3,223,489

7	Corporates	0	0	0	0	0	0	0	0	0	490,455	0	0	0	0	0	490,455	490,455
8	Retail	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9	Secured by mortgages on immovable property	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10	Exposures in default	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11	Exposures associated with particularly high risk	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12	Covered bonds	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13	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
14	Collective investment undertakings	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

15	Equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
16	Other items	0	0	0	0	0	0	0	0	0	48,917,489	0	0	0	0	0	48,917,489	48,917,489
17	Total	1,822,595,199	0	0	0	107,617,008	0	135,998,335	0	0	49,407,944	0	0	0	0	0	2,115,618,486	52,631,433

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 2021, 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, and thus be treated as encumbered.

The part of debt securities portfolio which was pledged as collateral against amounts owed to clients amounted to EUR 694,405,024 as per end of December 2021.

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 is prepared by the Finance department and monitored by the Risk Function and controlled by the Risk Appetite measure.

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

Template EU AE1: 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**	694,405,024	694,405,024			1,443,421,981	233,689,815		
030	Equity instruments	-	-	-	-	490,455	-	-	-
040	Debt securities	694,405,024	694,405,024	694,405,024	694,405,024	233,689,815	233,689,815	233,689,815	233,689,815
050	of which: covered bonds	-	-	-	-	-	-	-	-
060	of which: asset-backed securities	-	-	-	-	-	-	-	-
070	of which: issued by general governments	694,405,024	694,405,024	694,405,024	694,405,024	233,689,815	233,689,815	233,689,815	233,689,815
080	of which: issued by financial corporations	-	-	-	-	-	-	-	-

090	of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
120	Other assets	-	-	-	-	71,138,058	-	-	-

Template EU AE3: 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.	**694,405,024**	**694,405,024**

5. Market risk

5.1 Market risk management

Market risk

<u>Description of trading activities</u>

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 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 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)

<u>Description of how the Bank measures, controls and manages its currency risk</u>

The Bank's currency risk stems from client transactions. The Bank's aggregate FX position as per year end 2021 amounted to EUR 28,243 and is shown below per currency:

Table 3 – Aggregate FX position

	31-Dec-20	31-Dec-21
Currency	EUR Equivalent	EUR Equivalent
AED	1,424	55
AUD	1,799	999
BGN	2,772	2,376
CAD	4,017	864
CHF	370	58
CNY	154	-
CNH	1,115	-
CZK	1,115	1,628
DKK	315	1,860
GBP	159	478
HKD	733	1,914
HRK	4,004	246
HUF	2,334	1,319
ILS	2,234	4,396
JPY	1,604	609
MXN	2,151	724
NOK	1,653	876
NZD	68	1,826
PLN	3,534	3,038
RON	103	2,938
RUB	170	444
SAR	1,792	210
SEK	787	458
SGD	1,560	2
TRY	2,934	316
USD	390	417
ZAR	937	302
Aggregated FX risk	39,115	28,243

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 are of short maturity and primarily 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 of equity (EVE) and interest rate sensitivity of net interest income (NII). The EVE – monitored daily – measures the impact of interest rate changes to market value whereas NII – calculated annually as part of the ICAAP and as part of the requirements of CSSF 20/762 – 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 2021

The EVE stress test – produced quarterly and submitted to the CSSF on an annual basis as specified by Circular CSSF 20/762 amending CSSF 08/338 (as amended) – aims at measuring the change in the net present value (NPV) of the interest rate sensitive instruments (excluding equity) over their remaining life resulting from hypothetical interest rate movements. For its internal EVE measurement, the Bank employs the six interest rate shock scenarios proposed by the EBA Guidelines on the management of interest rate risk arising from non-trading activities (EBA/GL/2018/02).

Table 4 - Interest rate sensitivities – flooring applied and as reported to the CSSF

EUR	+200bps	-200bps
Total (all currencies combined)	-8,166,592	1,188,918
% of own funds	-7.4%	1.1%

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 0.173 years on the asset side 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 2021.

Table 5 - Duration profile of the banking book

Year as per year end	Asset	Liabilities
EUR	0.189	0.003
USD	0.323	0.003
GBP	0.003	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 and is reported and monitored as part of the risk appetite measurements. 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 2021, the Bank had an accumulated exposure to FX risk of EUR 28,243 which falls below any own funds requirement for FX risk, but had an IRRBB exposure of EUR 8,166,592.

Template EU MR1 – Market risk under the standardised approach

		RWEAs
	Outright products	
1	Interest rate risk (general and specific)	**8,166,592**
2	Equity risk (general and specific)	0
3	Foreign exchange risk	0
4	Commodity risk	0
	Options	
5	Simplified approach	0
6	Delta-plus approach	0
7	Scenario approach	0
8	**Securitisation** (specific risk)	0
9	**Total**	**8,166,592**

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 the Bank 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 and Net Stable Funding 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 measures 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 Internal Liquidity Adequacy Assessment Process (also referred to as "ILAAP") to evidence its ability to withstand also stressed situations.

Liquidity Stress Testing and Continuity Planning

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 fall 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 annual ILAAP, which is presented to and approved by the Board of Directors.

The ILAAP document provides details on the key risk drivers, mitigation techniques and elaborates on how liquidity risk is managed within the Bank, both under business as usual and in times of stress. It also notes the key assumptions and conclusions from stress testing of cash undertaken to manage the risk and includes the Bank's Liquidity Continuity Plan (LCP).

The LCP specifically addresses the strategy for the handling of a potential liquidity crisis. Its objective is thus to mitigate any impact of a stressed event by assuring continuous access to a minimum level of liquidity that would be needed to accommodate the critical business activities.

The LCP shall be activated when a liquidity or refinancing risk would affect the Bank, and forms an integrated but independent, part of the Bank’s overall Business Continuity Management (BCM).

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 555,250,904 as at the end of December 2021 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 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, with the Bank 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 immaterial 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 the Bank 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 31 December 2021 were EUR, USD and GBP.

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

The Bank needs to comply with a Liquidity Coverage Ratio of 110%, a Net Stable Funding Ratio of 100% as well as the requirements from Banque du Luxembourg (BCL) for the minimum reserve requirements. Compliance with the applicable regulatory requirements are formally assessed and documented as part of the ICAAP and ILAAP, and includes details on the liquidity risk management assessments, processes and measurements, and forms separate documents.

Banking Circle measures, monitors and manages the LCR, the NSFR and the Asset Encumbrance. The liquidity risk measures are integrated in the liquidity risk management and reporting framework and has focus both on short- and long-term liquidity risk exposures. All three metrics are limited and measured as part of the Risk Appetite Policy whilst the size and composition of the Liquidity buffer although non-limited measured – with a minimum of 85% of the liquidity buffer placed in central banks and in placed highly rated government bonds, and maximum 15% placed in interbank – is also monitored. These ratios are reported as part of the regular Risk department reporting conducted to the Authorised Management as well as the Board of Directors.

Intra-day liquidity risk management

Intraday liquidity risk is the risk that Banking Circle fails to manage its intraday liquidity effectively, something which could leave it unable to meet a payment obligation at the time expected, in turn affecting its own liquidity position and that of other parties.

The intra-day liquidity risk arises from intraday timing mismatches of payments where Banking Circle sends payments and expect to receive funds back later in the day to meet other outgoing payments. Banking Circle mitigates the intra-day liquidity risk by maintaining an effective operational management of the intraday liquidity through ongoing monitoring of its nostro and central bank accounts, payment flows and limiting interbank exposures by applying appropriate overnight counterparty limits. In addition, there are processes in place to get access to intraday surpluses held with other banks.

Banking Circle's exposure towards intraday liquidity thus stems from its client driven payment flows with the Treasury department responsible for the handling of Banking Circle's liquidity position, including interbank placements as needed.

Regarding treasury activities, the placing risk is considered very low as the majority of the liquidity is placed in high quality liquid assets and with central banks (+/-85%) and on the interbank market (+/-15%) with the majority of the exposure towards banks having rating of A- of higher.

Intraday and overnight counterparty limits are in place and are being checked by the Risk function on a daily basis. Any incidents or breaches are escalated by Treasury without delay through an improved incident management process and Risk, Finance and Treasury meets on a regular basis at the FALCO to discuss topical matters, including potential issues and incidents.

6.2 Liquidity risk exposure

6.2.1 Liquidity Coverage Ratio

Template EU LIQ1 – Quantitative information LCR

		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on (DD Month YYY)	[8]12/31/2021	9/30/2021	6/30/2021	3/31/2021	12/31/2021	9/30/2021	6/30/2021	3/31/2021
EU 1b	Number of data points used in the calculation of averages	3	3	3	3	3	3	3	3
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA), after application of haircuts in line with Article 9 of regulation (EU) 2015/61					1,162,930,426	992,503,346	974,431,563	781,146,653
CASH - OUTFLOWS									

[8] These quarter averages are calculated using 3 data points ie at the end of each month

2	retail deposits and deposits from small business customers, of which:	-	-	-	-	-	-	-	-
3	*Stable deposits*	-	-	-	-	-	-	-	-
4	*Less stable deposits*	-	-	-	-	-	-	-	-
5	Unsecured wholesale funding	1,226,480,033	1,089,689,761	986,800,565	819,672,202	724,020,927	592,263,402	569,628,525	490,068,229
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	664,152,075	659,143,639	552,585,030	434,261,953	166,038,019	164,785,910	138,146,258	108,565,488
7	*Non-operational deposits (all counterparties)*	562,327,958	430,546,122	434,215,534	385,410,249	557,982,909	427,477,492	431,482,267	381,502,741
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	*Secured wholesale funding*	-				-	-	-	-
10	Additional requirements	157,249,053	154,254,992	190,770,282	142,126,028	157,249,053	154,254,992	190,770,282	142,126,028
11	*Outflows related to derivative exposures and other collateral requirements*	157,249,053	154,254,992	190,770,282	142,126,028	157,249,053	154,254,992	190,770,282	142,126,028

12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	-	-	-	-	-	-	-	-
14	Other contractual funding obligations	79,259,567	21,090,447	19,159,792	28,719,757	78,433,982	20,148,559	18,386,393	28,087,613
15	Other contingent funding obligations	-	-	-	-	-	-	-	-
16	TOTAL CASH OUTFLOWS					959,703,962	766,666,952	778,785,199	660,281,869
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	142,693,852	177,141,151	115,192,280	87,130,077	142,693,852	177,141,151	115,192,280	87,130,077
19	Other cash inflows	157,160,032	154,330,176	190,720,068	142,128,863	157,160,032	154,330,176	190,720,068	142,128,863
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)								
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	299,853,884	331,471,326	305,912,349	229,258,940	299,853,884	331,471,326	305,912,349	229,258,940
EU-20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
EU-20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
EU-20c	*Inflows subject to 75% cap*	299,853,884	331,471,326	305,912,349	229,258,940	299,853,884	331,471,326	305,912,349	229,258,940
TOTAL ADJUSTED VALUE									

21	LIQUIDITY BUFFER		1,162,930,426	992,503,346	974,431,563	781,146,653
22	TOTAL NET CASH OUTFLOWS		611,358,132	435,195,626	472,872,851	431,022,929
23	LIQUIDITY COVERAGE RATIO		190	228	206	181

6.2.2 Net Stable Funding ratio

The amended CRR requires institutions to finance their long-term activities (assets and off-balance sheet items) with stable funding. Generally, the NSFR is aligned with the BCBS standard, but the European Commission has included some adjustments as recommended by the European Banking Authority (EBA) to ensure that the NSFR does not hinder the financing of the European real economy.

The NSFR requires banks to ensure that longer term obligations are adequately met with stable funding instruments under normal and stressed situations. The NSFR is thus a metric for structural liquidity risk and is defined as the amount of stable funding (ASF) relative to the amount of required stable funding (RSF). The amount of available stable funding is defined as the portion of capital and liabilities expected to be reliable over a time horizon of one year. The required stable funding is a function of the liquidity characteristics and residual maturities of various assets held. Both the Risk and Finance departments are internally monitoring the NSFR on a monthly basis, as part of the Risk Appetite Policy. The hard limit is set at 100%, as prescribed by EU Regulation 2019/876. In addition, the NSFR ratio is also projected as an integrated part of financial planning.

As per end of 2021 the NSFR stood at 244.19%, significantly above the 100%.

Template EU LIQ2: Net Stable Funding Ratio

		a	b		d	e
	(in currency amount)	Unweighted value by residual maturity				Weighted value
		No maturity[1]	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	0	**0**	**0**	111,111,087	111,111,087
2	*Own funds*	0	**0**	**0**	111,111,087	111,111,087
3	*Other capital instruments*		**0**	**0**	0	0
4	Retail deposits		**0**	**0**	0	0
5	*Stable deposits*		**0**	**0**	0	0
6	*Less stable deposits*		0	0	0	0
7	Wholesale funding:		1,954,556,488	0	0	339,108,386
8	*Operational deposits*		668,050,736	0	0	334,025,368
9	*Other wholesale funding*		1,286,505,752	0	0	5,083,018
10	Interdependent liabilities		0	0	0	0
11	Other liabilities:	0	30,504,251	10,195,393	7,946,368	13,044,064
12	*NSFR derivative liabilities*	443,900				
13	*All other liabilities and capital instruments not included in the above categories*		0	0	0	0
14	**Total available stable funding (ASF)**					463,263,536
Required stable funding (RSF) Items						

15	Total high-quality liquid assets (HQLA)					**52,743,025**
EU-15a	Assets encumbered for more than 12m in cover pool		**0**	**0**	**0**	**0**
16	Deposits held at other financial institutions for operational purposes		**243,615,625**	**0**	**0**	**121,807,812**
17	Performing loans and securities:		**0**	**0**	**0**	**0**
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		0	0	0	0
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		0	0	0	0
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		0	0	0	0
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		0	0	0	0
22	*Performing residential mortgages, of which:*		0	0	0	0
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		0	0	0	0
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		0	0	0	0
25	Interdependent assets		**0**	**0**	**0**	**0**
26	Other assets:		**0**	**0**	**0**	**0**
27	*Physical traded commodities*				0	0

28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*			0		0
29	*NSFR derivative assets*			0		0
30	*NSFR derivative liabilities before deduction of variation margin posted*			0		0
31	*All other assets not included in the above categories*		1,902,620	13,325,109	7,548,259	15,162,123
32	Off-balance sheet items		**0**	**0**	**0**	**0**
33	**Total RSF**					**189,712,961**
34	**Net Stable Funding Ratio (%)**					**244.19%**

7. Operational risk

7.1 Operational risk management and measurement

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, including in outsourced activities and interactions with external parties. The Information Security Risk Policy are also important components of the Bank´s operational risk framework. 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 its 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 – considered to be any risk that creates a potential threat that could be assessed as having a 'Major' or 'Critical' impact to the business not only those with a monetary impact, – are being recorded and analysed, undertaking a detailed 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, and 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. This ensures that all incidents, irrespective of impact categorisation, 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, are reported to the relevant authorities either upon identification or within the prescribed period.

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.

Project Management

Banking Circle is a fast-growing Bank, and has multiple strategic projects running congruently in order to achieve its strategic objectives, thus is exposed to a level of project management risk. The establishment of a strategic project, i.e. any activity mandated by the Authorised Management, must follow the Project Management Policy, supporting the implementation of the project governance process within the organisation and ensures the secure and successful implementation of the project.

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. To determine the potential operational risk exposures, the assessments, 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 internal and external fraud;
- Regulatory non-compliance;
- Reputational damage from incidents or errors;
- Physical security;
- Handling of sensitive data and data management obligations;

- Documentation relating to key business processes;
- Reliance on models and associated risks.

Business Continuity & Crisis Management (BC&CM)

BC&CM ensures 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.

Exception Management

From time to time, the Bank may proactively decide to accept a certain level of risk e.g. inability to comply with a standard or procedure, and has subsequently established an Exception management procedure, which defines the methodology for managing exceptions throughout their entire lifecycle.

Whistleblowing Policy

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 risk & compliance training programme where all employees must undergo a programme of specific training modules and, for each one, pass an individual self-assessment test. The programme contains tailored trainings on; Anti-Bribery and Anti-Corruption; Anti-Money Laundering; General Data Protection Regulations (GDPR) and Information Security and Cyber Risk Awareness. In addition, the Bank regularly conducts information sessions for new joiners, and at least annually for all staff, to ensure a common understanding of their roles, the three lines of defence model and the governance framework.

Data Governance Policy

The Bank is exposed to operational risks related to how data is processed, stored, archived and used. If data is managed poorly, or outside of the applicable regulatory requirements, the Bank could be subject to reputational damage and / or regulatory investigation. As such, the Bank has an established data governance policy to support the implementation of guidelines, procedures and technical measures within the business to ensure that processing of Data is performed in accordance with the applicable legal, regulatory requirements and industry best practices. The Bank recognises data as an asset and as such its management must be subject to robust governance to ensure that it is appropriately managed and duly protected.

Data quality is an important element of governance. Disparate redundant data is one of the primary contributing factors to poor data quality and can lead to large operational risk. Data should be of high quality, accurate, available in a timely manner, fit for purpose and used with consistency throughout the organisation. Both the Bank and employee data must be retained and protected to preserve business integrity as well as to comply with numerous legal requirements such as accounting, employment and anti-discrimination laws.

Furthermore, Client Data is subject to professional secrecy rules in the countries where the Bank carries its operations and to strict banking secrecy rules in Luxembourg. Some data groups fall under the definition of Personal Data, which is governed by the General Data Protection Regulation ("GDPR"), (EU) 2016/679 and failing to follow these rules can lead to, as noted above, further operational and reputational risk, as well as regulatory investigation and possible fines. In this context, the Bank has established a privacy protection policy to support the implementation of procedures and technical measures to be able to demonstrate that processing of Personal Data and privacy protection is performed in accordance with the applicable legal and regulatory requirements.

The Bank is committed to compliance with all relevant legislation, including data protection laws such as GDPR. Appropriate data protection is the foundation of trustworthy business relationships and ensures the Bank's business and reputation remains sound.

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, including regulatory and financial crime 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 Business AML Team. The objectives of the function are to anticipate, identify and assess and monitor the AML risks of the customers and activities of the Head Office and branches of the Bank as defined the AML/CTF Policy and the AML/CTF Risk Appetite Policy , and to assist Authorised Management in limiting and mitigating these risks.

7.2 Operational risk exposure

The total capital requirement for operational risk under Pillar I amounts to EUR 2,520,143. This amount has been calculated using the basic indicator approach (BIA) i.e. 15% of operating income.

Template EU OR1 - Operational risk own funds requirements and risk-weighted exposure amounts

	Banking activities	a	b	c	d	e
		Relevant indicator			Own funds requirements	Risk weighted exposure amount
		2019	2020	2021		
1	Banking activities subject to basic indicator approach (BIA)	Not Applicable	10,933,411	22,668,494	2,520,143	31,501,786
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches					
3	*Subject to TSA:*					
4	*Subject to ASA:*					
5	Banking activities subject to advanced measurement approaches AMA					

8. Other risks

8.1 Exposures in equities in the banking book

As of 31 December 2021, the Bank held exposures in equities in its banking book of EUR 495,495.

8.2 Exposures to securitisation positions

As of 31 December 2021, 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 is the body overseeing the remuneration policy and process and 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 number of meetings held by that main body during the financial year was 5.

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. Furthermore, 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 the EBA Guidelines, and 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 is 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 Functions 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 and 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 Functions 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 a global bonus scheme, in the form of an Options Programme, in place 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 ultimate 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 the Bank, 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. Furthermore, the fact that a large majority of staff, including Authorised Management, is eligible for variable remuneration primarily in the form of Options (i.e. employees other than sales staff which are part of the sales commission programme, which is cash-based) 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. To encompass a need for special recognition of staff, the Remuneration Policy also allows for a so-called 'Pat on the back', which is a bonus which can be awarded either in cash or in options, subject to approval by Authorised Management. This particular bonus is intended to have very limited use.

The Bank uses a set of performance criteria, which are the basis for the annual assessment of performance. The performance criteria consist of an appropriate combination of financial (quantitative) and non-financial (qualitative) performance criteria. The performance criteria are determined up-front and adequately balanced to take into account the employee's position and responsibilities. To the extent possible, the performance criteria includes achievable, measurable and flexible objectives and measures on which the employee has some direct influence. Negative non-financial performance in the form of unethical or non-compliant behaviour must override any good financial performance generated by the Bank and the business unit or the member of staff.

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 on an aggregate level, 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.

Individual performance will in any case be assessed taking into account a balance of qualitative and quantitative objectives. In order to demonstrate a clear link between performance over time and Variable Remuneration:

- Quantitative criteria will consist of overall strategic targets or personal objectives set by management and cascaded down to the employee (i.e. financial or non-financial criteria depending on the (i) the business activity and (ii) the roles and responsibilities of the employee). These personal objectives shall be in line with the Bank's overall business strategy and objectives.

Furthermore, for Internal Control Functions, their personal objectives shall be comprised only of non-financial criteria linked to their respective function.

- Qualitative criteria will consist of behavioural competencies and the Bank's values, which are attributed on the basis of the employee's roles and responsibilities within Banking Circle. These competencies may include teamwork, cooperation with other business units and Control Functions, motivation, and flexibility.
- In addition to the above-mentioned criteria, individual performance shall be assessed in light of the employee's adherence to Banking Circle's risk management policy as well as the regulatory framework. Any identified breach of these internal and external rules shall substantially impact the amount of Variable Remuneration paid to the employee. In the event of a serious breach or repeated breaches, no Variable Remuneration will be awarded.

In order to ensure transparency and alignment with the Bank's business strategy, long-term interests, individual targets will be reviewed on several occasions during the year as to ensure regular individual feedback to employees. If market conditions or the business strategy changes during the year, adjustments to performance indicators may occur after due consultation with affected staff.

9.2 Quantitative information on remuneration

In accordance with applicable laws and regulations, including the Remuneration Policy, the Bank imposes certain particular restrictions on Fixed and Variable Remuneration awarded to key individuals in the organisation, identified under the common term "Material Risk Taker".

The identification of Material Risk Takers in Banking Circle is based on an assessment of roles, responsibilities and actual mandates held by certain positions or individuals which may be deemed as having or potentially having a material impact on the Bank's risk profile based on their authority and responsibilities and risk and performance indicators. The set of criteria includes, but is not limited to, the following overall perspectives and indicators:

- Total Annual Remuneration

- Access to and control over financial instruments and investment of company funds
- Senior managerial responsibilities
- Control and compliance functions, including associated roles

In addition, any other staff who should be deemed to have a material impact on an institution's risk profile will also be considered Material Risk Takers, based on the criteria mentioned above.

More specifically, employees whose total annual remuneration (fixed + variable) exceed EUR 500,000 will be considered as a Material Risk Taker. Further, for employees whose total annual remuneration is equal to or larger than the average remuneration awarded to Senior Management, it should be considered specifically whether such employees should be identified as Material Risk Takers, if the employee in question is considered to have or potentially could have a material impact on the risk profile of Banking Circle..

The rationale behind the above-mentioned threshold on total annual remuneration is that employees above this remuneration bracket is pre-determined to hold a key position and be involved in key activities that may impact the risk profile of Banking Circle and with exposure to key decision making.

Employees who have been identified as Material Risk Takers will be covered by the principles and practices as stated in the Remuneration Policy in regard to considerations pertaining to their individual remuneration on fixed a variable pay and the threshold associated with being considered a Material Risk Taker.

The Head of People and the Internal Control Functions are responsible for making the final decision on whether an employee is to be considered as a Material Risk Taker.

The Bank maintains a record of the assessment made and of the staff whose professional activities have been identified as having a material impact on their risk profile to enable the competent authority and auditors to review the assessment. The record is conducted each year by the Chief People Officer, with the assistance and input from the Chief Compliance Officer, the Chief Risk Officer and the Chief Internal Auditor, acting as control functions.

The Bank has identified the following 23 Material Risk Takers:

List of Material Risk Takers
Chief Executive Officer
Chief Financial Officer
Head of Legal
Head of Treasury
Head of Credit
Chief Compliance Officer
Head of Business AML
Money Laundering Officers in each BC Branch
Head of People
Chief Risk Officer
Chief Internal Auditor
Chief Information Officer/Head of Engineering
Information Security Officer
Data Protection Officer
Head of Governance
Head of Procurement
Head of Legal Central Europe
Head of Products & Solutions
Head of Operations
Head of Sales
Head of Business Management & Growth
Head of Sales DACH/DE branch manager
Head of Business Resilience

Template EU REM1 - Remuneration awarded for the financial year[9]

			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff		3	17	
2		Total fixed remuneration		1,176,388	3,779,022	
3		Of which: cash-based		1,176,388	3,779,022	
4		(Not applicable in the EU)				
EU-4a		Of which: shares or equivalent ownership interests				
5		Of which: share-linked instruments or equivalent non-cash instruments				
EU-5x		Of which: other instruments		38,115		
6		(Not applicable in the EU)				
7		Of which: other forms				
8		(Not applicable in the EU)				
9	Variable remuneration	Number of identified staff		3	16	
10		Total variable remuneration		670,000	1,187,300	
11		Of which: cash-based		270,000		
12		Of which: deferred				
EU-13a		Of which: shares or equivalent ownership interests		400,000	1,187,300	
EU-14a		Of which: deferred				

9 The table depicts the fixed remuneration between January – December 2021, while variable remuneration is the allocation of options awarded in July 2022, for 2021 performance review. The fixed and variable remuneration figures include an allocation for Anders la Cour, as he was classified under AM until October 2021, until taking a role within Banking Circle Group.

				400,000	1,187,300	
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments				
EU-14b		Of which: deferred				
EU-14x		Of which: other instruments				
EU-14y		Of which: deferred				
15		Of which: other forms				
16		Of which: deferred				
17	Total remuneration (2 + 10)			1,846,388	4,966,322	

Template EU REM4 - Remuneration of 1 million EUR or more per year

No staff member has been remunerated EUR 1,000,000 or more for the period January 2021 to December 2021.

	EUR	Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	0
2	1 500 000 to below 2 000 000	0
3	2 000 000 to below 2 500 000	0
4	2 500 000 to below 3 000 000	0
5	3 000 000 to below 3 500 000	0
6	3 500 000 to below 4 000 000	0
7	4 000 000 to below 4 500 000	0
8	4 500 000 to below 5 000 000	0
9	5 000 000 to below 6 000 000	0
10	6 000 000 to below 7 000 000	0
11	7 000 000 to below 8 000 000	0

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

10 Environment, Social and Governance (ESG) Risks

10.1 Definition and initial assessment

Banking Circle is committed to ensuring it is, and remains, a sustainable Bank. BC believes this is achieved by reducing its exposure to social and environmental risks. Consequently, BC is developing its risk management framework to include a focus on ESG and has endorsed a project to align its risk management framework with its sustainability ambitions to ensure BC has the right capabilities and skills to reduce its exposure to social and climate related risks. This must also include transparency with social and climate-related disclosures within financial statements as well as assessing climate risk in the context of its day-to-day operations.

Social risks form part of BC's wider business and HR strategies and includes focus on equality, social integration and diversity matters. BC continues to invest in its workforce and ensures staff are supported, both in personal and career ambitions, within the HR policies.

BC has grouped climate change into two categories - physical risks and transition risks: the physical risks arise if economic activities or BC's value are threatened directly by failure to achieve climate-related objectives. These could materialise as acute risks i.e. individual, non-regular physical risk events or as chronic risks i.e. permanent deterioration in ESG target achievement with lasting adverse effects on BC's economic activities. While transition risks arise if BC's business strategy and model is permanently endangered by systemic changes (of climate change) and its own negative impact on the environment.

The most notable risk categories impacting climate change exposures are related to credit and counterparty risks, including its investment activities and client onboarding, market risks, liquidity risks, operational risks, product development, outsourcing and third-party management.

In this context, in 2021 the Bank carried out an initial risk assessment relating to ESG risks, as specified in CSSF 20/773.

The Bank will ensure ESG is an embedded topic and consideration in all relevant processes across BC e.g. considerations in the credit assessments, product development and KYC processes.

Consequently, following the review conducted in Q1 2022, the Bank has established a dedicated group of individuals to map and control the review of the ESG assessment to ensure all considerations and recommendations are discussed with the appropriate stakeholders.

Nevertheless, ESG is embedded in the Risk agenda, and ensures the Bank is well positioned to foresee and implement any mitigating actions prior to a risk materialising with negative consequences, and that the Bank is able to comply with the ITS disclosure requirements from 2023.

BC continues to monitor ESG developments as they evolve in the wider market, and as more information becomes available, will adjust its actions appropriately and accordingly to ensure this risk continues to be mitigated sufficiently.

BC remains committed to continued transparency with its stakeholders on sustainability related issues.

11 Appendices

11.1 Disclosure Index

#	Source	Disclosure Reference	Name	Reference Section
1	EBA/GL/2016/11	EU KM1	Key metrics template	Section 1.1
2	EBA/GL/2016/11	EU OVA	Institution risk management approach	Section 2.4.1
3	EBA/GL/2016/11	-	Directorships and recruitment policy	Section 2.4.2
4	EBA/GL/2016/11	-	Differences between accounting and regulatory scopes of consolidation	Section 2.4.3
5	EU 1423/2013	EU CC1	Own funds disclosure template	Section 3.1
6	EBA/GL/2016/11	Table 1	Pillar I requirements	Section 3.3
7	EBA/GL/2016/11	Table 2	Capital requirements	Section 3.3
8	EBA/GL/2016/11	EU OV1	Overview of RWAs	Section 3.3.1
9	EU 2015/1555	EU CCyB1	Geographical distribution of credit exposure relevant for the calculation of the countercyclical capital buffer	Section 3.2.2
10	EU 2015/1555	EU CCyB2	Amount of institution-specific countercyclical capital buffer	Section 3.2.2
11	EU 2016/200	LRQua	General qualitative information about leverage	Section 3.4
12	EU 2016/200	EU LR1	Summary reconciliation of accounting assets and leverage ratio exposures	Section 3.4
13	EU 2016/200	EU LR2	Leverage ratio common disclosure	Section 3.4
14	EU 2016/200	EU LR3	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	Section 3.4
15	EU 2016/200	EU LIQ2	Net Stable Funding Ratio	Section 3.5
16	EBA/GL/2016/11	EU CRA	General qualitative information about credit risk	Section 4.1
17	EBA/GL/2016/11	EU CRD	Qualitative disclosure requirements on institutions' use of external credit ratings under the standardized approach for credit risk	Section 4.2

18	EBA/GL/2016/11	EU CR4	Standardised Approach – Credit risk exposure and CRM effects	Section 4.2
19	EBA/GL/2016/11	EU CQ3	Credit quality of performing and non-performing exposures	Section 4.3
20	EBA/GL/2016/11	EU CRC	Qualitative disclosure requirements related to CRM techniques	Section 4.4
21	EBA/GL/2016/11	EU CR5	Standardized approach	Section 4.4
22	EBA/GL/2016/11		Qualitative disclosure requirements related to CCR	Section 4.5
23	EBA/GL/2016/11	EU AE1	Encumbered and unencumbered assets	Section 4.6
24	EBA/GL/2016/11	EU AE3	Sources of encumbrance	Section 4.6
25	EBA/GL/2016/11	EU MRA	Qualitative disclosure requirements related to market risk	Section 5.1
26	EBA/GL/2016/11	Table 4	Disclosure requirements related to IRRBB	Section 5.1
27	EBA/GL/2016/11	EU MR1	Market risk under the standardized approach	Section 5.2
28	EBA/GL/2016/11	EU LIQA	Liquidity risk management	Section 6.1
29	EU 2017/2295	EU LIQ1	Quantitative information LCR	Section 6.2
30	EU 2017/2295	EU LIQB	Qualitative information on LCR which complements the LCR disclosure template	Section 6.2
31	EBA/GL/2016/11	EU ORA	Qualitative Information about operational risk	Section 7.1
32	EBA/GL/2016/11	EU OR1	Operational risk own funds requirements and risk-weighted exposure amounts	Section 7.2
33	EBA/GL/2016/11	-	Qualitative information on exposures in equities in the banking book	Section 8.1
34	EBA/GL/2017/01	-	Qualitative information about exposure to securitization positions	Section 8.2
35	EBA/GL/2017/01	-	Qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile	Section 9.1
36	EBA/GL/2017/01	-	Remuneration policy	Section 9.1.1
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39	EU 575/2013	-	Information on the link between pay and performance	Section 9.1.4

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43	EBA/GL/2015/22	-	The main parameters and rationale for any variable component scheme and any other cash benefits	Section 9.1.4
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45	EBA/GL/2015/22	-	Information on remuneration of identified staff	Section 9.2
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BANKING CIRCLE

THE PAYMENTS BANK
FOR THE NEW ECONOMY