annual risk report 2021

kompasbank

Annual Risk Report Pillar 3 Disclosures

kompasbank a/s

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CVR-no:
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Financial period:
1. January – 31. December

Homepage:
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1. Introduction

This report contains the Pillar 3 disclosures of kompasbank. The report has been made in accordance with the rules of the Danish FSA and the Capital Requirements Regulation (CRR), article 431-455. It provides information regarding how we manage and mitigate risks as well as information on our capital resources.

The report is published on an annual basis at the same time as the Annual Report. It is made available on kompasbank's website https://kompasbank.dk/finansiel-information/. The report is based on financials as per December 31st 2021 and last updated and approved in March 2022.

The disclosures are not audited.

Vedbæk, 24 03 2022

2. Risk Management Objectives and Policies

Article 435, 1, litra a-d

kompasbank is in the market to facilitate SME lending funded by retail depositors through time deposit and notice accounts as well as with core equity. The overall objective when managing risk at kompasbank is to enable the best decision making, in order for the bank to achieve the overall objective of helping SMEs reach their full potential.

The bank has implemented an enterprise risk management approach based on the bank's Risk Landscape. The Risk Landscape is a hierarchical categorisation of the risks the bank is exposed to. The Risk Landscape is divided into financial and non-financial risks and it includes risk definitions enabling a common understanding and guidance at all levels of the organisation. It consists of the following overall risk areas (level 1 risks) as well as 25 sub-risks (level 2 risks).

- Credit Risk
- Liquidity & Funding Risk
- Market Risk
- Operational Risk
- Information Security & Cyber Risk
- Strategic Risk
- Regulatory Compliance Risk

The bank's Risk Appetite framework is built on the level one risks of the Risk Landscape. The Risk Appetite framework contains Risk Appetite Statements as well as Risk Appetite Triggers and Limits. The proposals for the limits are aligned to the financial planning of the bank as well as to relevant stress testing scenarios. This is done to ensure the Risk Appetite is set within the risk capacity of the bank.

All risks within the Risk Landscape must furthermore be governed by approved and implemented policies and procedures.

The proposal for the bank's Risk Landscape and Risk Appetite framework is developed as a collaborative exercise between first and second line of defence and it is approved by the bank's Board of Directors. The Board of Directors approved the current version of the Risk Landscape and Risk Appetite Framework in March 2022 and will perform recurrent reviews on an annual basis or when deemed necessary.

The Risk Landscape as well as the Risk Appetite Framework is communicated within the bank to enforce an appropriate risk culture. The bank's Risk Owners will specifically have a responsibility, within their respective areas, in ensuring the bank operates within the approved appetite.

General risk management
The Board of Directors have issued Instructions to Executive Management. Those instructions contain the overall limits and instructions of which some limits are further delegated within the organisation.

The Board of Directors have furthermore issued the following policies which sets the foundation for managing the bank's risks within the specific areas:

- Credit Policy
- Liquidity Policy
- Market Risk Policy
- Operational Risk Policy
- Information Security Policy
- Vendor and Outsourcing Policy
- Policy for Measures against Money Laundering and Financing of Terrorism
- Anti-Bribery and Anti-Corruption Policy

The policies include relevant risk limits, requirements for mitigants as well as reporting requirements and thus serves as the Board of Directors' instructions with regards to the specific area. The policies are reviewed, updated and approved by the Board of Directors on an annual basis or when required, for example as a result of a change in regulation or a change in the business model.

The policies are further implemented through the bank's procedures. These are owned by the Function Responsible, who is also responsible for controlling compliance with the set requirements.

All employees within the bank are participating in the bank's awareness program. The program contains optionary as well as mandatory awareness sessions. The latter includes follow-up testing of skills. Awareness training covers among topics, the following:

- Anti-Money Laundering and Counter-Terrorist Financing
- Anti-Bribery and Anti-Corruption
- Information Security
- Data Protection
- Risk Event Management and Reporting

The bank is continuously working to develop and improve its risk management framework.

Organisation
The bank has adapted the three lines of defence model. As the bank currently does not have an internal audit function, the third line constitutes the bank's external auditor.

First Line of Defence contains the bank's risk taking units and it is within those units the risk ownership is delegated. Risk Owners are responsible for identifying, managing and controlling the risks within their respective areas.

The daily management of the bank's financial risks are conducted by the bank's Head of Credit with regards to credit risks and the bank's Chief Financial Officer with regards to market and liquidity risk. The daily management of Information Security Risks are managed by the bank's Technology Responsible as well as the Chief Information Security Officer. The bank's operational risks are managed on a day-to-day basis by the Functional Leads based on requirements set by the bank's Chief Operating Officer.

The bank has furthermore established the Credit Committee and the Business Development Forum. The Credit Committee consists of the bank's Executive Management and Head of Credit as core participants, and the Business Development Forum consists of the bank's Executive Management and COO as core participants.

The bank has furthermore appointed a Complaints Responsible, an Anti-money Laundry Responsible and an Outsourcing Responsible.

Second Line of Defence contains the bank's Chief Risk Officer and Risk Management Function, and the Compliance Responsible, Data Protection Responsible and Compliance Function. The second line functions are responsible for developing the bank's Enterprise Risk Management Framework as well as the Compliance Framework. They are furthermore responsible for providing constructive challenge and oversight with regards to First Line of Defence and for enabling the Board of Directors in overseeing the bank's adherence to the risk appetite.

The bank has appointed the Chief Executive Officer as the Chief Risk Officer (CRO). The CRO is annually or when deemed necessary, reporting to the Board of Directors. The Chief Risk Officer is furthermore developing a plan for the Risk Management Function, which is based on the bank's Risk Landscape and includes the focus areas of the function.

The Head of Compliance is appointed Compliance Responsible and Data Protection Responsible. The Head of Compliance is conducting a compliance risk assessment on which the compliance plan is developed. Based on the compliance plan the Head of Compliance is responsible for conducting independent assessments of the bank's compliance towards regulative requirements as well as compliance with regards to internal procedures.

The Chief Risk Officer, the Head of Risk Management as well as the Head of Compliance are participating in the Board meetings on a regular basis and thus have the opportunity to raise concerns, which can have an impact on the operation of the bank.

2.1 Credit Risk

Credit risk is the risk of losses to the bank arising from customers (borrowers) or counterparties failing to meet their payment obligations.

kompasbank manages credit risk through the requirements as set in the bank's Credit Policy as well as set in the Instructions to Executive Management. Both documents are approved by the bank's Board of Directors and reviewed and updated on an annual basis or more frequently, if deemed necessary.

kompasbank offers simple products to SME customers in Denmark. The bank does not offer financing to retail customers. The credit product offering includes loans and the lending is provided against collateral. The chosen customer base is small and medium sized business enterprises domiciled in Denmark. They have a proven business model, prudent management and healthy financial figures with sufficient cash-flow generating ability. The relationship with the customer is based on personal visits by the bank to the customers' business site. Loans are not granted to industries which are not in line with the bank's ESG profile and to industries with a complexity, which the bank as of now has not built the relevant competence.

The Board of Directors has delegated a lending authority to the Executive Management. Executive Management has made a further delegation of parts of the lending authority to the bank's credit committee. The credit committee contains the bank's CEO/CRO, Co-CEO, the Head of Credit, a senior member of the Credit Function as well as the bank's Head of Business Support. The committee meets twice a week or more frequently if required, to discuss general topics related to credit risk, as well as individual cases.

The day-to-day management of credit risks is conducted by the bank's Credit Function supported by the bank's Business Support Function. The Credit Function is responsible for adherence to the relevant requirements and limits as stated in the banks Credit Policy and underlying procedures. The bank's second line risk management function oversees and when required challenges the credit process to make sure the risks are managed within the set risk appetite.

The interest rate on a loan shall reflect the level of the expected loss and shall be established at market rates. As the bank is building a loan book particular care is taken regarding the credit quality of the loans and the underlying collateralized assets. In order to minimise concentration risk in the loan book, the portfolio is monitored closely.

During the build-up of the bank's credit portfolio, it is unavoidable that the lending growth exceeds the limit as set in the Supervisory Diamond. The lending growth is closely monitored and deviations with regards to requirements for credit quality are not accepted.

Due to the minor size of the lending book, large exposure in relation to the bank's capital cannot be avoided. It is clearly defined by the credit limits that the bank does not accept a breach of the limit for large exposures as defined in the Supervisory Diamond.

kompasbank uses an internal model to classify customers according to their risk. The model is back-tested once a year and follows the general rules on proper model risk governance, which the bank has established.

The bank's financial counterparties only consist of a few SIFI institutions. The Board of Directors has approved the credit institutions as well as the size of the exposure the bank is allowed to take. The bank is furthermore, based on an approval from the Board of Directors, allowed to purchase and hold liquid, high-quality bonds. The bonds will have to be denominated in DKK or EUR and be issued by high-rating issuers.

Credit risk is reported at least monthly to the Executive Management and at each meeting of the Board of Directors.

2.2 Liquidity and Funding Risk

Liquidity risk is the risk that the bank does not have the ability to fulfil all payment obligations as and when they fall due. Whereas funding risk is the risk that the bank's cost of funding rises to disproportionate levels or that a lack of funding prevents the bank from continuing as a going concern due to inadequate capitalization.

The bank is funded through time-deposits and notice accounts from retail customers. The liquidity strategy is to increase the bank's deposit base as the lending portfolio increases. This is done through attractive deposit rates. The majority of the bank's deposits are covered by the deposit guarantee scheme.

The bank manages liquidity and funding risks through the Instructions to Executive Management as well as through the requirements as set in the bank's Liquidity Policy. Both documents are approved by the bank's Board of Directors and reviewed and updated on an annual basis or more frequently, if deemed necessary.

The liquidity and funding risks are managed by placing excess liquidity in high quality liquid assets and ongoing monitoring of regulatory and internal liquidity risk metrics, including the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

The bank identifies and assesses the liquidity and funding risks as part of the Internal Liquidity Adequacy Assessment Process (ILAAP) in which relevant risk mitigations are described. As part of the ILAAP, the bank maintains a Liquidity Contingency Plan (LCP). The LCP enables the bank to react promptly in case of a liquidity stress scenario. The plan contains triggers and actions to be executed in different liquidity stress scenarios. The ILAAP including the Liquidity Contingency Plan is reviewed and approved by the Board of Directors on an annual basis.

The day-to-day management of liquidity and funding risks is conducted by the Finance Function, which is also responsible for adherence to the relevant regulatory requirements, instructions and limits. The bank's second line risk management function oversees and challenges the process when required, to ensure risks are managed within the set risk appetite.

The Finance Function is providing Executive Management with a monthly Liquidity Risk Report and the Board of Directors receives the Liquidity Risk Report during every board meeting. As of 31 December 2021, the calculation of the Liquidity Coverage Ratio was not possible with no expected 30 day cash outflow. The Net Stable Funding Ratio was 224%.

2.3 Market Risk

Market risk is defined as the risk of losses stemming from on- and off-balance sheet positions arising from adverse movements in financial market prices.

The bank manages market risk through the Instructions to Executive Management as well as through the bank's Market Risk Policy. Both documents are owned and approved by the bank's Board of Directors and reviewed and updated on an annual basis or more frequently, if deemed necessary.

The bank limits the market risk exposure to the handling of balance sheet maturity mismatch and excess liquidity and thus no speculative trading activities are accepted. The bank is not allowed to take positions in derivatives contracts, corporate bonds or equity positions. Excess liquidity is placed in government and mortgage bonds within the banking book and market risks are limited to interest rate risk and currency risk.

Positions in the banking book are held for liquidity management purposes and are only allowed to be traded in that respect. The liquidity buffer is composed of liquid instruments and measured at fair value in the profit loss statement. The credit spread risk is assessed on a quarterly basis.

Interest rate risk can arise from changes in the bank's fixed rate assets and liabilities as a result of significant changes in the general level of interest rates. The interest rate risk is calculated in accordance with the guidance given by the Danish FSA.

The Board of Directors has set limits for the interest rate risk in the banking book to not exceed 5% of the tier 1 capital after deductions. No interest rate risk in the regulatory trading book is allowed.

Currency risk can arise from changes in currency exchange rates by affecting the value of the bank's currency positions. Currency risk is calculated as the largest sum of respective positions in currencies where the bank has a net receivable and currencies in which the bank has a net debt.

The Board of Directors has allowed positions in EUR, GBP and USD, with limits defined as percentages of the tier 1 capital after deductions. A maximum limit of 10% is set for EUR positions and 4% for GBP and USD positions, respectively. A maximum limit of 10% is set for the total currency position.

The bank does not currently apply risk mitigation techniques or hedging strategies in the area of market risk. This will be implemented when the market risk exposure is material.

The day-to-day management and reporting of market risks is conducted by the Finance Function, who is also responsible for adherence to instructions and limits. The bank's second line risk management function oversees and when required challenges the process to make sure the risks are managed within the set risk appetite.

The calculation of market risks and the monitoring of these is conducted on an ongoing basis, with monthly reporting to the Executive Management and reporting to the Board of Directors during every Board meeting.

2.4 Operational Risk

Operational Risk is defined as the risk of losses stemming from processes, people, models, products, financial crime, fraud and outsourcing. The Board of Directors have issued the Operational Risk Policy to ensure that operational risks are properly and effectively managed at all times. It includes the requirement for ongoing identification, registration and classification of risks, the implementation of mitigating actions and controls, as well as the requirements regarding the reporting of the operational risk.

The bank's Operational Risk Policy covers requirements for the broader management of non-financial risks and thus includes the scope of information security & cyber risk, strategic risks as well as regulatory compliance risks.

The bank acknowledges an increased level of operational risks during the build-up of the bank. Being a small organisation, the bank is exposed to key person dependencies. This is managed through ongoing assessments of roles and capabilities, and by making the necessary additions and/or changes to the team. It is also managed by a prioritisation of sufficient documentation of the bank's processes.

The operational risk owners are allocated across the first line of defence and they are typically the bank's functional leads. They are responsible for participating in the bank's Risk and Control Self Assessment process on an ongoing basis and at least annually. A process which is facilitated by the Risk Management Function and where risk management plays a challenger role.

All employees of the bank are aware of how to identify and report risk events. The bank pays high focus to the ongoing communication and awareness and there is no lower limit on the size of risk events, which shall be reported. This enables the organisation to learn and develop based on the issues experienced and it supports emphasising an appropriate risk culture.

The bank is fully cloud-based and has outsourced a large part of its platform to external providers. The bank only chooses to outsource to technology providers, who have the same high standards for information security. This is being thoroughly assessed prior to contracting and monitored on an ongoing basis. The bank furthermore maintains an ability to change providers within a maximum of 12 months and the performance of the services provided by third parties, is monitored frequently to determine if an exit plan should be invoked.

The bank has included its Insurance Policy as part of its Operational Risk Policy. The bank chooses to consider possible insurance coverages as potential risk mitigations to the extent the insurance coverage is proportionate with its cost. The Board of Directors is reviewing the insurance program on an annual basis or ad-hoc when deemed necessary.

The bank's largest operational risks, as well as the operational risks where a significant change in the risk level has been identified, are reported to the Executive Management on a regular basis and to the Board of Directors on an annual basis. The Board of Directors also receive quarterly reporting regarding identified risk events and for the most severe ones the Board of Directors is notified without undue delay.

2.5 Management Declarations

The Board of Directors have at the Board Meeting 24 March 2022 approved the following declaration in accordance with CRR article 435, 1, litra e og f.

kompasbank is a corporate SME lending bank, which is funded by retail depositors through time deposits and notice accounts as well as with core equity from investors. The business model is simple and executed based on employing new technology, having personal banking relationships and a fast turnaround time on credit decisions. All this, at a low cost infrastructure.

It is the assessment of the Board of Directors that the bank's risk management framework including the bank's Risk Policies as well as the bank's governance structure provides an adequate framework for managing risks considering the bank's business model and strategy.

The risks the bank is exposed to are continually identified and documented as well as monitored as part of the bank's Risk Landscape, the Risk Policies and the implementation hereof. The risks are furthermore reported as part of the ongoing reporting on each risk area as well as through the reporting from the Chief Risk Officer.

The Board of Directors' instructions to Executive Management delegates powers and provides guidance on relevant areas which are implemented in the policies and underlying procedures. The Board of Directors' assessment is that there is consistency between the business model, policies, the guidelines in the Instructions to the Executive Management and the risks the bank is exposed to. The assessment is conducted based on the material and reporting provided to the Board of Directors from the bank's Executive Management, the Chief Risk Officer, the Compliance Responsible as well as the bank's external auditor.

Liquidity and solvency
The bank strives to have a robust liquidity risk management framework, sound liquidity contingency plans and processes and a robust capital coverage to support the business model.

Prudent internal limits are set conservatively to ensure sound risk management, with minimum limits of 150% for both the liquidity coverage ratio and the 12-month forecast liquidity coverage ratio. The funding structure must meet the funding-ratio requirements as set by the Danish FSA in the Supervisory Diamond and the NSFR ratio requirement.

The bank has a capital surplus objective expressed as a requirement to hold sufficient capital to cover losses during a 3-year period of severe stress. This effectively translates into having a capital coverage ratio of minimum 5% in excess of the capital requirement, MREL add-on and regulatory capital buffers in a base case scenario. By 31 December 2021, the bank met the capital surplus objective with a coverage ratio of 106.8%.

Supervisory Diamond (Tilsyndiamanten)
In addition to the risk appetite limits, the Board of Directors monitors the limits as set in the supervisory diamond, though some of the risk limits in the supervisory Diamond do not currently apply to the bank.

SUPERVISORY DIAMOND 31/12/2022		
Benchmark	**kompasbank**	**Limit**
Sum of Large Exposures	15.8%	< 175%
Lending Growth	N/A	< 20%
Property Exposure	10.1%	< 25%
Liquidity Requirement Ratio	N/A	> 100%

2.6 Management Governance

Article 435, 2, litra a-e

The Board of Directors consist of 5 members and the Executive Management of 2 members. The Directorships held by members of the Board of Directors and Executive Management are listed in the annual report.

The Board of Directors set out the bank's strategy and policies and make sure that the bank understands and meets its obligations to customers, colleagues and shareholders in a way that promotes the long-term interests of the bank. The Board of Directors also has the overall responsibility for the bank's governance, risk management and internal control systems.

The bank has a focus on the selection of members of the management body and their knowledge, skills and expertise. The Board of Directors conducts a yearly self assessment to make sure there's an appropriate balance of skills and expertise. The bank uses the yearly self assessment of the Board of Directors to review the skills and expertise needed for both existing and any new board members. The self assessment is structured to assess the skill of the Board on the basis of the current business model and any risk related hereto.

The bank has adopted a Diversity Policy that also includes the diversity in the Board. The Board of Directors believes that a diverse corporate culture will have a positive effect on the bank's ability to attract and retain current and prospect employees. It is furthermore the belief that diverse teams make better decisions which again leads to better financial results and prudent risk management.

The Board of Directors receives risk reporting within credit risk, market risk and liquidity risk on each board meeting to ensure the necessary information flow. The Board of Directors receives a quarterly overview of operational risk events as well as yearly reporting on the most severe operational risks or ad-hoc if deemed necessary.

Annual reports on specific areas are planned in the annual plan for the Board of Directors and specific reporting is provided where needed. The CRO and the Head of Compliance reports to the Board of Directors on an annual basis or ad-hoc when deemed necessary. The two functions can also raise any concern outside of the arranged meetings, if circumstances require it. The bank has not established subordinated Board committees.

3. Scope of Application

Article 436

This Pillar 3 disclosure has been prepared by kompasbank a/s to meet the rules of the Danish FSA and the regulatory disclosure requirements as outlined in Part Eight (Articles 431 to 455) of the Capital Requirements Regulation (CRR II).

The name of the institution is kompasbank a/s. No consolidation for accounting or prudential purposes is done. kompasbank has no subsidiaries or parent undertakings.

4. Own Funds

Article 437

The bank's own funds consist of Common Equity Tier 1 (CET1) capital. The bank does not hold any Additional Tier 1 or Tier 2 capital items and does not apply any deductions to the own funds. The CET1 capital instruments consist of paid in capital and share premiums.

No restrictions, prudential filters or deductions are applied in the calculation of the bank's own funds and no capital ratios disclosed are calculated using elements of own funds determined on a basis other than those laid down in the CRR Regulation.

REGULATORY CAPITAL | OWN FUNDS	
COMMON EQUITY TIER 1 CAPITAL (CET1)	'000 DKK
Paid in capital instruments	44,756
Share premium	217,951
Common Equity Tier 1 capital instruments	**262,707**
Retained earnings from previous years	-46,255
Qualified earnings for the year	-43,515
Warrants	3,746
Retained earnings	**-86,023**
COMMON EQUITY TIER 1 CAPITAL (CET1)	176,684
ADDITIONAL TIER 1 CAPITAL (AT1)	-
TIER 1 / CORE CAPITAL (CET1 + AT1)	176,684
TIER 2 CAPITAL	-
OWN FUNDS (CET1 + AT1 + Tier 2)	176,684

5. Capital Requirements

Article 438

The bank's approach to assess the adequacy of its internal capital to support current and future activities follows the bank's Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP assesses the risks which the bank is exposed to in order to determine the risk profile of the bank. It is assessed whether the identified risks can be reduced through the bank's governance and risk management framework and to which extent capital should be allocated to cover such risks.

The capital adequacy and solvency assessment is the bank's assessment of the required capital which would be adequate to cover the risks which the bank is exposed to. At least annually, the Board of Directors performs an assessment of the methodology, which the bank applies to assess and calculate the bank's individual capital requirements, including the identified risk areas and relevant benchmarks.

On a quarterly basis as a minimum, the Board of Directors assesses the capital requirement and adequacy. This is done on the basis of a recommendation from the Executive Management, which includes suggestions to the level of the required capital based on the approved methodology, identified risks and financial forecasts. The Board of Directors decides the capital requirement which is deemed adequate to cover the risks, which the bank is exposed to.

The assessment of capital requirements applies the 8+ methodology as suggested by the Danish Financial Authority. This method implies that the minimum capital requirement of 8% of the total risk exposure amount is applied as a starting point under Pillar I, with capital requirement add-ons for risks and conditions that are not fully reflected in the calculation of the total risk exposure. The assessment of the capital requirement thereby assumes that ordinary risks to the bank are covered by the 8% requirement, while the additional capital requirements under Pillar II reflect the result of an assessment of extraordinary risks facing kompasbank, which are not covered by the 8% under Pillar I. In the area of credit risk, the assessment of large exposures applies the credit reservation method.

The Pillar I capital requirement for operational risk is calculated by applying the Basic Indicator Approach as set out in CRR Article 315. The capital coverage is calculated by comparing the estimated capital requirement with the forecasted capital resources.

CAPITAL REQUIREMENTS (PILLAR I & II)			
PILLAR I CAPITAL REQUIREMENT			‘000 DKK
	Risk Exposure Amount	Capital Requirement	Capital Required
Credit risk	65,281	8%	5,222
Market risk	–	8%	–
Operational risk	53,507	8%	4,281
Pillar I capital requirement	**118,788**	**8%**	**9,503**
PILLAR II CAPITAL REQUIREMENT			
Base earnings		2.4%	2,846
Lending growth		20.9%	24,859
Credit risk		3.8%	4,532
Market risk		1.1%	1,259
Liquidity risk		1.5%	1,779
Operational risk		4.2%	5,000
Other		–	–
Pillar II capital add-on		33.9%	40,274
INDIVIDUAL CAPITAL REQUIREMENT BEFORE BUFFERS		**41.9%**	**49,777**

Pillar I capital requirements:

The assessment of capital requirements under Pillar I applies the 8+ methodology as suggested by the Danish Financial Authority. The minimum capital requirement of 8% of the total risk exposure amount is based on the bank’s monthly capital adequacy assessment and reporting and the quarterly reporting to the Danish FSA.

Pillar II capital add-ons:

Base earnings
As the bank is not currently generating profits, which could act to absorb future losses, this has been assessed to give rise to additional required capital, to cover future risks, that the bank is subject to. The capital add-on is calculated as 1% of the average forecast loan balance for the next 12 months.

Lending growth
The expected future growth of the bank has been included in the assessment of the required capital. It has been deemed prudent to allocate additional capital to the risk that the growth is generated by investments in e.g. resources which do not generate adequate earnings to cover the investments within the next 12 months. The capital add-on is calculated as 8% of the risk exposure amount arising from the estimated future growth in the loan book beyond the benchmark of 10% for the next 12 months.

Credit risk
By December 2021, the loan book and the industry concentration herein was characterised by a limited number of clients, of which none has shown financial weaknesses or signs of financial weakness. However, recognising the importance of credit risks arising from industry concentrations and clients with potential future financial weaknesses, it has been assessed to be prudent to allocate additional capital to the required level of own funds.

Capital add-ons relating to single name and industry concentration risks have been calculated by applying the methodology provided in guidance provided by the Danish FSA while including prudent assumptions about the future distributions of risks in the loan portfolio.

Market risk
As both the deposit and bond portfolio is in a build-up phase, capital add-ons for market risk in the regulatory banking book have been calculated by applying prudent assumptions about the average maturity and applying a 250 basis point parallel shift in the interest rate curve.

Liquidity risk
The capital add-on for liquidity risk is calculated by assuming a required refinancing of 50% of the forecast average deposit portfolio balance over the next 12 months if interest rates increase by 125 basis points.

Operational risk
Capital added to the required level of own funds for operational risk has been determined to amount to 5m DKK.

6. Exposure to Counterparty Credit Risk

CRR article 439

The bank does not not make use of derivatives and is thus not exposed to counterparty credit risk. The risk exposure towards credit institutions and the bank's bond exposure, is covered in section 2.1 Credit Risk.

7. Countercyclical Capital Buffer

CRR article 440

The countercyclical capital buffer (CCyB) is designed to counter procyclicality in the financial system. In December 2021, the Systemic Risk Council in Denmark recommended to the Minister for Industry, Business and Financial Affairs that the countercyclical capital buffer should be increased to a rate of 2.0 per cent from 31 December 2022.

The bank only has credit exposures in Denmark. In compliance with regulation, the bank did not reserve capital as of 31st December 2021, given that the required level of the countercyclical capital buffer in Denmark was 0% by December 2021.

The BoD has decided to build the CCyB buffer by phasing in 1/12 of the 2% monthly from January to December 2022 and notes that the Systematic Risk Council expects to recommend a further increase of the buffer to 2.5 per cent at its meeting in March 2022. The bank will reserve capital for any future increase in the countercyclical capital buffer in accordance with the required levels set by the relevant authorities.

8. Indicators of Global Systemic Importance

CRR article 441

The bank is not a Global Systemically Important Financial Institution (G-SIFI) and hence the disclosure requirements are not applicable.

9. Credit Risk Adjustments

CRR article 442

Regarding the definition, approaches and methods of calculating impairments in kompasbank the reader is referred to the chapter on "Loans and Impairments" in the annual report. In the first year of operation, kompasbank has chosen a conservative approach and does not utilise other forms of credit risk adjustments.

The bank is a newly established bank with an expected growth on the loan book. As the first loans have been disbursed only in the second half of 2021 an average of exposures over the period is misleading and will therefore first be provided for the next reporting period.

A break-down of the bank's credit exposure towards different exposure classes is shown below.

Exposure classes		
DKK '000	Risk-weighted exposure broken down by exposure class	Total exposure amounts after accounting offsets and without taking into account the effects of credit risk mitigation
Central governments or central banks	0	6,229
Institutions	22,261	111,307
Corporates	75	75
Retail	31,732	84,108
hereof off-balance sheet exposures	4,014	35,125
Covered bonds	6,071	60,713
Other items	5,141	5,141
Total	65,281	267,574

kompasbank has only granted loans in Denmark and has therefore no geographical distribution. All credit exposures are provided to the SME segment and are categorised in exposure class retail as all exposures to SME customers are below 1 mEUR. Regarding the distribution of the exposures by industry and counterparty type as well as the residual maturity breakdown of all the exposures, the reader is referred to note 13 in the Annual Report.

As of 31 December 2021, the bank had no non-performing or impaired loans and furthermore no loans with a significant increase in credit risk. Note 10 in the Annual Report provides an overview of the impairment charges for all loans, advances and receivables on the banking book.

10. Unencumbered Assets

CRR article 443

Below table contains kompasbank's disclosure on asset encumbrance.

Disclosure on asset encumbrance				
Assets of the reporting institution DKK '000	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	0		231.496	
Loans on demand	0	0	36.297	36.297
Equity instruments	0	0	0	0
Debt securities	0	0	65,784	65.784
Loans and advances other than loans on demand	0	0	48.029	48.029
Other assets	0		81.386	

11. Use of ECAI'er

CRR article 444

The bank applies the standardised approach for calculation of credit risk and has appointed Standard & Poor's as External Credit Assessment Institution (ECAI). The bank applies credit ratings to the exposure classes shown in the table below. Credit ratings are assessed when capital adequacy assessments are performed on a monthly basis.

The bank only has banking book exposures to government and covered bonds and to credit institutions for which credit assessments by the nominated ECAI are available and risk weights are applied to these exposure classes accordingly.

Pillar I: Credit risk exposure classes for which ECAIs are applied			
'000 DKK	Exposure amounts	Risk weight applied	Exposure amount after credit risk reduction
Government bonds	5,070	0%	0
Covered bonds	60,713	10%	6,071
Institutions	111,307	20%	22,261

12. Exposure to Market Risk

CRR article 445

The bank is not allowed to have exposures in the trading book. Excess liquidity is placed in government and mortgage bonds within the banking book and therefore not included in the calculation of market risk in the trading book.

As of 31st December 2021, the bank did not have any currency or commodity exposures and the own funds requirement for market risk was assessed to be 0 DKK.

13. Operational Risk

CRR article 446

The Pillar I capital requirement for operational risk is calculated by applying the Basic Indicator Approach as set out in CRR Article 315. By applying this methodology, and given that kompasbank has been in operation for less than three years, the own funds capital requirement for operational risk is calculated as 15 % of the average forecasted forward-looking net interest and fee income for three years.

In compliance with CRR Article 315, the calculation of the capital requirement for operational risk under Pillar I will use historical data as soon as this is available.

14. Exposures in Equities not included in the Trading Book

CRR article 447

The bank does not hold any equities in the banking book nor the trading book and hence the disclosure requirements are not relevant.

15. Exposure to Interest Rate Risk on positions not included in the Trading Book

CRR article 448

The bank's interest rate risk in the regulatory banking book arises from deposits and the bank's bonds included in the liquidity assets buffer.

The bank's interest rate risk is measured as the change in market value caused by a general interest rate increase of 1 percentage point. The bank's market risk is monitored and managed on an ongoing basis and reported to the Executive Management and to the Board of Directors on a monthly basis.

The bank has set limits for the interest rate risk in the banking book to not exceed 5% of the tier 1 capital after deductions. No interest rate risk in the regulatory trading book is allowed.

In the assessment of the bank's capital adequacy and requirements, it is further assessed whether the bank's total interest rate risk would require additional capital add-ons under Pillar II.

Interest rate risk in the banking book	
	DKK '000
Total interest rate risk	144

16. Exposure to Securitisation Positions

CRR article 449

The bank does not apply or engage in securitisation activities and hence the disclosure requirements are not relevant.

17. Remuneration Policy

CRR article 450

The Remuneration Policy lays down guidelines in terms of remuneration which are consistent with, and promote a Gender neutral remuneration, a sound and efficient risk culture, and which does not encourage excessive risk taking.

The Remuneration Policy is defined in line with the bank's business model, goals, values and long-term interests. The policy furthermore complies with current legislation in general, and legislation concerning the protection of the bank's customers and investors in particular. Considering the size of the bank, the bank does not have a remuneration committee. The Board of Directors oversees the Remuneration Policy.

The performance framework is designed to discourage risk taking outside of the bank's risk appetite. The specific remuneration is agreed individually with each of the bank's employees, considering the role, competencies, experience and performance. Fixed remuneration in warrants are granted to new hires following a standard vesting schedule over a three year period and is not determined by performance. Variable remuneration shall be used to encourage and award contributions to the long-term and sustainable performance of the bank, whether awarded in the form of shares, warrants, cash or others.

No employees in the bank receive remuneration of more than 1 mio EUR and no severance payments have been made during the year. The details of the remunerations for 2021 can be found in the annual report 2021.

18. Leverage

CRR article 451, litra a-e

The leverage ratio is a risk neutral metric measuring the size of the balance sheet leverage. It is a regulatory requirement that the leverage ratio is not less than 3%. The bank calculates the leverage ratio by comparing the core capital to the total exposure measure. No deductions are made to the core capital.

Managing and monitoring the bank's risk of excessive leverage and the leverage ratio is part of the bank's ongoing risk management and is reported to the Executive Management and to the Board of Directors.

The bank's current business model effectively minimises the risk of excessive leverage of the balance sheet, as all risk exposures are on-balance sheet exposures and require capital. The risk of excessive balance sheet leverage is deemed to be low and the Board of Directors assesses on an annual basis, whether it is required to strengthen the process for managing the risk of excessive leverage further.

The bank complies with the regulatory requirement with a leverage ratio of 66.1% by 31st December 2021.

19. Use of the IRB Approach to Credit Risk

CRR article 452

kompasbank uses the Standardised Approach and thus does not use the IRB approach.

20. Use of Credit Risk Mitigation Techniques

CRR article 453

The bank applies the standardised approach for calculation of credit risk. As of 31st December 2021, the bank did not apply any financial collateral or other credit risk mitigation techniques to reduce risk exposures and the capital requirement.

21. Use of the Advanced Measurement Approaches to Operational Risk

CRR article 454

The bank does not use advanced measurement approaches to operational risks and hence the disclosure requirements are not relevant.

22. Use of Internal Market Risk Models

CRR article 455

The bank applies the Standardised Approach and thus does not use internal market risk models.