Novum Bank Limited
Pillar 3 Disclosures

31 December 2024

1. Introduction

This report sets-out disclosures pursuant to Pillar 3 of the Basel framework for Novum Bank Limited ("the Bank"). Pillar 3 aims to promote market discipline through disclosure requirements for banks. This report was prepared in accordance with Banking Rule 7 BR/07/2014 regarding the Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act 1994 issued by the Malta Financial Services Authority ("the MFSA") and Part Eight of the Capital Requirements Regulation (CRR) EU No 575/2013.

Pillar 3 Disclosures are not subject to external audit, unless they reflect disclosures found in the Financial Statements, which are prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union (EU). These disclosures have been reviewed and approved by the Bank's Board of Directors ("the Board").

2. Scope and Nature of Risk Disclosure

Novum Bank Limited is a "small and non-complex" institution as defined in Article 4(1) (145) of the CRR. The Pillar 3 disclosure requirements for small and non-complex institutions which are being disclosed in this document comprise disclosures on:

a) Risk management objectives and policies
b) Key metrics
c) Credit risk
d) Market risk
e) Liquidity risk
f) Own funds requirements and risk-weighted exposure amounts; and
g) Remuneration

3. Business Model

Novum Bank Limited was incorporated on 10 June 2009, as a subsidiary of Novum Holdings Limited ("the Holding Company"). The Bank was granted a license to operate as a credit institution by the Malta Financial Services Authority on 11 November 2009, in terms of the Banking Act, Cap. 371 of the Laws of Malta.

The Bank's business model and strategy are oriented towards offering innovative financial products that are simple, accessible, transparent, and technology-driven, and meet the needs of its customers in multiple geographies.

The Bank's core business lines comprise its short-term consumer loans and credit cards business. The Bank also accepts retail deposits. The Bank conducts its business in selected European jurisdictions.

4. Material Transactions within the Group, Affiliated and Related Parties

In 2024, the Bank granted a loan to its Holding Company in anticipation of a pending tax reclaim. In warranty of the observance of the payment of the loan, the Holding Company pledged a bank account, and the monies deposited therein, up to the amount loaned, in favour of the Bank. The loan was fully repaid within the same year. The Bank's risk profile remains unaffected by the loan that had been granted to its Holding Company.

5. Risk Management Framework

The Bank's enterprise-wide Risk Management Framework fosters a consistent and clear approach to risk management across the organisation, ensuring systematic identification, assessment, prioritization, management, and reporting of risks. Regular reports are provided to the Board and senior management to enable well-informed decision-making regarding risk-taking.

The risk management framework establishes that risks are to be monitored and reviewed on an ongoing basis with the strategies for managing these risks being evaluated at least annually.

5.1. Risk Culture

Risk culture is important to the Bank as it influences how employees understand and react to risks. The Board establishes the overall direction through the Risk Appetite Framework, while senior management fosters a risk-aware culture by integrating risk management into decision-making processes. Additionally, employees receive training on the Bank's Code of Conduct and Ethics Policy as well as its Whistleblowing Policy.

5.2. Risk Appetite Framework

The Bank's Risk Appetite Framework defines the overall level and types of risk the Bank is prepared to accept or aims to avoid while pursuing its strategy, objectives and business plan, along with the associated governance and escalation procedures. The Bank identifies the key risks it faces and sets limits around these risks to ensure a proper risk-reward balance, and to maintain sufficient capital and liquidity buffers to endure periods of stress. The Bank's Risk Appetite Framework is reviewed and approved by the Board annually.

5.3. Risk governance (policies and procedures and strategies)

The Board holds ultimate responsibility for ensuring the effectiveness of the risk management framework. It sets the tone, direction, and expectations for risk management across the Bank. The Board has established committees to assist in carrying out its oversight responsibilities.

5.3.1. Audit Committee

The Board appointed Audit Committee is responsible for ensuring the integrity of financial reporting, monitoring the effectiveness of the Bank's internal controls and risk management systems, overseeing the work of the internal audit function, and monitoring, reviewing, and ensuring independence of the statutory audit of the financial statements.

The Bank's Audit Committee is composed of three (3) non-executive directors.

5.3.2. Risk and Compliance Committee

The Risk and Compliance Committee advises and supports the Board on the Bank's current and future risk appetite and strategy which takes into consideration all risk categories the Bank faces. It ensures that the risk parameters and strategy are aligned with the Bank's strategic goals, objectives, and culture while overseeing their effective implementation by senior management. Additionally, the Risk and Compliance Committee, assesses various scenarios, including stress tests, to gauge the Bank's risk exposure to both internal and external events. In its compliance role, the committee ensures the Bank's adherence to applicable legal and regulatory requirements.

This committee also consists of three (3) non-executive directors.

5.3.3. Management Committees

The Bank has set up management committees, namely the Executive Committee (EXCO) and its sub-committee the Information Security Steering Committee (ISSC), the Management Credit Committee (MCC) and the Asset and Liability Committee (ALCO). EXCO ensures that the Bank is operating effectively and efficiently while the ISSC is tasked with coordinating and exercising oversight of the information security management within the Bank reporting to EXCO. The MCC oversees aspects of credit risk while ALCO oversees asset and liability management with particular focus on liquidity and funding.

5.4. Risk management, monitoring, measurement, and reporting

Risk management involves identifying, assessing, measuring, and prioritizing risks specific to the Bank's business model and operating environment. The Bank implements various internal controls to minimise the likelihood and to manage the impact of negative outcomes. The Bank conducts stress tests to assess the resilience of its balance sheet and operations under adverse scenarios, including idiosyncratic, market-wide, and combined scenarios.

Risk monitoring at the Bank entails the continuous tracking, assessment, and oversight of various risks to ensure they remain within acceptable levels and are effectively managed. The Bank's Chief Officer – Risk and Compliance oversees risk management and monitoring activities reporting to the Risk and Compliance Committee and the Board on risk and compliance issues at least once every quarter.

The Bank has implemented a range of risk management policies, all of which are approved by the Board and reviewed annually to ensure they remain effective. Internal controls and risk mitigation strategies are subject to ongoing review and are formally assessed at least once a year.

6. Key Risks and strategies and processes to manage these risks

Given the nature of its business model, the Bank's key risk and the related risk management objectives and policies comprise the below:

6.1. Capital Adequacy

Capital adequacy risk refers to the potential risk that the Bank's capital is insufficient to absorb losses arising from various risks inherent in its operations. This risk arises from the possibility that the Bank's capital may be inadequate relative to the risks it undertakes, which could lead to financial distress or failure.

As per Bank policy, proactive management of its capital base is essential to address both current and forward-looking risks inherent in its operations, while fostering business development to optimize shareholder value and ensure compliance with regulatory mandates. Capital planning is integrated into the Bank's strategic and annual budgeting processes to maintain a buffer above regulatory capital requirements. Related risk appetite limits are established and approved by the Bank's board of directors.

An integral component of the Bank's capital planning and assessment is the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP enables the Bank to gauge the sustainability of its capital position under potential severe yet plausible stress scenarios spanning a three-year horizon. Stress scenarios are constructed to ensure comprehensive coverage and assessment of the Bank's significant risks and to simulate potential adverse macroeconomic developments. Additionally, sensitivity analysis is employed to evaluate the isolated impact of specific risk factors. Reverse stress testing is also employed to identify scenarios that could severely impact the Bank's financial resilience. Moreover, the ICAAP enables the Bank to assess non-pillar I risks or risks which are insufficiently covered under pillar 1 under its pillar II assessment. Capital related stress testing is also undertaken as part of the Bank's recovery plan.

The Bank's ICAAP is reviewed and challenged by the Bank's risk and compliance committee and the Board and is also reviewed by the Bank's internal auditor.

Monitoring of capital adequacy occurs through Key Risk Indicators (KRIs), risk appetite limits, and internal ICAAP reports on a quarterly basis. These reports are presented to both the risk and compliance committee and the Board for oversight and decision-making.

6.1.1. Capital Requirements

The Bank maintains capital requirements in the form of Pillar I, Pillar II, and combined buffer requirements and Pillar II guidance. Additionally, the Bank retains a management buffer as an additional measure to strengthen its resilience against unexpected shocks.

6.1.1.1. Pillar I

The Bank determines its Pillar I capital requirements in alignment with the Capital Requirements Regulation (CRR) using the following methodologies:

Risk Category	**Methodology**
Credit risk	The Bank employs the Standardised Approach, necessitating the calculation of credit risk-weighted exposure. This approach mandates banks to maintain capital reserves equivalent to 8% of their credit risk-weighted exposures.
Foreign exchange risk	The Bank employs the Standardised Approach to evaluate its exposure to foreign exchange risk, resulting in a capital allocation equivalent to 8% of the risk-weighted exposure amount.
Operational risk	The Bank employs the Basic Indicator Approach to compute its operational risk-weighted exposure. Under this approach, the capital allocation equals 15% of the average operating income over the preceding three financial years. Effective January 2025, in line with the revised Capital Requirements Regulation (CRR3), the Bank will transition to the Standardised Approach for Operational Risk.

The table below displays the Bank's risk-weighted exposure for each exposure class along with the corresponding Pillar 1 capital requirement determined using the methods described above.

		Total risk exposure amounts (TREA)		Total own funds requirements
		31/12/2024	**31/12/2023**	**31/12/2024**
1	Credit risk (excluding CCR)	92	63	7
2	Of which the standardised approach	92	63	7
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple risk weighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	Counterparty credit risk - CCR	-	-	-
7	Of which the standardised approach	-	-	-
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	-	-	-
EU 8b	Of which credit valuation adjustment – CVA	-	-	-
9	Of which other CCR	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	-	-	-
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
EU 19a	Of which 1250% / deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	4	3	0
21	Of which the standardised approach	4	3	0
22	Of which IMA	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	115	110	9
EU 23a	Of which basic indicator approach	115	110	9
EU 23b	Of which standardised approach	-	-	-
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	1	1	0
29	**Total**	**210**	**176**	**17**

Table 6-1 - Template EU OV1 – Overview of risk weighted exposure amounts (€ m)

6.1.1.2. Pillar II

The Bank maintains the Pillar II requirement communicated by the Malta Financial Services Authority as part of the Supervisory Review and Evaluation Process (SREP) in addition to Pillar I.

6.1.1.3. Combined Buffer Requirement

In accordance with Banking Rule BR/15/2022 – Capital Buffers of Credit Institutions Authorised Under Banking Act 1994 the Bank maintains a combined buffer requirement, in the form of common equity tier 1 capital, comprising of a Capital Conservation Buffer (CCB), and a Countercyclical Capital Buffer (CCyB).

6.1.1.4. Pillar 2 Guidance

The Bank adheres to the Pillar II guidance set by the Malta Financial Services Authority pursuant to the outcomes of the Supervisory Review and Evaluation Process.

6.2. Credit Risk

Credit risk is the risk of loss due to failure of counterparties to meet their obligations to clear a debt in accordance with agreed terms and conditions. Credit risk is the primary risk category to which the Bank is exposed given that its core business involves extending credit to retail customers in the form of short-term unsecured loans and credit cards.

The overarching approach towards managing credit risk comprises the establishment of the Bank's credit strategy, risk appetite statement, limits, and policies and procedures. The Bank's credit policies and procedures seek to ensure that the Bank is effective in identifying, assessing, measuring, managing, and reporting credit risk.

The Bank employs several risk strategies to manage defaults with the main strategies being, adjusting its credit underwriting criteria to adapt to changes in the market, only granting lending which has been assessed as affordable, and ensuring effective and customer-oriented debt management and collections.

The Bank's business units are responsible for the day-to-day management of credit risk. Lending is automated through the Bank's dedicated credit models. The Bank has a dedicated unit responsible for credit risk management, which is tasked with ongoing credit monitoring, reporting duties, model management, and providing recommendations to manage default rates to the Bank's chief credit officer and the Bank's management credit committee. The MCC also ensures that the Bank adopts a conservative provisioning policy, approves the Bank's credit procedures, and recommends changes to the credit policies for review by the RCC and eventual approval by the Board.

In its function of second line of defence, the risk and compliance function, oversees the Bank's credit risk management, including adherence to standards imposed by the Banking Rules issued by the Malta Financial Services Authority and adherence to Bank risk limits. The risk and compliance function reports to the risk and compliance committee and the Board at least on a quarterly basis.

The Bank's internal audit function conducts periodic reviews to provide assurance and ensure the soundness of the Bank's approach towards credit risk management.

6.2.1. Credit Concentration Risk

Concentration risk refers to the risk of incurring significant credit losses arising from a concentration of exposures to groups of borrowers, to a set of borrowers with similar default behaviour, or to borrowers whose activities are concentrated within a single industry or within a single geographic region. To mitigate this risk, the Bank implements diversification strategies aimed at reducing concentration risk.

The Bank manages concentration risk through concentration limits approved by the Board on recommendation of the risk and compliance committee, and through regular monitoring. The Bank quantifies concentration risk using the Herfindahl-Hirschman Index (HHI) and allocates Pillar II capital as may be required.

6.3. Operational Risk (including IT Risk)

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

- Failed or inadequate processes relate to losses that may be incurred due to deficiencies in an existing procedure, due to the complete absence or poor design of an essential procedure, or from the failure to follow an existing procedure.
- People failures relate to losses associated with intentional or unintentional violation of internal or regulatory policies by current or past employees and will include organisational structure failures, management failures, or other human resource failures, and will be heightened by no or poor training, inadequate internal controls, or inadequate staff capacity.
- Failed or inadequate systems relate to losses that are caused by unintentional breakdowns in existing systems or technology and include instances of disruptions, bugs, or outright system failures, as well as careless handling of passwords or inappropriate administration of access rights which result in business disruptions, or data loss or leakage. This also includes disruptions resulting from malware or computer viruses due to outdated anti-virus systems.
- External events relate to losses incurred due to negative natural or man-made events or as a direct result of a third-party action and will include natural climate-related and environmental disasters, pandemics, and office fires, as well as cyber-attacks, fraud, and vandalism.

The Bank manages its operational risk profile through a control framework which includes second line assurances, and by monitoring and responding to new and emerging risks. Controls include the Bank's policies and procedures, segregation of duties, access and authorisation controls, reconciliation procedures, employee training and assessment process, the complaint handling practices, external fraud controls, backups, firewalls and protective software, the Bank's Business Continuity & Disaster Recovery Plan and evacuation plans, and controls on outsourced services.

6.4. Strategic Risk

Strategic risk refers to the internal and external events that may make it difficult for the Bank to achieve its objectives and strategic goals. These risks can have severe consequences that impact Bank's viability and sustainability.

To mitigate strategic risk the Bank considers the external environment and encompasses risk management in setting its overall strategy. The Bank ongoingly monitors the achievement of its strategy and the external environment to mitigate any adverse developments earlier on. Business model viability is assessed through several reports, including the ICAAP, ILAAP and Recovery Plan.

6.5. Reputational Risk

Reputational risk refers to the potential for negative public perception or damage to the Bank's reputation, brand, or image, which can lead to loss of customers and business opportunities. It arises from various factors, including adverse media coverage, due to unethical behaviour, poor business practices, product failures, customer complaints, and legal or regulatory violations.

The Bank adopts ethical considerations in carrying out its banking activities to ensure responsible lending. The Bank has drawn-up, and follows, policies to mitigate unethical behavior, conflict of interests, and new product approval. A complaint handling procedure is embedded in the Bank's daily operations. The Bank regularly monitors any legal and regulatory developments as well as any adverse media and adopts timely and transparent communication with all its stakeholders.

6.6. Conduct Risk

Conduct risk is the risk that the Bank's behaviour/conduct may result in poor outcomes and/or detriment for its customers. The Bank's Board is committed to embedding conduct risk in the Bank's business and culture.

The Bank has developed a framework for managing its appetite for conduct risk, along with associated policies, and conducts training for all staff to guarantee fair treatment of customers and maintain transparency in all customer interactions.

The Bank quantifies concentration risk using an internally developed methodology and allocates Pillar II capital as may be required.

6.7. Liquidity & Funding Risk

Liquidity is the risk that the Bank does not have sufficient financial resources to meet its financial obligations when they fall due.

Funding risk arises when the liquidity needed to fund illiquid asset positions cannot be obtained on acceptable terms and conditions and when required.

It is the Bank's objective to maintain a diversified and stable funding base with the objective of enabling it to respond quickly and smoothly to unforeseen liquidity requirements. In addition to equity funding, the Bank sources funding from retail fixed-term deposits.

To manage this risk, the Bank seeks to match the maturities of assets and liabilities as much as possible, establishes liquidity and funding risk appetite limits, maintains an adequate liquidity buffer in the form of high-quality liquid assets and ensures day-to-day monitoring of its funding and liquidity. The Bank monitors liquidity metrics, including inter alia the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) on a regular basis. The Bank's senior management monitor liquidity and funding on a day-to-day basis. ALCO is responsible for the monitoring and oversight of liquidity and funding risk. The risk function reports on liquidity and funding to the Bank's RCC and the Board.

The Bank conducts liquidity risk stress testing that covers the Bank's key liquidity and funding risks at least annually. Stress testing enables the Bank to assess its liquidity position and ensure adequate liquidity under potential severe yet plausible adverse scenarios.

The Bank has a contingency funding plan in place to deal with any potential liquidity/funding challenges. The plan aims to ensure the Bank responds swiftly and effectively during adverse situations, reducing potential disruptions and costs.

The Bank funds its operations through stable funding sources comprising mostly of retail deposits which are guaranteed by the Depositor Compensation Scheme and an ongoing stream of retained earnings.

Regulatory ratios related to liquidity and funding are at very comfortable levels, in excess of minimum liquidity requirements. The Bank's Board deems that the Bank's liquidity risk management framework is adequate when taking into consideration the Bank's risk profile and strategy.

The management body actively oversees liquidity risk through regular review of liquidity metrics, internal limits, and contingency funding plans. The liquidity risk profile is fully integrated into the Bank's Internal Liquidity Adequacy Assessment Process (ILAAP), ensuring alignment between strategic planning, funding structure, and regulatory expectations.

6.8. Market Risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity and commodity prices. The Bank's exposure to market risk is limited to foreign exchange (FX) risk.

Foreign exchange risk refers to the risk of volatility in foreign currencies which could lead to crystallization of FX loss. The Bank's exposure to exchange rate risk is driven by the conversion of assets and liabilities denominated in foreign currencies into the Bank's functional currency.

The Bank's financial assets and liabilities are predominantly denominated in Euro. Some assets are denominated in Danish Krone, however, fluctuations in exchange rates with respect to the Danish Krone are limited since this currency is pegged to the Euro. The Bank manages FX risk through ongoing monitoring, and by using foreign currency liabilities to fund foreign currency assets denominated in the same currency. The Bank has also established risk appetite limits related to foreign exchange risk.

The Board has ultimate responsibility for the oversight of the market risk management framework, including ensuring adequate capital coverage in relation to this risk. The Bank's ALCO is responsible for the day-to-day management of market risk and asset-liability management, which is overseen by the Bank's risk and compliance committee and the Board. As noted above, the Bank's market risk is limited to FX risk.

6.9. Interest rate risk in the banking book (IRRBB)

Interest rate risk arising from non-trading book activities refers to the current and prospective risk of a negative impact to the Bank's economic value of equity (EVE) or net interest income (NII), which arise from adverse movements in interest rates affecting interest rate sensitive instruments, including gap risk, basis risk and option risk.

The Bank's IRRBB policy delineates the Bank's risk management approach towards interest rate risk in terms of identifying, quantifying, overseeing, and mitigating interest rate risk exposure.

The Bank assesses IRRBB through both Economic Value of Equity (EVE) and Net Interest Income (NII) perspectives to capture the long- and short-term effects of interest rate changes. It applies six supervisory shock scenarios, including parallel and non-parallel shifts, to evaluate its resilience under varying yield curve movements.

Responsibility for the effective management of interest rate risk in the banking book (IRRBB) ultimately rests with the Board, which ensures that capital adequacy is maintained in accordance with the Bank's risk appetite and regulatory standards. Oversight of IRRBB is supported by the Risk and Compliance Committee, while the day-to-day monitoring and management are delegated to the ALCO.

7. Key ratios and figures

		31/12/2024	31/12/2023
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	60	53
2	Tier 1 capital	60	53
3	Total capital	60	53
	Risk-weighted exposure amounts		
4	Total risk exposure amount	210	176
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	28.4%	29.9%
6	Tier 1 ratio (%)	28.4%	29.9%
7	Total capital ratio (%)	28.4%	29.9%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)		
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	4.5%	4.0%
EU 7b	of which: to be made up of CET1 capital (percentage points)	3	2
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	3	3
EU 7d	Total SREP own funds requirements (%)	12.5%	12.0%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.5%	2.5%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.0%	0.0%
9	Institution specific countercyclical capital buffer (%)	0.7%	0.6%
EU 9a	Systemic risk buffer (%)	0.0%	0.0%
10	Global Systemically Important Institution buffer (%)	0.0%	0.0%
EU 10a	Other Systemically Important Institution buffer (%)	0.0%	0.0%
11	Combined buffer requirement (%)	3.2%	3.1%
EU 11a	Overall capital requirements (%)	15.7%	15.1%
12	CET1 available after meeting the total SREP own funds requirements (%)	15.9%	17.9%
	Leverage ratio		
13	Total exposure measure	162	102
14	Leverage ratio (%)	36.9%	51.3%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)		
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.0%	0.0%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.0%	0.0%
EU 14c	Total SREP leverage ratio requirements (%)	3.0%	3.0%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
EU 14d	Leverage ratio buffer requirement (%)	0.0%	0.0%
EU 14e	Overall leverage ratio requirement (%)	3.0%	3.0%
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	49	25
EU 16a	Cash outflows - Total weighted value	12	8
EU 16b	Cash inflows - Total weighted value	23	20
16	Total net cash outflows (adjusted value)	3	2
17	Liquidity coverage ratio (%)	1576%	1491%
	Net Stable Funding Ratio		
18	Total available stable funding	142	81
19	Total required stable funding	69	43
20	NSFR ratio (%)	205%	190%

Table 7-1 - Template EU KM1 - Key metrics template (€m)

During 2024, the Bank had sufficient buffer over the business-as-usual risk appetite limits approved by the Board for the above indicators.

8. Stress Testing

Stress testing forms a core component of the Bank's forward-looking strategy formulation, business planning and risk management processes. The Bank conducts stress testing as a minimum on an annual basis to assess the main material or significant risk factors to which the Bank is exposed.

The Board is responsible for the Bank's stress testing framework and is supported by the Audit, and Risk and Compliance Committees, to challenge and ensure that the Bank's stress testing is based on severe but plausible scenarios. In devising its stress scenarios, the Bank ensures that its stress testing covers the core risks to which the Bank is exposed to and incorporate the potential impact from the macro-economic environment.

Stress testing forms an integral part of the ICAAP, ILAAP and Recovery Plan. The latest ICAAP and ILAAP have demonstrated that the Bank is adequately capitalised and has sufficient liquidity to withstand severe but plausible scenarios.

9. The Adequacy of Risk Management Arrangements

The Board affirms the adequacy of the Bank's risk management arrangements and is comfortable that these are designed to effectively identify, assess, mitigate, and monitor risks across all facets of the Bank's operations.

The Bank is committed to reviewing and enhancing its risk management framework on an ongoing basis in line with regulatory requirements and best practice to navigate uncertainties and challenges while pursuing its strategic objectives.

10. Remuneration

10.1. Remuneration Governance

In line with the principle of proportionality, small non-complex institutions as the Bank are not mandated to establish a Remuneration Committee. Thus, the responsibilities typically handled by such a committee at Novum Bank Limited are carried out by the Board of Directors. The Bank's Board members comprise:

Godfrey Huber	Chairman and Non-Executive Director
Michael Stuart Hutko	Executive Director and CEO
Johannes (Joop) Bruinzeel	Executive Director
Ronald Meersschaert	Non-Executive Director
Benjamin Muscat	Non-Executive Director
Michael Warrington	Non-Executive Director
Maria Theresa Vella	Non-Executive Director

During the year ended 2024, the Board held ten (10) meetings.

The Board is responsible for reviewing and approving the Bank's remuneration policy and oversees its implementation. The Bank's Risk and Compliance Function is the unit responsible for ensuring compliance with the Bank's Remuneration Policy, ensuring that no excessive risks are taken and assessing the impact of this policy on the Bank's risk profile and culture.

10.2. Remuneration Policy

The Bank's Remuneration Policy sets out the Bank's gender-neutral policy for the remuneration and compensation of its management and staff members. The policy is reviewed and approved by the Board at least on an annual basis, with the current version being approved during January 2024. The last review involved updating the MRTs to include the newly appointed additional Board member which change is not expected to materially impact the Bank's remuneration practices. The Bank did not require advice from external consultants to review the remuneration framework.

The policy outlines the governance framework concerning remuneration, the procedure for identifying material risk takers, remuneration elements, and considerations for diversity and equal pay. This policy aligns with the Bank's business goals, emphasizing good corporate governance and sustainable value generation for shareholders. It aims to enable the Bank to attract, nurture, and retain talented and driven employees within a competitive market. Additionally, the policy emphasizes the importance of the Bank's incentive system in promoting robust and efficient risk management practices.

The Bank identifies members of staff whose professional activities have a material impact on the Bank's risk profile (i.e., material risk takers) in line with the regulatory technical standards for the definition of material risk takers for remuneration purposes, Commission Delegated Regulation (EU) 2021/923, and Banking Rule 21 on Remuneration Policies and Practices. The Bank's material risk takers comprise, members of the management body, heads of internal controls functions, senior management, and other key managerial staff.

10.3. Performance measurement

The Bank's performance measurement system involves assessing employee performance in terms of achieving the financial targets/objectives as part of the overall Bank objectives as well as non-financial Key Performance Indicators (KPI).

The Bank's remuneration components are comprised of fixed and discretionary performance-based variable remuneration so as to incentivise and reward high performance. These are made exclusively in cash. The performance-based variable remuneration component is based on a combination of:

a. the assessment of the performance of the employee;
b. the assessment of the performance of the business unit concerned; and
c. the overall results of the Bank.

The variable component shall not exceed 100 % of the fixed component of the total remuneration for each individual. Shareholders of the Bank may approve a higher maximum level of the ratio between the fixed and variable components of remuneration provided the overall level of the variable component shall not exceed 200% of the fixed component of the total remuneration for each individual.

The variable compensations of employees in control functions do not reflect quantitative or financial performances, which they control, and relate solely to the fulfilment of their specific duties, with special emphasis on risk management and proper and complete implementation of the required controls.

In determining variable remuneration the Bank takes into consideration current and future risks with ongoing monitoring against Risk Appetite.

10.4. Remuneration Metrics

Remuneration awarded for the financial year ended 31 December 2024 is illustrated in the table below.

		a	b	c	d
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
Fixed remuneration	Number of identified staff	5	2	11	2
	Total fixed remuneration	0.3	0.8	1.7	0.2
	Of which: cash-based	0.3	0.8	1.7	0.2
	Of which: shares or equivalent ownership interests				
	Of which: share-linked instruments or equivalent non-cash instruments				
	Of which: other instruments				
	Of which: other forms				
Variable remuneration	Number of identified staff	5	1	10	2
	Total variable remuneration	-	0.2	0.4	0.0
	Of which: cash-based	-	0.2	0.4	0.0
	Of which: deferred				
	Of which: shares or equivalent ownership interests				
	Of which: deferred				
	Of which: share-linked instruments or equivalent non-cash instruments				
	Of which: deferred				
	Of which: other instruments				
	Of which: deferred				
	Of which: other forms				
	Of which: deferred				
Total remuneration (2 + 10)		0.3	1.0	2.1	0.2

Table 10-1 - REM1 - Remuneration awarded for the financial year (€m)

The below remuneration disclosures have been omitted due to the following reasons:

- EU REM 2: Special payments to identified staff – the Bank has not made guaranteed variable remuneration awards or severance payments to identified staff in the financial year.
- EU REM3: Deferred remuneration - The Bank does not implement deferred remuneration practices.
- EU REM4: Remuneration of 1 million EUR or more per year - The Bank does not offer remuneration that surpasses these thresholds.

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						Total
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	
1	Total number of identified staff										20
2	Of which: members of the MB	5	2	7							
3	Of which: other senior management					8			3		
4	Of which: other identified staff					2					
5	Total remuneration of identified staff	0.3	1.0	1.3	-	1.8	-	-	0.5	-	
6	Of which: variable remuneration	-	0.2	0.2		0.3			0.1		
7	Of which: fixed remuneration	0.3	0.8	1.2		1.4			0.4		

Table 10-2 - EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) (€m)