PILLAR 3

Disclosures

2023 Year End

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01 Introduction

Xapo's corporate structure is organised under Xapo Holdings ("Xapo Holdings"), a private company incorporated in and existing under the laws of the Cayman Islands. Xapo Holdings serves as the parent company for all Xapo group entities (collectively, "Xapo Group" or "Xapo"), including two of its wholly-owned subsidiaries, Xapo Bank Limited ("Xapo Bank" or the "Bank") and Xapo VASP Limited ("Xapo Vasp").

Xapo Bank operates as a regulated 'Credit Institution' (Permission No. 23171) under the Gibraltar Financial Services Commission (GFSC), in compliance with the Financial Services Act 2019. Incorporated and based in Gibraltar, the Bank is designed to safeguard and grow its members' life savings, address their international financial needs, and offer seamless access to deposit, withdraw, buy, hold, and sell USD and Bitcoin through its regulated sister company, Xapo VASP. Both Xapo Bank and Xapo VASP are wholly-owned subsidiaries of Xapo Holdings, each established to deliver specialised services and meet the distinct regulatory requirements under Gibraltar law.

Xapo envisions a future where digital money is universally accessible, with Bitcoin at the heart of this transformation, revolutionising financial transactions much like the internet transformed information sharing. Xapo Bank plays a crucial role in realising this mission by safeguarding, growing, and offering secure access to individuals' life savings through transparent and innovative banking solutions. Through its efforts, Xapo Bank helps drive Xapo's ultimate vision: fostering a world where unprecedented economic freedom is within reach for everyone.

1.1 Purpose

This document outlines the Pillar 3 disclosures for Xapo Bank, in accordance with the requirements set by the Capital Requirements Directive IV (CRD IV) and the Capital Requirements Regulation (CRR), following the guidelines from the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). These regulations are overseen by the GFSC which authorises and regulates Xapo Bank. Pillar 3 aims to promote market discipline by disclosing key information about the Bank's risk exposures, capital adequacy, and overall risk management framework.

1.2 Legislative Framework

Xapo Bank is subject to CRD IV and the CRR, which establish consistent prudential standards and a supervisory framework for financial services companies. In Gibraltar, these standards are enforced by the GFSC.

PILLAR 1	PILLAR 2	PILLAR 3
Pillar 1 defines the minimum capital a bank must hold to cover its credit risk, market risk, and operational risk. These requirements are quantitative and serve as the foundation of a bank's regulatory capital.	Pillar 2 requires banks to assess their overall capital adequacy in relation to their risk profile. It includes the Internal Capital Adequacy Assessment Process (ICAAP), through which banks assess capital requirements beyond the minimum required under Pillar 1. The Bank's ICAAP is reviewed and assessed by GFSC.	Pillar 3 focuses on transparency and disclosure. It requires banks to disclose key information about their risks, capital, and risk management processes to foster market discipline and allow stakeholders to assess a bank's risk profile.

1.3 Review and Approval

The board of directors of Xapo Bank (the "Bank Board") reviews and approves the Pillar 3 disclosures after a comprehensive internal review process. This process involves the Management Team (as defined below), the Asset & Liability Committee ("ALCO"), the Regulatory Affairs Committee ("RAC") and the Risk Management & Audit Committee ("RMC").

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02 Risk Governance

2.1 Holdings Board

The board of directors of Xapo Holdings (the "Holdings Board") has ultimate responsibility for the long-term management and oversight of the Xapo Group. It receives regular reports from the management team and from the boards of each subsidiary, including the Bank Board. Policies adopted by the Holdings Board are generally intended to apply across the entire Xapo Group unless deemed partially or fully irrelevant to specific entities within the Group.

2.2 Bank Board

The Bank Board is tasked with setting the strategic direction of the Bank, ensuring it possesses the necessary capital and resources to achieve its strategic goals and meet regulatory obligations. While the Bank Board is responsible for overseeing the Bank's strategic priorities, it delegates the day-to-day operational management to the Chief Executive Officer ("CEO"). The CEO further delegates specific responsibilities to the Management Team to ensure efficient and effective management of the Bank's daily operations. Ultimately, the Bank Board holds both the CEO and the Management Team accountable for successfully executing their responsibilities and achieving the Bank's objectives within the strategic and regulatory framework established by both the Holdings Board and the Bank Board.

2.3 Management Team

The Management Team comprises senior leaders who play a crucial role in the governance and operational management of the Bank. Many members of this team are subject to the Fit and Proper Policy and Framework, which ensures that all personnel in critical positions meet high standards of integrity, competence, and financial soundness. Additionally, certain key roles within the team require approval as "regulated individuals" by relevant financial authorities, underscoring their importance to the Bank's risk management and compliance frameworks.

The primary responsibility of the Management Team is to execute the Bank's business strategy as defined by the Bank Board and the CEO. This involves translating strategic goals into actionable plans and ensuring these are implemented effectively across the organisation. The team oversees day-to-day operations, providing leadership and making operational decisions that are essential for the Bank's effective functioning. This includes managing critical areas such as risk management, compliance, information security, customer relations, and financial operations.

Moreover, the Management Team plays a pivotal role in fostering a culture of accountability and excellence within the Bank. They are instrumental in driving the organisation towards achieving its strategic objectives and financial targets, and ensuring compliance with regulatory requirements. Through their leadership, they ensure that the Bank not only operates efficiently on a daily basis but also adapts to changing market conditions and regulatory landscapes, thus safeguarding the Bank's long-term success and stability.

2.4 Committees

Committees have been established to provide focused oversight of Xapo Bank's key activities. Subcommittee findings and recommendations are presented to the Bank Board as appropriate, with committee schedules arranged to support timely and effective reporting.

Risk Management & Audit Committee ("RMC").

The Risk Management & Audit Committee (RMC) is a key governance body with delegated authority to oversee the comprehensive management of all types of risk faced by the Bank. Chaired by the Chief Risk Officer, the RMC is responsible for ensuring a holistic approach to risk management, integrating risk, capital, and liquidity considerations across the organisation. Its core functions, outlined in the RMC Terms of Reference, include proposing the risk appetite statement and framework for Bank Board approval, overseeing their effective implementation, and receiving updates from principal risk owners. The RMC also reviews and addresses significant regulatory findings, policy updates, material limit breaches, and operational incidents, ensuring that all major risks are escalated to the Bank Board in a timely manner. Additionally, it oversees business continuity, disaster recovery, and resolution planning to enhance the Bank's resilience and stability.

Asset & Liability Committee ("ALCO").

The Asset & Liability Committee (ALCO) is responsible for managing the risks associated with the Bank's assets and liabilities to ensure financial stability and profitability. Its primary objective is to optimise the balance sheet structure in alignment with strategic goals by identifying, measuring, monitoring, and managing relevant risks. The ALCO makes strategic decisions regarding asset and liability management, reviews the performance of assets and liabilities, and assesses how market conditions may impact the Bank's risk profile and financial health. Additionally, the ALCO ensures compliance with regulatory requirements and reporting obligations to the GFSC. It also manages liquidity to meet both short- and long-term financial obligations, maintains adequate capital buffers, and monitors interest rate sensitivity, including setting deposit interest rates to balance risk and return.

Regulatory Affairs Committee ("RAC").

The Regulatory Affairs Committee (RAC) holds delegated authority to monitor current and emerging regulatory developments that could impact the Bank. Chaired by a Bank Board director with regulatory expertise, the RAC's primary function is to provide the Bank Board with timely and relevant information on regulatory matters, enabling them to fulfil their obligations and support medium- and long-term strategic planning. By horizon scanning for potential regulatory changes, the RAC ensures the Bank remains proactive in its compliance efforts and aligned with evolving regulatory expectations.

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03 Risk Management

Xapo Bank views effective risk management as essential to sustainable performance, value creation, and long-term success.

3.1 Risk Management Strategy

The Bank Board, as the governing body, holds ultimate responsibility for establishing and overseeing effective processes and controls to manage risks. This includes ensuring these processes remain effective over time through structured governance and reporting. Day-to-day responsibility for risk management is delegated to the Management Team and first-line business functions, with the Bank Board exercising oversight through a robust Risk Management Framework.

3.2 Risk Strategy and Culture

The Bank's risk management strategy is to cultivate and maintain a strong risk culture and embed effective risk management practices to deliver a responsible and sustainable business. The Bank Board is dedicated to fostering a risk-aware culture where sound decision-making and appropriate behaviours are modelled by both the Board Board and the Management Team. This leadership sets the standard for risk awareness across the Bank, guiding employees at all levels to consider their role in managing risks. This culture encourages collaboration with the risk function across all business areas, particularly in the development of new products, procedures, policies, and systems.

3.3 Risk Management Framework (RMF)

The RMF outlines the Bank's approach to identifying, assessing, and managing key risk exposures, ensuring that all risk remains within the defined risk appetite. As the foundation for consistent and effective risk management, the RMF provides a structured approach, detailing the principles, processes, and practices by which the Bank integrates risk management into daily activities. This approach ensures risks are proactively identified, measured, monitored, prevented, and controlled, facilitating timely and appropriate responses.

Defined and periodically reviewed by the Bank Board, the RMF is a core governance document that ensures a holistic and consistent approach to risk aggregation and management. It is fully integrated into the Bank's management and decision-making processes, ensuring risk-related decisions align with the Bank's strategic objectives and approved risk appetite framework, while also meeting regulatory standards. To maintain relevance and effectiveness, the RMF is regularly updated to reflect changes in the business environment, regulations, corporate governance, and industry best practices. This ongoing refinement helps the Bank uphold its responsibilities to customers, shareholders, and regulators, supporting a resilient and adaptable organisation.

3.4 Principal Risks and Risk Appetite

The Bank organises its risk management activities around five principal risk types: financial risk, operational risk, technology risk, legal and compliance risk, and financial crime risk. Each principal risk is assigned a dedicated Principal Risk Owner (“PRO”) who is accountable for managing and mitigating risks within their respective domains. The Bank's risk taxonomy includes these principal risk categories, which are further subdivided into approximately [35] specific sub-risk types, each overseen by designated Risk Control Owners (“RCOs”).

The following outlines each principal risk type, its definition, and the Bank's corresponding risk appetite:

	RISK APPETITE
Financial Risk The risk of loss, member detriment, or reputational damage due to inadequate management of financial exposures, including the risk of failing to meet liabilities as they come due.	The Bank maintains strong capital and liquidity positions, with management buffers to support strategic goals and sufficient high-quality liquid assets to withstand extreme but plausible events.
Operational Risk The risk of financial loss, member detriment, or reputational damage from failed or inadequate internal processes, people, systems, or external events.	The Bank employs a measured approach to operational risk to ensure that any operational losses do not materially damage its franchise.
Technology Risk The risk of financial loss, member detriment, or reputational damage resulting from technology unavailability or failure.	The Bank manages technology risk carefully to prevent technology-related disruptions that could harm its franchise.

	RISK APPETITE
Legal & Compliance Risk The risk of financial loss, member detriment, or reputational damage due to non-compliance with legal and regulatory obligations.	The Bank seeks to avoid legal and compliance breaches, acknowledging that while incidents are undesirable, they cannot be entirely prevented.
Financial Crime Risk The risk of financial loss, member detriment, or reputational damage due to inadequate safeguards against financial crime.	The Bank aims to avoid breaches in financial crime compliance, recognizing that while incidents are unwanted, they cannot be entirely eliminated.

3.5 Principal Risk Owners and Risk Control Owners

The Bank assigns each principal risk category to a dedicated Principal Risk Owner (PRO), who holds responsibility for proactively managing the assigned risk area. PROs oversee Risk Control Owners (RCOs), who are accountable for specific sub-risk types within each category. Together, they ensure comprehensive risk management through a structured and collaborative approach. PROs assign RCOs to each sub-risk type, review and approve risk documentation, policies, and procedures, and ensure that relevant documents are submitted to the RMC and the Bank Board. They also approve Key Risk Indicators (KRIs) for each sub-risk, including thresholds and RAG (Red, Amber, Green) measures, and regularly review risk registers and mitigation plans for risks outside of the Bank's risk appetite.

RCOs support PROs by leading the development of risk documentation and maintaining compliance with policies. They monitor KRIs, assess control effectiveness, and report on risk status to both the PRO and RMC. They are responsible for ensuring relevant staff are trained on risk management practices and for addressing audit and regulatory findings in a timely manner. Together, PROs and RCOs manage emerging risks by monitoring new developments and proposing enhancements, including technological solutions. This collaborative framework, overseen by the RMC, ensures that risks are managed systematically, with clear accountability and alignment to the Bank's risk appetite.

3.6 Three Lines of Defense

The Bank’s risk management approach adheres to the "Three Lines of Defence" model, a best practice framework ensuring comprehensive oversight and assurance in risk management:

FIRST LINE OF DEFENCE	SECOND LINE OF DEFENCE	THIRD LINE OF DEFENCE
represents the core business units and operational functions responsible for understanding and managing the risks in their respective areas. It contains the staff responsible for identifying and managing risk, as part of their accountability for achieving their objectives.	comprises the Risk and Compliance functions who provide independent oversight and challenge of the first line of defence. These functions provide the frameworks, tools and techniques to enable risk and compliance to be managed in the first line, conduct monitoring to judge how effectively they are operating, and help to ensure consistency of definitions and measurement of risk across the Bank.	is provided by the internal audit function (which is currently outsourced to PwC). This sits outside of the risk management processes of the first and second line, with its main role being to ensure that the first two lines are operating effectively. Tasked by (and reporting to) the Audit Committee, it provides an evaluation on the effectiveness of governance, risk management and internal controls to the Board and senior management. Further, it also gives assurance to regulators and external auditors as appropriate.

3.7 Financial Stability: Stress Testing, Capital Adequacy, and Liquidity Strategies

The Bank employs a comprehensive approach to managing capital and liquidity risks, utilising rigorous stress testing, capital adequacy assessments, and liquidity strategies to ensure resilience under adverse conditions and alignment with regulatory expectations and its internal risk appetite.

Stress Testing. The Bank conducts regular stress testing and scenario analysis to evaluate the potential effects of various internal and external factors on its capital and liquidity risks. This process serves as a vital management tool, providing insights into the impact of adverse macroeconomic and specific, idiosyncratic factors on the Bank's liquidity and capital resources. By assessing potential outcomes both before and after implementing management actions, stress testing helps ensure that the Bank remains within its defined risk appetite and proactively drives actions to maintain resilience.

Capital Adequacy. The Bank undertakes an Internal Capital Adequacy Assessment Process (ICAAP), an internal evaluation of its capital needs. ICAAP is designed to identify and assess all material risks—both internal and external—that the Bank faces, providing a comprehensive view of capital adequacy. This process informs decisions related to both regulatory and economic capital requirements, ensuring that the Bank maintains sufficient capital to support its strategic objectives and risk profile.

Liquidity Strategies. To manage liquidity risk, the Bank conducts an annual Internal Liquidity Adequacy Assessment Process (ILAAP), which is reviewed and approved by the Bank Board. A core component of ILAAP is internal stress testing, where the Bank examines 'severe but plausible' scenarios that could lead to significant cash outflows and affect its liquidity position. By measuring liquidity impacts across all defined stress scenarios, the Bank ensures that it holds an adequate volume and quality of liquid assets at all times. The liquidity requirements identified through internal stress testing are monitored and reported to management at least monthly, alongside regulatory Liquidity Coverage Ratio (LCR) stress results, enabling informed and timely decisions to safeguard the Bank's liquidity.

04 Key Metrics

4.1 Key Metrics

The key metrics cover the Bank's available capital, Risk Weighted Amounts (RWAs), Leverage Ratio (LR), Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

AVAILABLE OWN FUNDS	**USD ($)**
Common Equity Tier 1 (CET1) Capital	20,372,708
Tier 1 Capital	20,372,708
Total Capital	**20,372,708**

RISK WEIGHTED EXPOSURE AMOUNT	
Total risk-weighted exposure amount	14,933,538

CAPITAL RATIOS (as a percentage of risk-weighted exposure amount)	
Common Equity Tier 1 ratio (%)	136.42%
Tier 1 ratio (%)	136.42%
Total capital ratio (%)	**136.42%**

ADDITIONAL OWN FUNDS REQUIREMENTS BASED ON SREP (as a percentage of risk-weighted exposure amount)	
Total SREP own funds requirements (%)	8%

COMBINED BUFFER REQUIREMENT (as a percentage of risk-weighted exposure amount)

Capital conservation buffer (%)	2.5%
Combined buffer requirement (%)	2.5%
Overall capital requirements (%)	10.5%
CET1 available after meeting the total SREP own funds requirements (%)	125.9%

LEVERAGE RATIO

Total exposure measure excluding claims on central banks	53,807,564
Leverage ratio excluding claims on central banks (%)	38%

LIQUIDITY COVERAGE RATIO

Total high-quality liquid assets (HQLA) (Weighted value -average)	63,857,136
Cash outflows - Total weighted value	5,939,852
Cash inflows - Total weighted value	4,454,889
Total net cash outflows (adjusted value)	1,484,963
Liquidity coverage ratio (%)	4,300%

NET STABLE FUNDING RATIO

Total available stable funding	62,796,733
Total required stable funding	12,687,299

NSFR ratio (%)	494.96%

4.2 Overview of Risk Weighted Exposure Amounts

Risk-weighted assets (RWA) is a key component in determining overall capital requirements. This table below presents the Bank's RWA and capital requirements per category of risk, calculated as 8% of RWA.

CREDIT RISK	Risk Weighted Exposure USD ($)	Own Fund Requirements USD ($)
Credit Risk	9,728,009	778,241
Of which standardised approach	9,728,009	778,241

MARKET RISK	Risk Weighted Exposure USD ($)	Own Fund Requirements USD ($)
Market Risk	2,693,654	215,492
Of which standardised approach	2,693,654	215,492

OPERATIONAL RISK	Risk Weighted Exposure USD ($)	Own Fund Requirements USD ($)
Operational Risk	2,511,875	200,950
Of which basic indicator approach	2,511,875	200,950

Total	Risk Weighted Exposure USD ($)	Own Fund Requirements USD ($)
Total	14,933,538	1,194,683

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4.3 Composition of Regulatory Own Funds

The regulatory own funds composition for Xapo Bank is provided in the table below.

	USD ($)
COMMON EQUITY TIER 1 (CET1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	
Capital instruments and the related share premium accounts	31,571,886
Retained Earnings	-17,147,132
Accumulated other comprehensive income (and other reserves)	5,947,954
Common Equity Tier 1 (CET1) capital before regulatory adjustments	20,372,708

05 Remuneration Disclosure

As part of our commitment to transparency and in compliance with the requirements outlined in Article 450 of the Regulation (EU) No. 575/2013 as adopted in Gibraltar, this remuneration disclosure outlines Xapo Bank's policies and practices for senior management and staff, including details specific to Code Staff, whose activities have a significant impact on the institution's risk profile. This disclosure has been developed with careful consideration of applicable regulatory requirements and governance principles, ensuring alignment with sound and effective risk management, proportional to Xapo's size, internal organisation, and the nature, scope, and complexity of its activities.

To support our strategic objectives, we conduct performance plans biannually, aligning staff objectives with key priorities and team goals for both the short and long term. Additionally, we provide an annual report on our remuneration policies and practices to ensure ongoing transparency.

Xapo's Remuneration Disclosure aims to attract, motivate, and retain top talent by offering fair salaries and equal career opportunities, regardless of gender, ethnicity, or other unrelated factors. Our remuneration structure aligns with Xapo's risk appetite and long-term strategy, incorporating environmental, social, and governance (ESG) factors.

The Xapo Board is responsible for ensuring that compensation policies comply with regulatory standards and support the Bank's strategic objectives, while overseeing their effective implementation. The Board ensures that remuneration practices incentivize the "right behaviours" as described in Xapo's Code of Conduct and are consistent with sound risk management principles. As the business grows, Xapo will seek to establish a Remuneration Committee to review policies related to remuneration and practices, along with the incentives created for managing risk, capital, and liquidity. In the meantime, these responsibilities fall under the remit of Xapo's VP of People, who ensures that compensation policies comply with Gibraltar´s regulatory standards and support the Bank's strategic objectives. This approach incentivizes the "right behaviours" as described in Xapo's Code of Conduct and aligns with sound risk management principles.

Furthermore, Xapo's remuneration policy mitigates risks related to inappropriate behaviours such as imprudent risk-taking or poor judgement, ensuring that remuneration decisions do not impair the interests of Xapo's Members in the short, medium, or long term. Our remuneration approach maintains an appropriate balance between competitive base salary, pension, benefits, while also considering factors that support our long-term objectives, reflecting both performance and alignment with Xapo's risk tolerance.

	MB Supervisory function	MB Management function	Total
FIXED REMUNERATION			
Number of identified staff	3	7	10
Total fixed remuneration	670,000	1,980,000	2,650,000

VARIABLE REMUNERATION			
Total variable remuneration	-	-	-
Total remuneration	670,000	1,980,000	2,650,000