FJORD BANK

RISK MANAGEMENT AND CAPITAL ADEQUACY REPORT

PILLAR III 2023

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1. INTRODUCTION

Background of the Pillar III

AB Fjord Bank (hereinafter also referred to as "the Bank") prepared Risk Management and Capital Adequacy (Pillar III) Report according to the Capital Requirements Directive IV (CRD IV) (European Parliament and Council Directive 2013/36/EU) and the Capital Requirements Regulation (CRR) (European Parliament and Council Regulation (EU) No 575/2013).

The Risk Management and Capital Adequacy (Pillar III) report complements the Set of Annual Financial Reports with additional information and is intended to be read in conjunction with the Set of Annual Financial Reports, which combined give a good and accurate description of the risk profile of the Bank. The report contains information on risk management, risk measurement, and capital adequacy in accordance with the abovementioned requirements. The objective of the Risk Management and Capital Adequacy Report is to inform shareholders and other stakeholders of the Bank's risk management, including policies, methodologies, and practices.

Risk management and internal control

Risk is inherent to the Bank's activities. It is managed through continuous identification, assessment, monitoring, and control processes.

Risk management is one of the strategic management parts. It is the process whereby the Bank methodically addresses the risks attached to its activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities with an acceptable level of risk. The focus of good risk management is the identification and treatment of these risks. Risk management is based on determinations of risk appetite, risk limits, risk mitigation measures, and continuous controls.

The Risk Management Strategy and Internal Control Policy describes overall risk management and internal control framework, including the concept of the risk, risk strategy, processes, and principles for risk management and internal control system, and is a master risk management and internal control document in the Bank.

The general principles of risk management are laid down in the Risk and Capital Policy. The Management Board is responsible for the implementation of risk management in the Bank. Separate risk management principles specific to the Bank are established in other documents regulating specific risks and their management.

A system of effective internal controls is fundamental to the safe and sound management of the Bank. Effective internal controls help the Bank to protect and enhance shareholders' value and reduce the possibility of unexpected losses or damage to the Bank's reputation.

Internal controls are the policies, procedures, and processes established by the Management Board and senior management to provide reasonable assurance on the safety, effectiveness, and efficiency of the institution's operations, the reliability of financial and managerial reporting, and compliance with regulatory requirements.

Management Board's statement

The Management Board of the Bank confirms that the established internal control framework and the risk management systems are adequate, given the credit institution's profile and strategy. In the opinion of the Management Board, it is necessary to disclose once annually risk management and capital adequacy information according to the Capital Requirements Directives CRR/CRD IV.

The Bank framed risk profile in the risk appetite statement reflecting each material risk type:

- solvency risk;
- credit risk;

- liquidity risk;
- interest rate risk of banking book (IRRBB);
- operational risk;
- compliance on AML risk;
- reputational risk.

The Bank sees a need to enhance in a proportionate manner the incorporation of Environmental, Social and Governance (ESG) risks into the Bank's business strategy, internal control system and risk management framework. The Bank will assess its business sensitivity to ESG risks and based on the results, will incorporate ESG risks into its risk management system.

The Bank's business concept is critically dependent upon an efficient and well-functioning technological platform and related processes. This is a complex task driven by the Bank's need for efficient customer interaction and integration with third-party solutions for financial services. The Bank, therefore, relies heavily on processes and systems delivered or hosted by third parties and on well-functioning integrations between the different systems and processes. Due to the Bank's reliance on digital solutions, the Bank is exposed to the risk of cyber-attacks. Therefore, the Bank pays o lot of attention to information technology security risk management. The protection of the Bank's customer and company data, and customers' trust in the Bank's ability to protect such information, is of key importance to the Bank.

The Management Board of the Bank is committed to adequately addressing all risks the Bank faces in its activities, taking necessary measures to limit possible adverse effects and contributing to the sustainable and profitable Bank's operations in the future.

Approved by the decision of the Management Board of the Bank on March 14th, 2024.

/ digitally signed / Veiko Kandla Chairman of the Management Board	/ digitally signed / Danas Juzėnas Member of the Management Board	/ digitally signed / Kristina Simonovič Member of the Management Board

2. SCOPE OF DISCLOSURE

The table below presents disclosed information in the Pillar III report in conjunction with the Set of Annual Financial Reports.

Table No 1. Disclosure requirements

Disclosure requirements with reference to the CRR Article	Disclosure in the Pillar III report	Disclosure in the Set of Annual Financial Reports
Article 435. Risk Management objectives and policies		p. 29
Article 436. Scope of application		p. 18
Article 437. Own Funds	p. 6-8	p. 34
Article 438. Capital requirements	p. 6-8	
Article 439. Exposure to counterparty credit risk	N/A	N/A
Article 440. Capital buffers	p. 6-7	
Article 441. Indicators of global systemic importance	N/A	N/A
Article 442. Credit risk adjustments	p. 10-13	p. 29-31, 41
Article 443. Unencumbered assets	p. 17	
Article 444. Use of ECAIs	N/A	N/A
Article 445. Exposures to market risk	p. 14	p. 34-36
Article 446. Operational risk	p. 14	p. 35
Article 447. Exposures in equities not included in the trading book	N/A	N/A
Article 448. Exposures to interest rate risk on positions not included in the trading book	p. 14	p. 35
Article 449. Exposures to securitization positions	N/A	N/A
Article 450. Remuneration policy	p. 17-18	p. 37-38
Article 451. Leverage	p. 9	p. 37
Article 452. Use of IRB approach to the credit risk	N/A	N/A
Article 453. Use of credit risk mitigation techniques	N/A	N/A
Article 454. Use of the Advanced Measurement Approaches to operational risk	N/A	N/A
Article 455. Use of Internal Market Risk models	N/A	N/A

3. CAPITAL ADEQUACY

The Bank's objectives are to ensure the Bank's ability to comply with the capital adequacy requirements, the ability to maintain the optimal capital level for the loan portfolio growth and protect against possible risks.

To achieve this aim, the Bank conducts an internal capital adequacy assessment process (ICAAP) which includes the disclosure of risks specific to the Bank and the calculation of the internal capital requirement to cover the assumed risks. The main purpose of the ICAAP is to ensure that the Bank maintains a sufficient capital reserve to cover the most important risks that were not or were partially covered by the amount of supervisory capital.

ICAAP includes the Bank's self-assessment and stress testing processes, and determination of internal capital requirements. ICAAP is carried out regularly, not rarely than once per year. The results are presented in a report that discloses the risks nature, the risk management framework of the Bank, capital adequacy assessment, stressing results, and the main principles of risk assessment and calculations. The ICAAP results are presented to the Management and Supervisory Boards.

In the middle of challenges from the external environment, we are satisfied to see that our third full year of operations brought us as planned a significant increase in business volumes. The rapid growth of lending volumes was accompanied by strong credit quality.

The key drivers for the changes in financial assets and liabilities during the reporting period were the following:

- During the year, the Bank´s operating environment was continuously affected by inflation concerns in the eurozone and globally. Increased market rates had a significant effect on retail deposit interest rates and competition between banks. The deposit portfolio reached EUR 36 459 thousand (EUR 19 715 thousand at the end of 2022), corresponding to an increase of 85%.
- Besides deposits, the Bank finances its activities with equity capital. Despite complicated market conditions, the Bank arranged an earlier planned new equity issue. As a result of the successful process, 27 existing and new investors subscribed for the shares, adding EUR 3 086 thousand of new equity.
- Despite macroeconomic concerns, the customers' lending appetite and credit quality remained strong. This was supported by the resilient labor market, still moderate unemployment rates and rising wages. As planned, the Bank managed to significantly increase its business volumes. The loan portfolio (measured at gross carrying amount) increased by the end of the year to EUR 38 696 thousand (EUR 20 310 thousand at the end of 2022), representing a 91% growth.
- The ratio of non-performing loans amounted at the end of the year to 0,06% (0,05% at the end of 2022) and the total overdue ratio fluctuated between 2 and 4%, being slightly higher compared to the previous year. The Bank continued forward flow debt sales activities with external partners and managed short-term delays in-house. The credit rule set and criteria for issuing new loans did not change significantly during the year.
- The Bank's assets increased to EUR 44 139 thousand compared to EUR 26 272 thousand at the beginning of the reporting period (68% growth).

The table below provides an overview of a Bank's prudential capital adequacy regulatory metrics.

Table No 2. (KM1) Prudential regulatory metrics

in thousands of EUR	Dec 2023	Sep 2023	Jun 2023	Mar 2023	Dec 2022
Available capital (amounts)					
Common Equity Tier 1 (CET1)	4 247	4 541	2 015	2 442	2 959
Tier 1	4 247	4 541	2 015	2 442	2 959
Total capital	4 537	4 831	3 055	3 482	3 999
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	31 000	26 772	23 260	19 877	16 416
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)	13.70%	16.96%	8.66%	12.29%	18.03%
Tier 1 ratio (%)	13.70%	16.96%	8.66%	12.29%	18.03%
Total capital ratio (%)	14.64%	18.04%	13.13%	17.52%	24.36%
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirement (2.5%) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
Countercyclical buffer requirement (%)	1.00%	0.00%	0.00%	0.00%	0.00%
Total of bank CET1 specific buffer requirements (%)	3.50%	2.50%	2.50%	2.50%	2.50%
CET1 available after meeting the bank's minimum capital requirements (%)	9.20%	12.46%	4.16%	7.79%	13.53%
Basel III leverage ratio					
Total Basel III leverage ratio exposure measure	41 500	36 444	35 598	31 012	24 185
Basel III leverage ratio (%) (row 2 / row 13)	10.23%	12.46%	5.66%	7.87%	12.23%
Liquidity Coverage Ratio					
Total high-quality liquid assets (HQLA)	2 313	2 420	3 247	5 227	2 929
Total net cash outflow	477	699	2 750	919	132
LCR (%)	485%	346%	118%	569%	2211%
Net Stable Funding Ratio					
Total available stable funding	39 412	34 559	31 523	29 386	23 087
Total required stable funding	29 601	25 660	22 684	19 251	15 739
NSFR (%)	133%	135%	139%	153%	147%

According to the first tier, the Bank must always meet the following minimum capital requirements: 4.5% Tier 1 capital adequacy ratio, which is common Tier 1 capital expressed as a percentage of the total risk position amount; 6% Tier 1 capital adequacy ratio, which is expressed as total Tier 1 capital as a percentage of the total risk position amount; 8% total capital adequacy ratio, which is the total risk expressed by own funds as a percentage of the position amount; 3% leverage ratio, which is a measure of the total calculated position expressed in Tier 1 capital as a percentage.

In addition to the minimum capital requirements, the Bank must meet the 2.5% capital protection reserve requirement and 1% countercyclical buffer requirement.

The table below presents a reconciliation of Own Funds items and Capital adequacy ratios and buffers.

Table No 3. (CC1) Own Funds items and Capital adequacy ratios and buffers

in thousands of EUR	**31.12.2023**
Common Equity Tier 1 capital: instruments and reserves	
Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	12 606
Retained earnings	(5 729)
Common Equity Tier 1 capital before regulatory adjustments	6 877
Common Equity Tier 1 capital: regulatory adjustments	
Other intangibles other than mortgage servicing rights (MSR) (net of related tax liability)	(1 209)
Deferred tax assets (DTA) that rely on future profitability, excluding those arising from temporary differences	(1 417)
DTA arising from temporary differences	(4)
Total regulatory adjustments to Common Equity Tier 1 capital	(2 630)
Common Equity Tier 1 capital (CET1)	4 247
Additional Tier 1 capital (AT1)	-
Tier 1 capital (T1 = CET1 + AT1)	4 247
Tier 2 capital before regulatory adjustments	290
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital	290
Total regulatory capital (= Tier 1 + Tier2)	4 537
Total risk-weighted assets	31 000
Capital adequacy ratios and buffers	
Common Equity Tier 1 capital (as a percentage of risk-weighted assets)	13.70%
Tier 1 capital (as a percentage of risk-weighted assets)	13.70%
Total capital (as a percentage of risk-weighted assets)	14.64%
Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	3.50%
Of which: capital conservation buffer requirement	2.50%
Of which: bank-specific countercyclical buffer requirement	1.00%
Of which: higher loss absorbency requirement	-
Common Equity Tier 1 capital (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements	9.20%

The table below provides an overview of total risk-weighted assets (RWA) and the minimum capital requirements.

Table No 4. (COV1) RWA and the minimum capital requirements

in thousands of EUR	**Dec 2023**
Risk exposure amount	
Credit risk according to the standardized approach	29 354
Market risk according to the standardized approach	-
Operational risk according to the basic indicator approach	1 646
Total risk exposure amount	**31 000**
Exposure amount for credit risk according to the standardized approach	
Central bank exposure	0
Institutional exposure	8
Retail loans (unsecured) exposure	29 018
Exposures in default	7
Equity	80
Other exposures	241
Total credit risk according to the standardized approach	**29 354**
Exposure amount for market risk according to the standardized approach	
Foreign exchange risk	0
Total market risk according to the standardized approach	**0**
Minimum capital requirement	
Credit risk according to the standardized approach	2 348
Market risk according to the standardized approach	-
Operational risk according to the basic indicator approach	132
Total Minimum capital requirement	**2 480**

The carrying values reported in the financial statement and under the regulatory framework have no significant differences except the deductions from capital under the regulatory framework, which presents intangible assets under development reported as credit risk exposure and debt securities accounting costs. The table below presents a reconciliation of Regulatory capital to the Balance sheet items published in the Set of Annual Financial Reports and the differences between accounting and regulatory frameworks with regulatory risk categories.

Table No 5. (CC2 and LI1) Reconciliation of Balance sheet items

				Carrying values under regulatory framework:			
31/12/2023 In thousands of EUR	**Carrying values as reported in the financial statements**	**Deduction from capital under the regulatory framework**	**Carrying values under the regulatory framework**	**Subject to the credit risk framework**	**Subject to counterparty credit risk framework**	**Subject to the security-sation framework**	**Subject to the market risk framework**
Assets							
Cash balances at central banks	2 491		2 491	2 491			
Cash balances at commercial banks	39		39	39			
Loans and advances to customers	38 696		38 696	38 696			
Investments in associates	32		32	32			
Intangible assets	1 309	(1 209)	99	99			
Tangible assets	101		101	101			
Deferred tax assets	1 421	(1 421)	0				
Other assets	41		41	41			
Total assets	**44 130**	**(2 630)**	**41 500**	**41 500**	**-**	**-**	**-**
Liabilities							
Deposits from customers	36 459		36 459				
Debt securities in issue	287	3	290				
Other liabilities	507		507				
Total liabilities	**37 253**	**3**	**37 256**	**-**	**-**	**-**	**-**
Shareholders' equity							
Paid-in share capital	2 642		2 642				
Share premium	9 964		9 964				
Retained earnings	(5 729)		(5 729)				
Total shareholders' equity	**6 877**	**-**	**6 877**	**-**	**-**	**-**	**-**
Off-balance sheet items	**-**		**-**				

4. LEVERAGE RATIO

The table below provides the reconciliation of the total assets in the published financial statements to the leverage ratio exposure measure.

Table No 6. (LR1) The leverage ratio exposures

In thousands of EUR	Dec 2023
Total consolidated assets as per published financial statements	44 130
Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
Adjustment for securitized exposures that meet the operational requirements for the recognition of risk transference	
Adjustments for temporary exemption of central bank reserves	
Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	
Adjustments for eligible cash pooling transactions	
Adjustments for derivative financial instruments	
Adjustment for securities financing transactions (i.e. repurchase agreements and similar secured lending)	
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	
Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	
Other adjustments	(2 630)
Leverage ratio exposure measure	**41 500**

The table below provides the reconciliation of the total assets in the published financial statements to the leverage ratio exposure measure.

Table No 7. (LR2) The leverage ratio

In thousands of EUR	Dec 2023	Sep 2023
On-balance sheet exposures		
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	44 130	38 967
(Asset amounts deducted in determining Basel III Tier 1 capital)	(2 630)	(2 523)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**41 500**	**36 444**
Derivative exposures		
Total derivative exposures	-	-
Securities financing transaction exposures		
Total securities financing transaction exposures	-	-
Other off-balance sheet exposures		
Off-balance sheet items	-	-
Capital and total exposures		
Tier 1 capital	4 247	4 541
Total exposures	41 500	36 444
Leverage ratio		
Basel III leverage ratio	10.23%	12.46%
National minimum leverage ratio requirement	3.00%	3.00%
Applicable leverage buffers	7.23%	9.46%

5. CREDIT RISK

The maximum risk is equal to the amount receivable less the recognized impairment loss as of the statement of the financial position date.

The table below presents the effect of CRM (credit risk mitigation) on Credit risk standardized approach capital requirements' calculations.

Table No 8. (CR4) The effect of CRM

31/12/2023 In thousands of EUR	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Sovereigns and their central banks	2 491		2 491		0	0%
Non-central government public sector entities						
Multilateral development banks						
Banks	39		39		8	0%
Securities firms						
Corporates						
Regulatory retail portfolios	38 690		38 690		29 018	99%
Equity	32		32		80	0%
Past-due loans [1]	7		7		7	0%
Higher-risk categories						
Other assets	241		241		241	1%
Total	**41 500**	**-**	**41 500**	**-**	**29 354**	**100%**

** Credit conversion factor (CCF)*

The tables below present the breakdown of credit risk exposures under the standardized approach by asset class and risk weight and geographical distribution of credit exposures.

Table No 9. (CR5) The breakdown of credit risk exposures

Risk weight→ / Asset classes↓	0%	10%	20%	35%	50%	75%	100%	250%	Others	Total credit exposures amount (post CCF and post-CRM) *31/12/2023 In thousands of Eur*
Sovereigns and their central banks	2 491									2 491
Non-central government public sector entities										-
Multilateral development banks										-
Banks			39							39
Securities firms										-
Corporates										-
Regulatory retail portfolios						38 690				38 690
Equity								32		32
Past-due loans							7			7
Higher-risk categories										-
Other assets							241			241
Total	**2 491**	**-**	**39**	**-**	**-**	**38 690**	**241**	**32**	**-**	**41 500**

** Credit conversion factor (CCF)*

[1] The past-due loans in the table above correspond to the unsecured portion of any loan past due for more than 90 days.

Table No 10. (CCyB1) Geographical distribution of credit exposures

As of December 31, 2023 (in thousands of EUR):

Geographical breakdown	Countercyclical capital buffer rate	Exposure values and/or risk-weighted assets (RWA) used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate	Countercyclical capital buffer amount
		Exposure values	RWA		
Lithuania (Home)	1.00%	38 146	26 781		
Estonia	1.00%	3 354	2 573		
Total		41 500	29 354	1.00%	310

Allocation of the loan receivables from customers in areas by overdue days is presented in the following table.

Table No 11. The breakdown of overdue exposures

As of December 31, 2023 (in thousands of EUR):

Distribution of loans by overdue days	Gross carrying amount	Expected credit losses (ECL)			Net loans	Impairment coverage, %
		Stage 1	Stage 2	Stage 3		
Not overdue	37 628	(160)	(26)	(3)	37 438	0.5%
0-30 days	948	(8)	(6)	(6)	928	2.1%
31-89 days	372	-	(17)	(33)	322	13.4%
90 days and more	22	-	-	(15)	7	68.2%
Total loans to customers	**38 970**	**(169)**	**(49)**	**(57)**	**38 696**	**0.7%**

The measurement of the provision for expected losses under the general model depends on whether the credit risk has increased significantly since initial recognition. The expected credit losses model has a three-stage approach based on changes in credit risk. Upon initial recognition and when the credit risk has not increased significantly after initial recognition, a provision shall be made for 12-month expected losses, and the financial asset is recognized as Stage 1. Twelve-month expected losses are the losses expected to occur during the instrument's lifetime, but that can be linked to events occurring in the next 12 months. Stage 2 includes financial assets for which the credit risk has increased significantly since initial recognition, but there is no objective evidence of a loss. Stage 3 (in default) of the model includes assets for which the credit risk has increased significantly since initial recognition, and there has been objective evidence of a loss event on the balance sheet date. Similar to Stage 2, the provision for expected losses for Stage 3 is calculated on lifetime expected credit losses with PD equal to 100%. From 180 days overdue the provision for expected losses is constantly increasing to cover all defaulted exposure before the write-off.

Additionally, Stage 2 and Stage 3 includes financial assets for which the credit risk has increased significantly since initial recognition due to the financial difficulties. Forbearance measures are divided into short-period and long-period measures: Short-term: to meet temporary liquidity constraints, e.g., through suspension/reduction of redemption payments, covenant waivers/holidays, etc., with a term of max. 2 years; and long-term: comprehensive settlement of existing arrears and actual reduction of the credit balance. For the receivables classified as performing forborne the probation period is 24 months.

At the end of each reporting date, a significant increase in the credit risk is assumed to occur 30 days past due from the initial recognition of the loan or when significant loss events are identified. The loan at default is considered when a loan is past due 90 days and more or the borrower meets unlikely-to-pay criteria including the significant difficulty of the borrower, bankruptcy, deceased, court proceeding, and other unlikely-to-pay criteria.

The guiding principle of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial assets. ECL are calculated having in mind the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on

its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation. EAD is expressed by assessment of the amounts the Bank expects to be owed at the time of default. The LGD represents expectation of the extent of loss on a defaulted exposure. Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. The assumptions underlying the ECL calculation are monitored and reviewed on a quarterly basis.

The PDs used in the ECL model are divided into classes and the average per class was as follows: class A (low credit risk) 0.5%, class B 1.5%, class C 4.2% and class D 11%. The average LGD calculated in the ECL model for all scenarios was 44% for the Lithuanian market and 45% for the Estonian market.

The Bank calculates the impairment of financial instruments according to the IFRS 9 standard, based on the expected credit loss (ECL) model. Regardless of the quantitative indicator, a significant increase in credit risk is triggered if the following backstop indicators occur: payments are past due >30 days and/or financial assets are forborne (where due to the customer's financial difficulties the contractual terms of the loans have been revised and concessions are given). Defaults are defined as overdrawn amounts of more than 90 days or a situation in which objective evidence exists that indicates a customer will default as a result of a weakening of the debtor's creditworthiness.

Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default. To assess the macroeconomic impact the Bank has developed a model which incorporates developments of the future economic environment in the expected credit loss calculation. The impact of different economic variables (incl. GDP change and unemployment rate) on portfolio PD implemented using regression analysis.

For the macro environment estimation, the Bank uses three scenarios with forward-looking information: baseline scenario (most probable and relevant), upside scenario, and downside scenario.

On 31 December 2023	Upside	Baseline	Downside
Scenario probability weighting	15%	65%	20%

The table below presents the loan impairment changes between the stages that have been observed during the financial year.

Table No 12. Movement of loan allowances/impairment between stages

In thousands of EUR	Stage 1	Stage 2	Stage 3	Total
Amount as at 31.12.2022	(159)	(7)	(10)	(176)
From Stage 1 to Stage 2		(53)		(53)
From Stage 1 and Stage 2 to Stage 3			(52)	(52)
From Stage 2 to Stage 1	11			11
New originated	(221)		-(10)	(231)
Derecognized during the period	93	6	7	106
Changes due to update in the methodology for estimation	114	4		118
Changes due to write-offs			3	3
Amount as at 31.12.2023	(169)	(49)	(57)	(274)

The table below presents a picture of the credit quality of the Bank's assets.

Table No 13. (CR1) The credit quality of assets

31/12/2023 In thousands of EUR	Gross carrying values of		Allowances/ impairments	Of which ECL accounting provisions for credit losses on standardized approach exposures		Net values
	Defaulted exposures	Non-defaulted exposures		Allocated in the regulatory category of Specific	Allocated in the regulatory category of General	
Loans	22	38 948	274	274		38 696
Debt Securities						-
Off-balance sheet exposures						-
Total	**22**	**38 948**	**274**	**274**	**-**	**38 696**

The table below presents the changes in the stock of defaulted loans (no investments into debt securities).

Table No 14. (CR2) Changes in the stock of defaulted loans

In thousands of EUR	
Defaulted loans at end of the previous reporting period	**6**
Loans that have defaulted since the reporting period	27
Returned to non-defaulted status	-
Amounts written off	(3)
Other changes	(14)
Defaulted loans at end of the reporting period	**22**

6. OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or external events. Within the Bank, operational risk management focuses on risks arising from the people, systems, and processes through which the Bank operates. It also includes other classes of risk, such as fraud, legal risks, outsourcing and physical or environmental risks.

In addition to calculating the capital requirement for operational risk based on the standard method, it will be assessed whether the Bank's use of outsourcing requires additional Pillars 2 requirements. The Bank uses the base method to calculate the minimum required capital needed for operational risk. The calculation of the operational risk is part of the ICAAP process as well. The risk appetite, risk tolerance, and early warning limit for operational risk are implemented accordingly.

7. ESG RISK

The Bank developed an action plan which is planned to incorporate into the Bank's risk management and internal control risk framework for the management of Environmental, Social, and Governance (ESG) risks. It should be noted that the Bank has a very narrow product line consisting of loans and deposits for private individuals only and this circumstance impacts the Bank´s options for ESG risk management. The Bank may not be able to have the same variety of options as financial market participants with a much wider specter of products.

The Bank aims to generate long-term value by fostering responsible financial behavior and practices, actively considering the social impact of its business operations, and contributing to a more sustainable future. To do so, the Bank is seeking to identify its role in minimizing the risks and positively contributing to the sustainable development of society. Due to the limited scope and nature of the business and the lack of trusted guidelines on how environmental impact could be quantified for retail consumer exposures, the Bank cannot define carbon emission generation or other measurable targets on its portfolio yet. This will be reviewed once new and reputable guidelines become available. However, in the area of Environmental, Social, and Governance responsible development, the subject to further development in the Bank are sustainable work practices, sustainable cooperation, maintain responsible lending rules, social inclusiveness and equal rights principles.

8. INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Market risk is the risk that the Bank's results or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The purpose of market risk management is to manage the open risk exposures to maximize the return. The Bank was involved in the management of the interest rate risk only, as through the financial year no investments into equity price-related financial instruments were made and all monetary assets and liabilities were held in Euros.

The Bank's interest rate risk is related to the interest rates on a banking book portfolio (IRRBB). The table below provides information on the Bank's changes in the economic value of equity and net interest income under each of the prescribed interest rate shock scenarios.

Table No 15. (IRRBB1) The interest rate shocks

In thousands of EUR	ΔEVE	ΔEVE	ΔNII	ΔNII
Period	**Dec 2023**	**Dec 2022**	**Dec 2023**	**Dec 2022**
Parallel up	(1 023)	(342)	(111)	3
Parallel down	1 142	376	111	(3)
Steepener (shorts down, longs up)	(73)	(30)		
Flattener (shorts up, longs down)	(100)	(30)		
Flattener (shorts up, longs unchanged)	(398)	(128)		
Steepener (shorts down, longs unchanged)	165	53		
Maximum	1 142	376	111	3
Period	**120 months**	**84 months**	**12 months**	**12 months**
Tier 1 capital	4247	2959	4247	2959

9. LIQUIDITY COVERAGE RATIO (LCR)

The table below presents the breakdown of the Bank's cash outflows and cash inflows, as well as its available high-quality liquid assets (HQLA), as measured and defined according to the LCR standard. Data presents as simple averages of daily observations over the Year 2023 last quarter.

Table No 16. (LIQ1) LCR measurement

In thousands of EUR	**Total unweighted value** (average)	**Total weighted value** (average)
High-quality liquid assets		
Total HQLA		**2 389**
Cash outflows		
Retail deposits and deposits from small business customers, of which:	**19 025**	**2 029**
Stable deposits	18 939	2 020
Less stable deposits	86	9
Unsecured wholesale funding, of which:	-	-
Operational deposits (all counterparties) and deposits in networks of cooperative banks		
Non-operational deposits (all counterparties)		
Unsecured debt		
Secured wholesale funding		-
Additional requirements, of which:	-	-
Outflows related to derivative exposures and other collateral requirements		
Outflows related to loss of funding on debt products		
Credit and liquidity facilities		
Other contractual funding obligations	-	-
Other contingent funding obligations	-	-
TOTAL CASH OUTFLOWS		**2 029**
Cash inflows		
Secured lending (e.g. reverse repos)	-	-
Inflows from fully performing exposures	33 796	994
Other cash inflows	137	137
TOTAL CASH INFLOWS	**33 933**	**1 131**
		Total adjusted value
Total HQLA		**2 389**
Total net cash outflows		**545**
Liquidity Coverage Ratio (%)		**438%**

10. NET STABLE FUNDING RATIO (NSFR)

The table below provides details of the Bank's NSFR and selected details of its NSFR components.

Table No 17. (LIQ2) NSFR measurement

	Unweighted value by residual maturity				Dec 2023	Unweighted value by residual maturity				Sep 2023
In thousands of EUR	No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value	No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value
Available stable funding (ASF) item										
Capital:										
Regulatory capital				4 247	4 247				4 541	4 541
Other capital instruments				290	290				290	290
Retail deposits and deposits from small business customers:										
Stable deposits		19 391	12 483	4 487	34 767		14 765	12 279	3 965	29 657
Less stable deposits		98			88		22			20
Wholesale funding:										
Operational deposits					-					
Other wholesale funding					-					
Liabilities with matching interdependent assets										
Other liabilities:										
NSFR derivative liabilities										
All other liabilities and equity not included in the above categories		468	39		20		511	46	28	51
Total ASF					**39 412**					**34 559**
Required stable funding (RSF) item										
Total NSFR high-quality liquid assets (HQLA)	2 135					2 420				
Deposits held at other financial institutions for operational purposes										
Performing loans and securities:										
Performing loans to financial institutions secured by Level 1 HQLA					-					-
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions		39			4		126			13
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:		4 926	4 573	29 144	29 521		4 266	3 994	25 189	25 540
With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk					-					-
Performing residential mortgages, of which:					-					-
With a risk weight of less than or equal to 35% under the Basel II standardized approach for credit risk					-					-
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					-					-
Assets with matching interdependent liabilities										
Other assets:										
Physical traded commodities, including gold					-					-
Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties					-					-
NSFR derivative assets					-					-
NSFR derivative liabilities before deduction of variation margin posted					-					-
All other assets not included in the above categories		93	49		75		108	50	24	106
Off-balance sheet items										
Total RSF					**29 600**					**25 659**
Net Stable Funding Ratio (%)					**133.1**					**134.7**

11. UNENCUMBERED ASSETS

At the reporting date, all the Bank's assets are unencumbered and no collateral in respect of the assets was received. The table below provides details of the Bank's unencumbered assets.

Table No 18. Unencumbered assets.

In thousands of EUR	Carrying amount of encumbered assets	Carrying amount of unencumbered assets	Total
Assets of the reporting institution	**-**	**44 130**	**44 130**
Loans on demand		2 530	2 530
Equity instruments		-	-
Debt securities		-	-
Loans and advances other than loans on demand		38 696	38 696
Other assets		2 904	2 904

12. REMUNERATION POLICY

The Supervisory Board of the Bank approves the Remuneration Policy of the Bank and directly supervises the remuneration rules for the Bank's employees.

The Policy is based on equal pay for male and female employees for equal work or work of equal value and is an integral part of the Bank's corporate strategy and risk management framework. Total remuneration is structured in a way that ensures that it does not expose the Bank to unwanted risk.

Considering the Bank's activities, complexity, size, organizational structure, and risk exposure the bank does not form a Remuneration Committee. The Supervisory Board of the Bank is responsible for establishing the principles of the Policy, the models for calculating variable remuneration, and for the periodic review of the Policy (at least annually), and the Management Board of the Bank is responsible for the implementation of the Policy.

The Bank is committed to all of the following principles in designing, updating and applying the Remuneration framework:

- external competitiveness - in order to attract and retain necessary and motivated Employees, competitive Remuneration corresponding to labour market trends is set to the Employees;

- non-discrimination - Remuneration is determined without discriminating on the basis of an Employee's sex, race, nationality, language, origin, social status, religion, belief or opinion (the Policy is neutral in respect of Employee's sex, race, nationality, language, origin, social status, religion, belief or opinion);

- internal fairness – Employee's assessment is based on the responsibilities assigned to the Employee, the employee's performance, the Employee's competencies, knowledge, experience, skills, etc., and equal remuneration is set for the same work or work of equal value;

- transparency - it must be clear to each Employee how his/her Remuneration is determined;

- flexibility - where there is a need to recruit or retain a key Employee, or to manage risks arising from Employee substitution, turnover, or business continuity, exceptions to this Policy may be made, provided that the principles of Variable remuneration versus Fixed remuneration are upheld.

Remuneration framework consists of fixed remuneration, variable remuneration, share options and additional benefits.

The Remuneration framework is based on the position level, with a Fixed remuneration range and other Remuneration indicators assigned to the specific position level. The position level is determined by assessing

the required competence, qualification, experience, level of responsibility, the authority to make decisions and work complexity.

Variable remuneration is paid to align Employees' individual performance objectives with the long-term interests of the Bank, taking into account current and future risks, to ensure sustainable business development, and to encourage Employees to act with integrity, honesty, transparency and professionalism in a manner that respects clients' rights and interests.

The proportion of Variable remuneration shall not exceed a maximum of 100 percent of the proportion of Fixed remuneration calculated over 1 calendar year, unless the Bank's General Meeting of Shareholders, in accordance with the requirements of the legal acts, raises the maximum ratio of Variable to Fixed remuneration to 200 percent.

Variable annual remuneration may only be granted if the Bank is in a sustainable financial position, and in compliance with legal requirements. When approving the annual budget, the Supervisory Board may decide whether a variable annual remuneration for the coming year shall be applied.

The separate procedures stipulate the provisions for the award of performance fees, dedicated to the respective functions and structural units, which may establish qualitative, quantitative, and other criteria and tasks, the fulfilment of which shall result in the awarding of performance fees to the Employees. The amount of the performance fees shall not exceed 25% of the Employee's Fixed remuneration calculated for the relevant period.

Employees may be paid other allowances (complementary financial incentives), which are given to encourage individual or group activities, the implementation of significant project work, and the performance of additional work functions (besides their official functions).

Table No 19. (REM1, REM2, REM3) Remuneration awarded during the financial year.

2023 In thousand of Euros	**Fixed remuneration**	**Variable remuneration**	**Number of the staff**
All staff	1 086	32	22
Management Board members of the Bank	301	-	3
Staff whose professional activities have a material impact on the Bank's	774	5	11
Other employees	312	27	11

No shares or other shares-linked instruments or other forms of remuneration were accounted for or deferred except the fixed and variable remuneration disclosed in the table above.

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