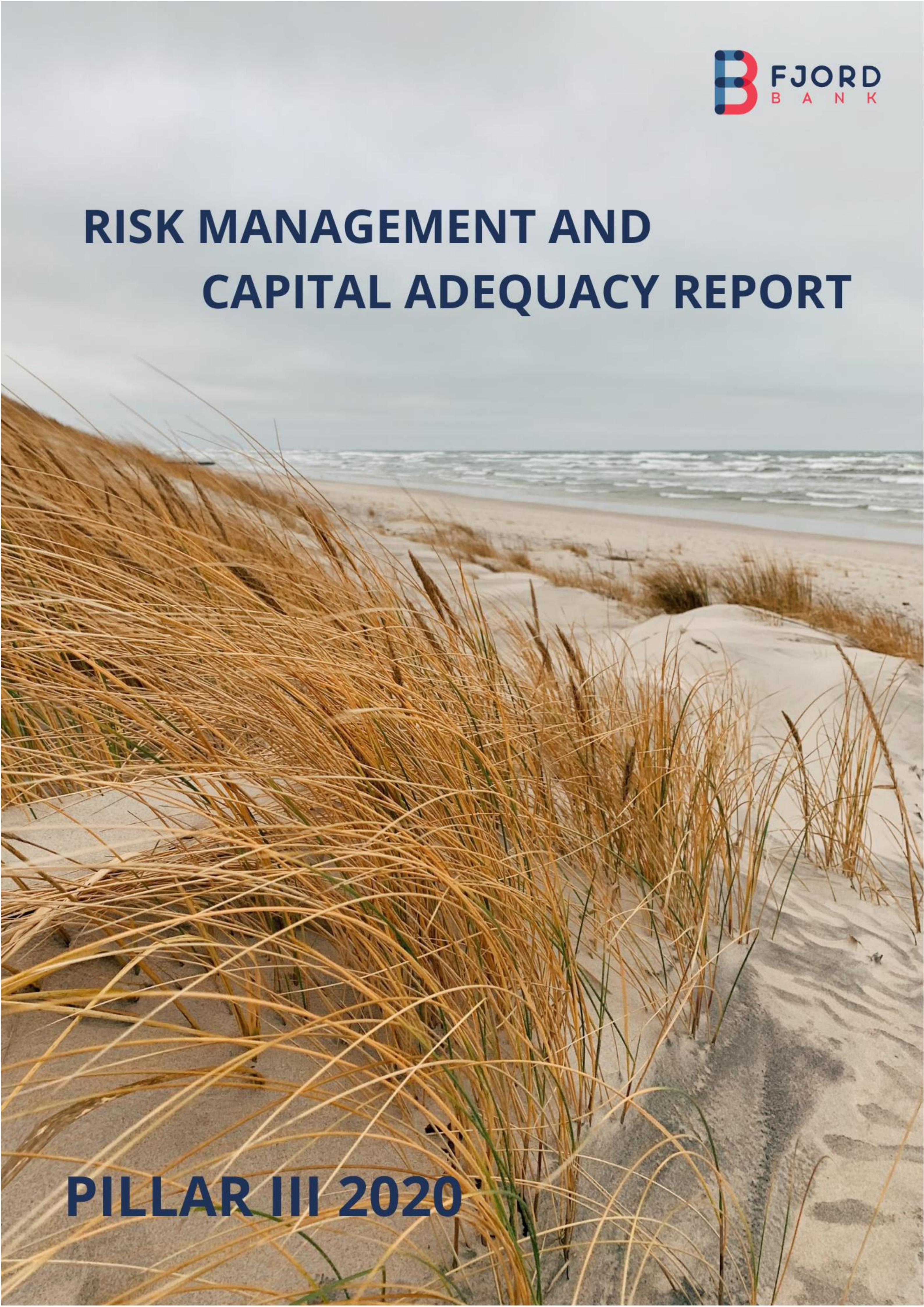

FJORD BANK

RISK MANAGEMENT AND CAPITAL ADEQUACY REPORT

PILLAR III 2020

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1. INTRODUCTION

Background of the Pillar III

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 Annual Financial Report with additional information and is intended to be read in conjunction with the Annual Financial Report, 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 Risk Management and Capital Adequacy report is to inform shareholders and other stakeholders of the Bank's risk management, including policies, methodologies, and practices.

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 is of the opinion, strategic and business risk for the Bank in the next two -three years will be in equal importance as those classical. Expansion, growing operations, competition, new vendors and high degree of digitalization of operations requires careful operational excellence of the Bank with adequate knowledge of consumer market and local regulations. The realization of any of the foregoing risks may have a material adverse effect on the Bank's business, prospects, financial condition, results of operations or cash flows.

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 rely 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 risk of cyber-attacks. The protection of the Bank's customer and company data, and customers' trust in the Bank ability to protect such information, is key importance to the Bank.

The Management Board of the Bank is committed to address adequately all risks the bank face in its activities, take necessary measures to limit possible adverse effect which will lead to sustainable and profitable banks operations in the future.

Approved by the decision of the Management Board of AB Fjord Bank on March 16th, 2021.

/ digitally signed /	/ digitally signed /	/ digitally signed /
Veiko Kandla	Danas Juzėnas	Mindaugas Varnas
Chairman of the Management Board	Member of the Management Board	Member of the Management Board

2. SCOPE OF DISCLOSURE

The table below presents disclosed information in the Pillar III report in conjunction with the Annual report.

Table No 1. Disclosure requirements

Disclosure requirements with reference to the CRR Article	Disclosure in the Pillar III report	Disclosure in the Annual Report
Article 435. Risk Management objectives and policies		p. 26
Article 436. Scope of application		p. 15
Article 437. Own Funds	p. 5	p. 20
Article 438. Capital requirements	p. 5	
Article 439. Exposure to counterparty credit risk	N/A	N/A
Article 440. Capital buffers	p. 5	
Article 441. Indicators of global systemic importance	N/A	N/A
Article 442. Credit risk adjustments	p. 8	p. 27, 34
Article 443. Unencumbered assets	p. 12	
Article 444. Use of ECAIs	N/A	N/A
Article 445. Exposures to market risk	p. 6	
Article 446. Operational risk	p. 10	p. 30
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. 10	p. 29
Article 449. Exposures to securitization positions	N/A	N/A
Article 451. Leverage	p. 7	
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

All Bank's exposures are limited to the residents of the Republic of Lithuania. Accordingly, an overview of the geographical distribution of the requirements such as credit exposures relevant for the calculation of the bank's countercyclical capital buffer or an additional disclosure related to the breakdown of exposures by geographical areas is not provided.

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.

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 2020	Sep 2020	Jun 2020
Available capital (amounts)			
Common Equity Tier 1 (CET1)	1 178	1 538	1 896
Tier 1	1 178	1 538	1 896
Total capital	1 178	1 538	1 896
Risk-weighted assets (amounts)			
Total risk-weighted assets (RWA)	878	1 086	975
Risk-based capital ratios as a percentage of RWA			
Common Equity Tier 1 ratio (%)	134,17%	141,62%	194,46%
Tier 1 ratio (%)	134,17%	141,62%	194,46%
Total capital ratio (%)	134,17%	141,62%	194,46%
Additional CET1 buffer requirements as a percentage of RWA			
Capital conservation buffer requirement (2.5%) (%)	2,50%	2,50%	2,50%
Countercyclical buffer requirement (%)	0,00%	0,00%	0,00%
Total of bank CET1 specific buffer requirements (%)	2,50%	2,50%	2,50%
CET1 available after meeting the bank's minimum capital requirements (%)	129,67%	137,12%	189,96%
Basel III leverage ratio			
Total Basel III leverage ratio exposure measure	3344	3105	2324
Basel III leverage ratio (%) (row 2 / row 13)	35,23%	49,53%	81,58%
Liquidity Coverage Ratio			
Total high-quality liquid assets (HQLA)	1834	1238	880
Total net cash outflow	25	9	0
LCR (%)	7213%	13241%	3520000%
Net Stable Funding Ratio			
Total available stable funding	2153	1891	1896
Total required stable funding	54	13	-
NSFR	3976%	15022%	-

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	**31.12.2020**
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	4252
Retained earnings	(1919)
Common Equity Tier 1 capital before regulatory adjustments	2333
Common Equity Tier 1 capital: regulatory adjustments	
Other intangibles other than mortgage servicing rights (MSR) (net of related tax liability)	(825)
Deferred tax assets (DTA) that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	(330)
Total regulatory adjustments to Common Equity Tier 1 capital	(1155)
Common Equity Tier 1 capital (CET1)	1178
Additional Tier 1 capital (AT1)	-
Tier 1 capital (T1 = CET1 + AT1)	1178
Tier 2 capital	-
Total regulatory capital (= Tier 1 + Tier2)	1178
Total risk-weighted assets	878
Capital adequacy ratios and buffers	
Common Equity Tier 1 capital (as a percentage of risk-weighted assets)	134,17%
Tier 1 capital (as a percentage of risk-weighted assets)	134,17%
Total capital (as a percentage of risk-weighted assets)	134,17%
Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	2,50%
Of which: capital conservation buffer requirement	2,50%
Of which: bank-specific countercyclical buffer requirement	0,00%
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	129,67%

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 2020**
Risk exposure amount	
Credit risk according to the standartised approach	581
Market risk according to the standartised approach	-
Operational risk according to basic indicator approach	297
Total risk exposure amount	**878**
Exposure amount for credit risk according to the standartised approach	
Central bank exposure	0
Institutional exposure	229
Retail loans (unsecured) exposure	41
Exposures in default	-
Other exposures	311
Total credit risk according to the standartised approach	**581**
Exposure amount for market risk according to the standartised approach	
Foreign exchange risk	0
Total market risk according to the standartised approach	**0**
Minimum capital requirement	
Credit risk according to the standartised approach	46
Market risk according to the standartised approach	0
Operational risk according to basic indicator approach	24
Total Minimum capital requirement	**70**

The carrying values reported in the financial statement and under the regulatory framework have no differences except the deductions from capital under the regulatory framework.

The table below presents a reconciliation of Regulatory capital to the Balance sheet items published in the Annual report, 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:			
31/12/2020 In thousands of euros	**Carrying values as reported in the financial statements**	**Deduction from capital under regulatory framework**	**Carrying values under regulatory framework**	**Subject to credit risk framework**	**Subject to counterparty credit risk framework**	**Subject to the securitisation framework**	**Subject to the market risk framework**
Assets							
Cash balances at central banks	1834		1834	1834			
Cash balances at commercial banks	1145		1145	1145			
Loans and advances to customers	54		54	54			
Intangible assets	825	(825)	-				
Tangible assets	291		291	291			
Deferred tax assets	330	(330)	-				
Other assets	20		20	20			
Total assets	**4499**	**(1155)**	**3344**	**3344**	**-**	**-**	**-**
Liabilities							
Deposits from customers	1016		1016				
Other liabilities	381		381				
Total liabilities	**1397**		**1397**	**-**	**-**	**-**	**-**
Shareholders' equity							
Paid-in share capital	1314	(130)	1184				
Share premium	3707	(639)	3068				
Retained earnings	(1919)		(1919)				
Total shareholders' equity	**3102**	**(769)**	**2333**	**-**	**-**	**-**	**-**
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 2020**
Total consolidated assets as per published financial statements	4499
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 fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
Adjustments for derivative financial instruments	-
Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
Other adjustments	(1155)
Leverage ratio exposure measure	**3344**

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 2020*	*Sep 2020*
On-balance sheet exposures		
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	4499	4185
(Asset amounts deducted in determining Basel III Tier 1 capital)	(1155)	(1080)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**3344**	**3105**
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	1178	1538
Total exposures	3344	3105
Leverage ratio		
Basel III leverage ratio	35,23%	49,53%

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

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	1834		1834		0	0%
Non-central government public sector entities						
Multilateral development banks						
Banks	1145		1145		229	39%
Securities firms						
Corporates						
Regulatory retail portfolios	54		54		41	7%
Equity						
Past-due loans [1]						
Higher-risk categories						
Other assets	311		311		311	54%
Total	**3344**	-	**3344**	-	**581**	100 %

** 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.

The table below presents the breakdown of credit risk exposures under the standardized approach by asset class and risk weight.

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

Risk weight→ / Asset classes↓	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM) *In thousands of Eur*
Sovereigns and their central banks	1834									1834
Non-central government public sector entities										-
Multilateral development banks										-
Banks			1145							1145
Securities firms										-
Corporates										-
Regulatory retail portfolios						54				54
Equity										-
Past-due loans										-
Higher-risk categories										-
Other assets							311			311
Total	**1834**	**-**	**1145**	**-**	**-**	**54**	**311**	**-**	**-**	**3344**

** Credit conversion factor (CCF)*

Allocation of the loan receivables from customers in areas by overdue days are presented in the following table. No changes between the stages have been observed during the financial year.

Table No 10. (CR5) The breakdown of overdue exposures

As of December 31, 2020 (in thousands of Eur):

Distribution of loans by overdue days	Gross loans	Expected credit losses (ECL)			Net loans	Impairment coverage, %
		Stage 1	Stage 2	Stage 3		
Not overdue	52	(2)	-	-	50	3.3%
0-30 days	4	(0)	-	-	4	4.9%
31-89 days	-	-	-	-	-	-
90 days and more	-	-	-	-	-	-
Total loans to customers	**56**	**(2)**	**-**	**-**	**54**	**3.4%**

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-stages based on changes in the 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.

The significant increase in the credit risk is assumed to occur at 30 days past due from the initial recognition of the loan. The loan at default is considered when a loan is past due >90 days or it is unlikely that the borrower will meet its obligations, or other there is evidence of other financial difficulty such as bankruptcy, decease, court proceeding, and other unlikely to pay criteria.

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

Table No 11. (CR1) The credit quality of assets

In thousands of Eur	Gross carrying values of		Allowances/ impairments	Of which ECL accounting provisions for credit losses on standardised approach exposures		Net values
	Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
Loans		56	2	2		54
Debt Securities						-
Off-balance sheet exposures						-
Total	-	**56**	**2**	**2**	-	**54**

The expected credit losses are adjusted by forecasted economic developments. For the macro environment outlook and forecasts, the Bank uses three scenarios with forward-looking information: baseline scenario (most probable and real), upside scenario, and downside scenario. As of the end of 2020, the baseline scenario was estimated with a likelihood of 60%, downside scenario with a likelihood of 25%, and upside scenario with a likelihood of 15%. The expected credit loss model's necessary parameters as the probability of default, loss given default, and exposure at default for the calculation of allowances are based on the historical validated data from risk scoring service providers and the Bank's management's estimations. Loan provisioning are calculated on an individual level depending on the probability of default.

At the end of the Year 2020, the Bank has no defaulted loans in the Loan portfolio and accordingly disclosure on the changes in the amounts of defaulted exposures and movement between defaulted and non-defaulted loans is not presented in the report.

6. OPERATIONAL RISK

The Bank uses the base indicator method to calculate the minimum required capital need 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.

There were no significant operational events in 2020 and no losses were incurred, and operational risk during 2020 has been in accordance with the risk appetite set by the Supervisory Board. Information security and IT operations are considered to be the most significant operational risk areas. The development and implementation of risk-mitigation measures in these areas has therefore had particularly high priority.

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

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 economic value of equity and net interest income under each of the prescribed interest rate shock scenarios.

Table No 13. (IRRBB1) The interest rate shocks

In thousands of Eur	**ΔEVE**	**ΔNII**
Period	**Dec 2020**	**Dec 2020**
Parallel up	42	57
Parallel down	(45)	(57)
Steepener (shorts down, longs up)	(12)	
Flattener (shorts up, longs down)	19	
Flattener (shorts up, longs unchanged)	30	
Steepener (shorts down, longs unchanged)	(12)	
Maximum	45	57
Period	**60 months**	**12 months**
Tier 1 capital	1177	

8. LIQUIDITY COVERAGE RATIO (LCR)

The table below presents the breakdown of a 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.

Table No 14. (LIQ1) LCR measurement

In thousands of Eur	**Total unweighted value** (average)	**Total weighted value** (average)
High-quality liquid assets		
Total HQLA		1834
Cash outflows		
Retail deposits and deposits from small business customers, of which:	**1017**	**102**
Stable deposits		
Less stable deposits	1017	102
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		**102**
Cash inflows		
Secured lending (e.g. reverse repos)	**-**	**-**
Inflows from fully performing exposures	**54**	**27**
Other cash inflows	**1145**	**1145**
TOTAL CASH INFLOWS	**1199**	**1172**
		Total adjusted value
Total HQLA		**1834**
Total net cash outflows		**25,425**
Liquidity Coverage Ratio (%)		**7213%**

9. NET STABLE FUNDING RATIO (NSFR)

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

Table No 15. (LIQ2) NSFR measurement

In thousands of Eur	Unweighted value by residual maturity				Weighted value
	No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
Available stable funding (ASF) item					
Capital:					
Regulatory capital				1178	1178
Other capital instruments					-
Retail deposits and deposits from small business customers:					
Stable deposits					-
Less stable deposits			412	604	975
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		151	32	198	-
Total ASF					**2153**
Required stable funding (RSF) item					
Total NSFR high-quality liquid assets (HQLA)	1834				
Deposits held at other financial institutions for operational purposes	1145				
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					-
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:		7	7	40	54
With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk		-	-	-	-
Performing residential mortgages, of which:					-
With a risk weight of less than or equal to 35% under the Basel II standardised 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		53	36	222	-
Off-balance sheet items					
Total RSF					**54**
Net Stable Funding Ratio (%)					**3976%**

10. 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 a Bank's unencumbered assets.

Table No 16. Unencumbered assets.

In thousands of Eur	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets of the reporting institution	**-**	**-**	**4499**	**-**
Loans on demand			2979	
Equity instruments			-	
Debt securities			-	
Loans and advances other than loans on demand			54	
Other assets			1466	

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