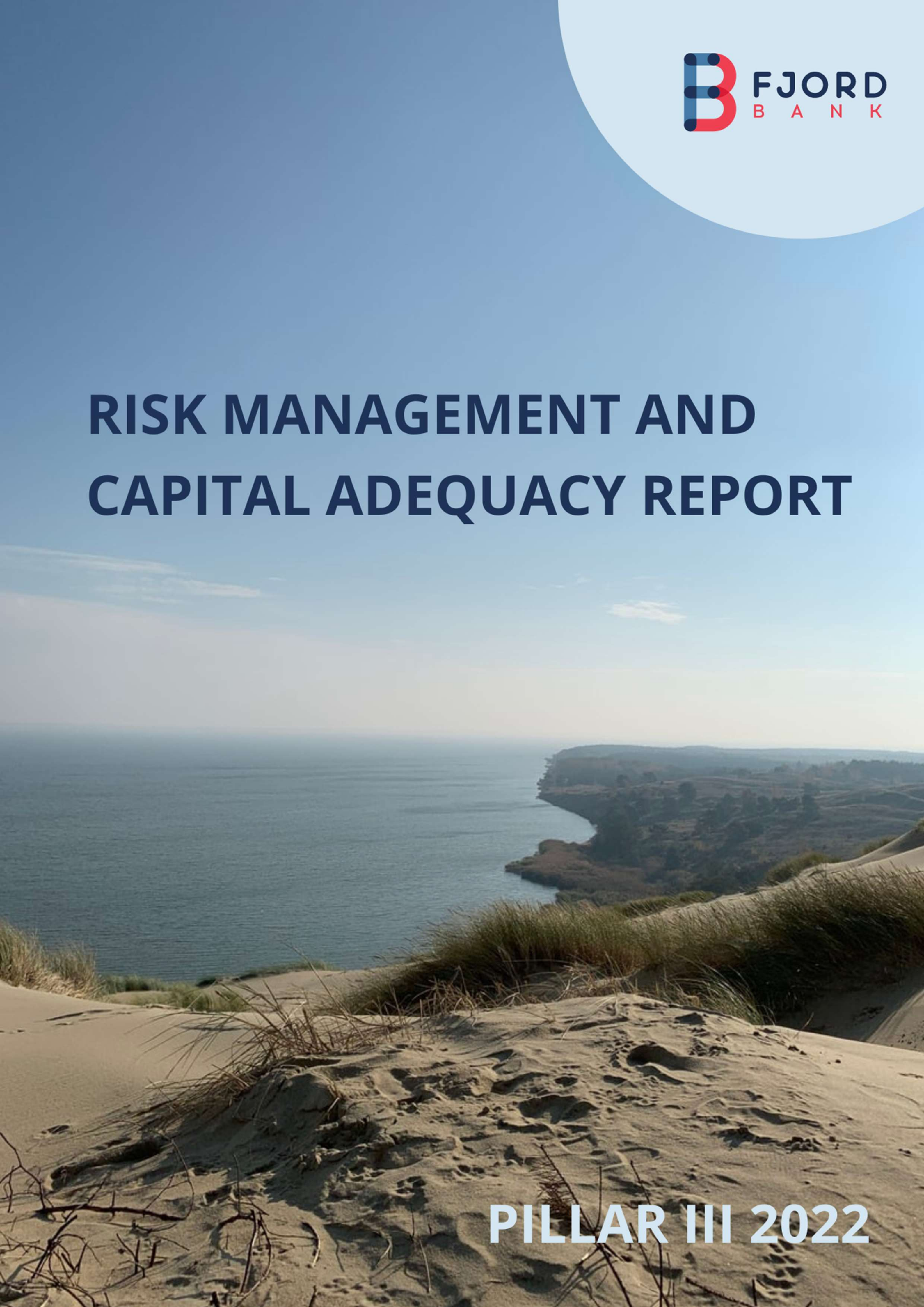
FJORD BANK



RISK MANAGEMENT AND CAPITAL ADEQUACY REPORT

PILLAR III 2022

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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 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 9th, 2023.

/ digitally signed /	/ digitally signed /
Veiko Kandla	Danas Juzėnas
Chairman 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 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. 30
Article 436. Scope of application		p. 18
Article 437. Own Funds	p. 6-7	p. 35
Article 438. Capital requirements	p. 7	
Article 439. Exposure to counterparty credit risk	N/A	N/A
Article 440. Capital buffers	p. 6	
Article 441. Indicators of global systemic importance	N/A	N/A
Article 442. Credit risk adjustments	p. 9-12	p. 30-32, 39
Article 443. Unencumbered assets	p. 16	
Article 444. Use of ECAIs	N/A	N/A
Article 445. Exposures to market risk	p. 7	p. 34-35
Article 446. Operational risk	p. 13	p. 36
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. 13	p. 34
Article 449. Exposures to securitization positions	N/A	N/A
Article 451. Leverage	p. 8-9	p. 36
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 Management and Supervisory Boards.

In the middle of challenges from the external environment, we are satisfied to see that our second 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 such:

- The Bank's assets increased to EUR 26 265 thousand compared to EUR 11 682 thousand at the beginning of the reporting period (125% growth).
- The total gross carrying amount loan portfolio amounted at the end of the year to EUR 20 486 thousand (EUR 5 948 thousand at the end of 2021), representing a 247% growth. The Bank exceeded its annual sales targets by 12%.
- After a significant annual increase, the deposit portfolio reached EUR 19 715 thousand (EUR 4 758 thousand at the end of 2021), corresponding to an increase of 314%.
- While the capital markets have been stressed and raising new capital is complicated for any market participant, the Bank completed in December 2022 a non-public subordinated note issue, which was offered to selected investors. The investors subscribed notes in the aggregated amount of EUR 1 040 thousand. 10-year notes with an 11% coupon rate and quarterly interest payment will complement the Bank´s Tier 2 capital.

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 2022	Sep 2022	Jun 2022	Mar 2022	Dec 2021
Available capital (amounts)					
Common Equity Tier 1 (CET1)	2 959	3 463	3 878	4 419	4 910
Tier 1	2 959	3 463	3 878	4 419	4 910
Total capital	3 999	3 463	3 878	4 419	4 910
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	16 416	13 544	10 277	7 055	5 291
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)	18,03%	25,57%	37,74%	62,64%	92,80%
Tier 1 ratio (%)	18,03%	25,57%	37,74%	62,64%	92,80%
Total capital ratio (%)	24,36%	25,57%	37,74%	62,64%	92,80%
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 (%)	0,00%	0,00%	0,00%	0,00%	0,00%
Total of bank CET1 specific buffer requirements (%)	2,50%	2,50%	2,50%	2,50%	2,50%
CET1 available after meeting the bank's minimum capital requirements (%)	13,53%	21,07%	33,24%	58,14%	88,30%
Basel III leverage ratio					
Total Basel III leverage ratio exposure measure	24 185	19 573	14 464	11 050	10 080
Basel III leverage ratio (%) (row 2 / row 13)	12,23%	17,69%	26,81%	39,99%	48,71%
Liquidity Coverage Ratio					
Total high-quality liquid assets (HQLA)	2 929	1 935	903	1 169	2 008
Total net cash outflow	132	87	157	70	60
LCR (%)	2211%	2231%	576%	1671%	3361%
Net Stable Funding Ratio					
Total available stable funding	23 087	18 530	13 544	10 359	9 584
Total required stable funding	15 739	13 047	9 892	6 759	4 894
NSFR (%)	147%	142%	137%	153%	196%

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.

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	**31.12.2022**
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	9 697
Retained earnings	(4 658)
Common Equity Tier 1 capital before regulatory adjustments	5 039
Common Equity Tier 1 capital: regulatory adjustments	
Other intangibles other than mortgage servicing rights (MSR) (net of related tax liability)	(1 020)
Deferred tax assets (DTA) that rely on future profitability, excluding those arising from temporary differences	(1 057)
DTA arising from temporary differences	(3)
Total regulatory adjustments to Common Equity Tier 1 capital	(2 080)
Common Equity Tier 1 capital (CET1)	2 959
Additional Tier 1 capital (AT1)	-
Tier 1 capital (T1 = CET1 + AT1)	2 959
Tier 2 capital before regulatory adjustments	1 040
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital	1 040
Total regulatory capital (= Tier 1 + Tier2)	3 999
Total risk-weighted assets	16 416
Capital adequacy ratios and buffers	
Common Equity Tier 1 capital (as a percentage of risk-weighted assets)	18,03%
Tier 1 capital (as a percentage of risk-weighted assets)	18,03%
Total capital (as a percentage of risk-weighted assets)	24,36%
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	13,53%

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 2022**
Risk exposure amount	
Credit risk according to the standardized approach	15 640
Market risk according to the standardized approach	-
Operational risk according to the basic indicator approach	776
Total risk exposure amount	**16 416**
Exposure amount for credit risk according to the standardized approach	
Central bank exposure	0
Institutional exposure	134
Retail loans (unsecured) exposure	15 232
Exposures in default	1
Other exposures	213
Total credit risk according to the standardized approach	**15 640**
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	1 251
Market risk according to the standardized approach	-
Operational risk according to the basic indicator approach	62
Total Minimum capital requirement	**1 313**

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 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:			
31/12/2022 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	2 966		2 966	2 966			
Cash balances at commercial banks	672		672	672			
Loans and advances to customers	20 310		20 310	20 310			
Investments in associates and joint ventures	24		24	24			
Intangible assets	1 020	(1 020)	0				
Tangible assets	183		183	183			
Deferred tax assets	1 060	(1 060)	0				
Other assets	30		30	30			
Total assets	**26 265**	**(2 080)**	**24 185**	**24 185**	**-**	**-**	**-**
Liabilities							
Deposits from customers	19 715		19 715				
Debt securities in issue	1 028	12	1 040				
Other liabilities	483		483				
Total liabilities	**21 226**	**12**	**21 238**	**-**	**-**	**-**	**-**
Shareholders' equity							
Paid-in share capital	2 135		2 135				
Share premium	7 562		7 562				
Retained earnings	(4 658)		(4 658)				
Total shareholders' equity	**5 039**	**-**	**5 039**	**-**	**-**	**-**	**-**
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 2022**
Total consolidated assets as per published financial statements	26 265
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 recognized 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	(2 080)
Leverage ratio exposure measure	**24 185**

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 2022	Sep 2022
On-balance sheet exposures		
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	26 265	21 564
(Asset amounts deducted in determining Basel III Tier 1 capital)	(2 080)	(1 991)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**24 185**	**19 573**
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	2 959	3 463
Total exposures	24 185	19 573
Leverage ratio		
Basel III leverage ratio	12,23%	17,69%

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

31/12/2022 *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	2 966		2 966		0	0%
Non-central government public sector entities						
Multilateral development banks						
Banks	672		672		134	1%
Securities firms						
Corporates						
Regulatory retail portfolios	20 304		20 304		15 232	97%
Equity	24		24		60	0%
Past-due loans [1]	6		6		1	0%
Higher-risk categories						
Other assets	213		213		213	1%
Total	**24 185**	-	**24 185**	-	**15 640**	**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 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%	150%	Others	**Total** credit exposures amount (post CCF and post-CRM) *31/12/2022 In thousands of Eur*
Sovereigns and their central banks	2 966									2 966
Non-central government public sector entities										-
Multilateral development banks										-
Banks			672							672
Securities firms										-
Corporates										-
Regulatory retail portfolios						20 304				20 304
Equity								24		24
Past-due loans							6			6
Higher-risk categories										-
Other assets							213			213
Total	**2 966**	**-**	**672**	**-**	**-**	**20 304**	**219**	**24**	**-**	**24 185**

** Credit conversion factor (CCF)*

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

As of December 31, 2022 (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)	0,00	23964	17973		
Estonia	0,00	221	166		
Total		24185	18139	0,00	0,00

Allocation of the loan receivables from customers in areas by overdue days is presented in the following table. The loan receivables do not include acquisition costs which are accounted for according to IFRS 9 requirements but are not related to the credit risk.

Table No 11. The breakdown of overdue exposures

As of December 31, 2022 (in thousands of EUR):

Distribution of loans by overdue days	Gross carrying amount	Expected credit losses (ECL) Stage 1	Stage 2	Stage 3	Net loans	Impairment coverage, %
Not overdue	19 093	(155)	-	(5)	18 933	0.8%
0-30 days	291	(4)	-	-	287	1.4%
31-89 days	119	-	(7)	-	112	5.9%
90 days and more	6	-	-	(5)	1	83.3%
Total loans to customers	**19 509**	**(159)**	**(7)**	**(10)**	**19 333**	**0.9%**

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.

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 is 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 an assessment of the amounts the Bank expects to be owed at the time of default. The LGD represents an 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 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 data from risk-scoring service providers and the management estimations. The PD used in the ECL model is split into the grades and on average were as follows: A grade (low credit risk) 0.5%, B grade 1.5%, C grade 4%, and D grade 10.6%. The average estimated LGD used in scenarios was 45% for the Lithuanian market and 75% for the Estonian market (higher due to the start of operations in this market). Allowances for loans to customers are calculated on an individual level depending on the probability of default.

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.

At 31 December 2022	Upside	Baseline	Downside
Scenario probability weighting	15%	60%	25%

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 31.12.2021	(72)	(1)	(14)	(87)
From Stage 1 to Stage 2		(9)		(3)
From Stage 1 and Stage 2 to Stage 3			(27)	(15)
From Stage 2 to Stage 1	3			3
New originated	(194)			(194)
Derecognized during the period	49	3	31	83
Changes due to update in the methodology for estimation	55			55
Amount as at 31.12.2022	(159)	(7)	(10)	(176)

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

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

31/12/2022 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	6	20 480	176	176		20 310
Debt Securities						-
Off-balance sheet exposures						-
Total	**6**	**20 480**	**176**	**176**	**-**	**20 310**

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	**19**
Loans that have defaulted since the reporting period	28
Returned to non-defaulted status	-
Amounts written off	-
Other changes	(41)
Defaulted loans at end of the reporting period	**6**

During the year 2022, the Bank concluded one-off and forward-flow debt sales agreements. The one-off agreement was related to the non-performing loans and according to such agreement, the Bank sold all non-performing loans portfolio to the debt management company. According to the forward-flow agreement the Bank sells loans that are more than 75 days overdue with no obligation to repurchase (except for fraud or death of the customer). The difference between pre-transaction and post-transaction loan carrying amount is recognized in the income statement and the total amount of the loan is derecognized from the statement of financial position.

6. OPERATIONAL RISK

The Bank uses the base indicator 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.

There were no significant operational events in 2022 and no losses were incurred, and operational risk during 2022 has been in accordance with the risk appetite. 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 have 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 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 2022**	**Dec 2021**	**Dec 2022**	**Dec 2021**
Parallel up	(342)	(180)	3	67
Parallel down	376	203	(3)	(67)
Steepener (shorts down, longs up)	(30)	(19)		
Flattener (shorts up, longs down)	(30)	(12)		
Flattener (shorts up, longs unchanged)	(128)	(65)		
Steepener (shorts down, longs unchanged)	53	27		
Maximum	376	203	3	67
Period	**84 months**	**84 months**	**12 months**	**12 months**
Tier 1 capital	2959	4910	2959	4910

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 16. (LIQ1) LCR measurement

In thousands of EUR	**Total unweighted value** (average)	**Total weighted value** (average)
High-quality liquid assets		
Total HQLA		**2 367**
Cash outflows		
Retail deposits and deposits from small business customers, of which:	**17 809**	**890**
Stable deposits	17 809	890
Less stable deposits	-	-
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		**890**
Cash inflows		
Secured lending (e.g. reverse repos)	-	-
Inflows from fully performing exposures	17 905	8 953
Other cash inflows	597	597
TOTAL CASH INFLOWS	**18 502**	**9 550**
		Total adjusted value
Total HQLA		**2 367**
Total net cash outflows		**223**
Liquidity Coverage Ratio (%)		**1063%**

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 17. (LIQ2) NSFR measurement

	Unweighted value by residual maturity				Dec 2022	Unweighted value by residual maturity				Sep 2022
In thousands of EUR	No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weigh-ted value	No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weigh-ted value
Available stable funding (ASF) item										
Capital:										
Regulatory capital				3 999	3 999				3 464	3 464
Other capital instruments					-					
Retail deposits and deposits from small business customers:										
Stable deposits		9 361	5 324	5 030	18 981		5 740	6 065	3 719	14 934
Less stable deposits					-					-
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		347	58	78	107		433	42	111	132
Total ASF					**23 087**					**18 530**
Required stable funding (RSF) item										
Total NSFR high-quality liquid assets (HQLA)	2 929					1 935				
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		672			67		649			65
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:		2 543	2 385	15 366	15 525		2 050	1 937	12 722	12 807
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		71	45	88	147		85	46	109	175
Off-balance sheet items										
Total RSF					**15 739**					**13 047**
Net Stable Funding Ratio (%)					**146.7**					**142.0**

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 18. Unencumbered assets.

In thousands of EUR	Carrying amount of encumbered assets	The fair value of encumbered assets	Carrying amount of unencumbered assets	The fair value of unencumbered assets
Assets of the reporting institution	**-**	**-**	**26 265**	**-**
Loans on demand			3 638	
Equity instruments			-	
Debt securities			-	
Loans and advances other than loans on demand			20 310	
Other assets			2 317	

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