RISK MANAGEMENT AND CAPITAL ADEQUACY REPORT

PILLAR III 2024

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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 and profitability. 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.

Risks are mitigated by setting internal limits, regulating and documenting operational processes, defining responsibilities, implementing additional risk-reducing internal control measures, and using the double-checking principle.

In order to manage risks with the aim of reducing potential losses in the future, an annual risk self-assessment is performed, operational risk events are recorded and analyzed, which are registered in the database, and the four-eyes control principle is implemented when making decisions and entering operations in which possible errors are unacceptable.

As the geopolitical environment changes, more resources are being allocated to maintaining the reliability and security of information systems.

Starting from 2022, the Bank has started to integrate environmental, social, and governance (ESG) risks into its processes.

The general principles of risk management are laid down in the Risk Management Strategy and Internal Control 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 appetite and limits in the Risk and Capital Policy 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 assesses its business sensitivity to ESG risks every year and based on the results, incorporates 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 20th, 2025.

/ digitally signed /	/ digitally signed /	/ digitally signed /
Veiko Kandla	Danas Juzėnas	Kristina Simonovič
Chairman	Member	Member
of the Management Board	of the Management Board	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. 31
Article 436. Scope of application		p. 19
Article 437. Own Funds	p. 5-9	p. 37
Article 438. Capital requirements	p. 5-9	
Article 439. Exposure to counterparty credit risk	N/A	N/A
Article 440. Capital buffers	p. 7-8	
Article 441. Indicators of global systemic importance	N/A	N/A
Article 442. Credit risk adjustments	p. 11-14	p. 31-33, 43
Article 443. Unencumbered assets	p. 18	
Article 444. Use of ECAIs	N/A	N/A
Article 445. Exposures to market risk	p. 15	p. 36-38
Article 446. Operational risk	p. 14	p. 37
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. 15	p. 37
Article 449. Exposures to securitization positions	N/A	N/A
Article 450. Remuneration policy	p. 18-19	p. 39-40
Article 451. Leverage	p. 10	p. 39
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, increase the value of shareholders, and protect against possible risks.

The bank's capital is calculated and allocated to risks in accordance with the EU Capital Requirements Directive (hereinafter referred to as the CRD) and the CRR. According to the provisions of this directive, the required level of capital is determined at several levels: the minimum capital requirement under the first pillar (Pillar I), additional capital to cover potential losses under the second pillar (Pillar II), and the capital buffer requirements.

When calculating the capital requirement under the first Pillar, risk-weighted assets are calculated according to the Standardised Approach using risk weights that are assigned to different groups according to the nature of the asset and the type of counterparty, also taking into account the collateral and guarantees that are recognized as appropriate for risk mitigation. The capital requirement for operational risk is calculated using the Basic Indicator Approach.

Under Pillar I, the Bank must always meet the following minimum capital requirements:
- 4.5% Tier 1 capital adequacy ratio, which is the total Tier 1 capital expressed as a percentage of the total risk exposure amount
- 6% Tier 1 capital adequacy ratio, which is the total Tier 1 capital expressed as a percentage of the total risk exposure amount;
- 8% Total capital adequacy ratio, which is the own funds expressed as a percentage of the total risk exposure amount;
- 3% Leverage ratio, which is the Tier 1 capital expressed as a percentage of the total calculated exposure measure.

In addition to the minimum capital requirements, the Bank must meet the following additional capital buffer requirements:
- 2.5% capital conservation buffer requirement; - 1% countercyclical capital buffer requirement.

In order to ensure that the capital base is sufficient at any time to carry out the activities envisaged in the strategy, 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. The internal self-assessment identifies the risks inherent in the Bank's activities, the selected assessment methods determine their significance and additional capital needs. The main purpose of stress testing is to determine whether the available capital is sufficient to cover potential losses. 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:

- The Bank´s most important goals in 2024 were further strong growth of the loan portfolio and reaching profitability. The Group achieved both goals by significantly increasing the business volumes and exceeding the break-even point in the middle of the year. The Bank earned a net loss of EUR 115 thousand (EUR 1 071 thousand in 2023), which is 89% less than a year ago. Profitability was positively driven by flat administrative expenses and a significant increase in income. Financing expenses were influenced by a continuously high level of key interest rates set by the European Central Bank.

- The Bank's assets increased to EUR 80 412 thousand compared to EUR 44 139 thousand at the beginning of the reporting period (82% growth).

- In February 2024, the Bank arranged in cooperation with Evernord UAB FMI a successful private placement of subordinated notes. This was the Bank´s first bond issue in the Lithuanian market. The Bank issued EUR 2 000 thousand of new 10-year subordinated bonds that complement the Bank´s Tier 2 capital.

- In October 2024, the Bank arranged in cooperation with Pensum Asset Management an equity issue. As a result of the successful process, existing and new investors subscribed for the shares, adding EUR 2 500 thousand of new equity. The Bank uses the proceeds to strengthen the capital ratios and support new lending and growth. Additionally, the Bank redeemed prematurely all remaining subordinated notes issued in December 2022 (EUR 290 thousand), with the rest EUR 750 thousand redeemed a year earlier. Earlier redemption of the subordinated notes was related to investors using the proceeds to subscribe for the new shares.

- The loan portfolio increased by the end of the year to EUR 63 243 thousand (EUR 38 696 thousand at the end of 2023), representing a 63% growth. The annual sales improved by 53%. Significant growth was driven by further improvements and automatization of the loan issuing processes but also increased investment in customer acquisition and awareness. The credit rule set and criteria for issuing new loans did not change significantly during the year.

- Retail deposits are continuously the most important source of funding the Bank´s loan issuing. By the end of the year, the deposit portfolio reached EUR 68 520 thousand (EUR 36 459 thousand at the end of 2023), corresponding to an increase of 88%. Besides earlier operations in the Lithuanian, German, Spanish and Dutch deposit markets, the Bank launched at the end of the first quarter cross-border operations in Ireland and started to cooperate with the German deposit platform Check24.

- The ratio of non-performing loans amounted at the end of the year to 1,15% (0,06% at the end of 2023). The increase reflects changes in the Bank´s debt collection strategy. Considering current lower price levels, the debt purchase market is for financial institutions not as attractive as it used to be. Since the beginning of 2024, the Bank has put more effort into in-house debt collection, processing non-performing loans in courts, and enforcement process without selling the claims at an early default stage. The general payment behavior remained stable. The reserves for expected credit losses amounted to 1% compared to 0,7% a year earlier.

- As of the end of the year, the Bank was in line with all prudential requirements applicable to the Bank.

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 2024	Sep 2024	Jun 2024	Mar 2024	Dec 2023
Available capital (amounts)					
Common Equity Tier 1 (CET1)	6 177	3 624	3 572	3 900	4 247
Tier 1	6 177	3 624	3 572	3 900	4 247
Total capital	8 177	4 832	4 763	5 200	4 537
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	51 523	46 898	42 586	35 938	31 000
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)	12.0%	7.7%	8.4%	10.9%	13.7%
Tier 1 ratio (%)	12.0%	7.7%	8.4%	10.9%	13.7%
Total capital ratio (%)	15.9%	10.3%	11.2%	14.5%	14.6%
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirement (2.5%) (%)	2.5%	2.5%	2.5%	2.5%	2.5%
Countercyclical buffer requirement (%)	1.0%	1.0%	1.0%	1.0%	1.0%
Total of bank CET1 specific buffer requirements (%)	3.5%	3.5%	3.5%	3.5%	3.5%
CET1 available after meeting the bank's minimum capital requirements (%)	4.9%	3.2%	3.9%	6.4%	9.2%
Basel III leverage ratio					
Total Basel III leverage ratio exposure measure	77 418	74 248	60 803	55 169	41 500
Basel III leverage ratio (%) (row 2 / row 13)	8.0%	4.9%	5.9%	7.1%	10.2%
Liquidity Coverage Ratio					
Total high-quality liquid assets (HQLA)	13 141	13 315	5 735	9 042	2 313
Total net cash outflow	3 455	1 297	3 831	2 653	477
LCR (%)	380%	1027%	150%	341%	485%
Net Stable Funding Ratio					
Total available stable funding	73 596	70 417	57 642	52 258	39 412
Total required stable funding	49 067	46 273	41 787	34 883	29 601
NSFR (%)	150%	152%	138%	150%	133%

In 2024, the Bank of Lithuania conducted the Bank's first Supervisory Review and Evaluation Process (SREP), as a result of which, by the decision of the Board of the Bank of Lithuania on 10 September 2024, a 2.64% additional capital requirement (P2R) was set for the Bank. This resolution also recommends a 1% Tier 2 guideline capital (P2G), which should be included in the capital planning and risk management systems, including the risk appetite management system and recovery planning. SREP applies to all European banks, and during the process, the banking supervisor assesses the bank's operations, business model, related risks, and internal management.

Given the above provisions, from 1 October 2024, when the individual capital adequacy requirement comes into effect, the Bank must meet the following individual own funds requirements: 9.48% Common Equity Tier 1 Capital Adequacy Ratio; 11.48% Tier 1 Capital Adequacy Ratio; 14.14% Total Capital Adequacy Ratio (after assessing capital buffers). It is additionally recommended to have 1% Tier 2 Guidance Capital (P2G).

The overall capital adequacy ratio, calculated by assessing the authorized capital and audited retained result, amounted to 15.9% as of the reporting date. Leverage ratio 8.00%.

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	**31.12.2024**
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	15 011
Retained earnings	(5 844)
Common Equity Tier 1 capital before regulatory adjustments	9 167
Common Equity Tier 1 capital: regulatory adjustments	
Other intangibles other than mortgage servicing rights (MSR) (net of related tax liability)	(1 288)
Deferred tax assets (DTA) that rely on future profitability, excluding those arising from temporary differences	(1 699)
DTA arising from temporary differences	(3)
Total regulatory adjustments to Common Equity Tier 1 capital	(2 990)
Common Equity Tier 1 capital (CET1)	6 177
Additional Tier 1 capital (AT1)	-
Tier 1 capital (T1 = CET1 + AT1)	6 177
Tier 2 capital before regulatory adjustments	2 000
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital	2 000
Total regulatory capital (= Tier 1 + Tier2)	8 177
Total risk-weighted assets	51 523
Capital adequacy ratios and buffers	
Common Equity Tier 1 capital (as a percentage of risk-weighted assets)	12.0%
Tier 1 capital (as a percentage of risk-weighted assets)	12.0%
Total capital (as a percentage of risk-weighted assets)	15.9%
Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	3.5%
Of which: capital conservation buffer requirement	2.5%
Of which: bank-specific countercyclical buffer requirement	1.0%
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	4.9%

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	**31.12.2024**
Risk exposure amount	
Credit risk according to the standardized approach	48 079
Market risk according to the standardized approach	-
Operational risk according to the basic indicator approach	3 444
Total risk exposure amount	**51 523**
Exposure amount for credit risk according to the standardized approach	
Central bank exposure	0
Institutional exposure	5
Retail loans (unsecured) exposure	47 122
Exposures in default	414
Equity	102
Other exposures	436
Total credit risk according to the standardized approach	**48 079**
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	3 846
Market risk according to the standardized approach	-
Operational risk according to the basic indicator approach	276
Total Minimum capital requirement	**4 122**

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:			
31/12/2024 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	13 673		13 673	13 673			
Cash balances at commercial banks	25		25	25			
Loans and advances to customers	63 243		63 243	63 243			
Investments in associates	41		41	41			
Intangible assets	1 288	(1 288)	-				
Tangible assets	383		383	383			
Deferred tax assets	1 702	(1 702)	-				
Other assets	53		53	53			
Total assets	**80 408**	**(2 990)**	**77 418**	**77 418**	**-**	**-**	**-**
Liabilities							
Deposits from customers	68 520		68 520				
Debt securities in issue	1 955	45	2 000				
Other liabilities	766		766				
Total liabilities	**71 241**	**45**	**71 286**	**-**	**-**	**-**	**-**
Shareholders' equity							
Paid-in share capital	3 053		3 053				
Share premium	11 959		11 959				
Retained earnings	(5 844)		(5 844)				
Total shareholders' equity	**9 168**	**-**	**9 168**	**-**	**-**	**-**	**-**
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 2024
Total consolidated assets as per published financial statements	80 408
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	(2 990)
Leverage ratio exposure measure	**77 418**

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 2024	Sep 2024
On-balance sheet exposures		
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	80 408	77 283
(Asset amounts deducted in determining Basel III Tier 1 capital)	(2 990)	(3 035)
Total on-balance sheet exposures (excluding derivatives and SFTs)	**77 418**	**74 248**
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	6 177	3 624
Total exposures	77 418	74 248
Leverage ratio		
Basel III leverage ratio	8.0%	4.9%
National minimum leverage ratio requirement	3.0%	3.0%
Applicable leverage buffers	5.0%	1.9%

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

31/12/2024 *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	13 673		13 673		0	0%
Non-central government public sector entities						
Multilateral development banks						
Banks	25		25		5	0%
Securities firms						
Corporates						
Regulatory retail portfolios	62 829		62 829		47 122	98%
Equity	41		41		102	0%
Defaulted loans	414		414		414	1%
Higher-risk categories						
Other assets	436		436		436	1%
Total	**77 418**	**-**	**77 418**	**-**	**48 079**	**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) ***31/12/2024 In thousands of Eur***
Sovereigns and their central banks	13 673									13 673
Non-central government public sector entities										-
Multilateral development banks										-
Banks			25							25
Securities firms										-
Corporates										-
Regulatory retail portfolios						62 829				62 829
Equity								41		41
Past-due loans							414			414
Higher-risk categories										-
Other assets							436			436
Total	**13 673**	**-**	**25**	**-**	**-**	**62 829**	**850**	**41**	**-**	**77 418**

** Credit conversion factor (CCF)*

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

As of December 31, 2024 (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%	72 150	44 032		
Estonia	1.50%	5 268	4 047		
Total		77 418	48 079	1.05%	3 846

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, 2024 (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	60 584	(214)	(46)	(8)	60 316	0.4%
0-30 days	1 972	(20)	(10)	(7)	1 935	2.0%
31-89 days	583	-	(13)	(22)	548	6.3%
90 days and more	727	-	-	(283)	444	40.6%
Total loans to customers	**63 866**	**(234)**	**(69)**	**(320)**	**63 243**	**1.0%**

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 10.6%. 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 2024	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 31.12.2023	(169)	(49)	(57)	(274)
From Stage 1 to Stage 2		(4)		(4)
From Stage 1 and Stage 2 to Stage 3			(327)	(327)
From Stage 2 to Stage 1	2			2
New originated	(230)	(67)		(297)
Derecognized during the period	90	22	55	167
Changes due to update in the methodology for estimation	72	29	2	103
Changes due to write-offs			7	7
Amount as at 31.12.2024	(233)	(70)	(320)	(623)

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

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

31/12/2024 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	697	63 170	624	624		63 243
Debt Securities						-
Off-balance sheet exposures						-
Total	**697**	**63 170**	**624**	**624**	**-**	**63 243**

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	**22**
Loans that have defaulted since the reporting period	699
Returned to non-defaulted status	-
Amounts written off	(7)
Other changes	(31)
Defaulted loans at the end of the reporting period	**697**

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

Starting from 2022, the Bank has gradually incorporated Environmental, Social, and Governance (ESG) risks into the Bank's risk management and internal control risk framework. Following the ESG risks implementation plan, the Bank introduced a new product "Green loan" to customers. 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 range 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, maintaining responsible lending rules, social inclusiveness, and equal rights principles.

Effective management of ESG risks and opportunities is becoming a key factor in ensuring the success and growth of companies. Therefore, it is essential for companies to assess their ESG risks, understand their impact, and implement appropriate solutions without delay. To support this effort and simultaneously evaluate the readiness of its partners to manage ESG risks, the Bank introduced the ESG risk assessment tool in 2024 for its cooperation partners. The assessment results are provided to participating partners free of charge. Following the assessment, companies received a report detailing their results across four categories: General ESG Practice, Environment, Social Area, and Governance. These insights enabled companies to identify ESG factors and areas for improvement, thereby strengthening their risk management strategies.

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 2024**	**Dec 2023**	**Dec 2024**	**Dec 2023**
Parallel up	(1 547)	(1 023)	(272)	(111)
Parallel down	1 714	1 142	272	111
Steepener (shorts down, longs up)	133	(73)		
Flattener (shorts up, longs down)	(172)	(100)		
Flattener (shorts up, longs unchanged)	(228)	(398)		
Steepener (shorts down, longs unchanged)	91	165		
Maximum	1 714	1 142	272	111
Period	**120 months**	**120 months**	**12 months**	**12 months**
Tier 1 capital	6 177	4 247	6 177	4 247

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.

Table No 16. (LIQ1) LCR measurement

In thousands of EUR	**Total unweighted value** (average)				**Total weighted value** (average)			
	2024 Q1	**2024 Q2**	**2024 Q3**	**2024 Q4**	**2024 Q1**	**2024 Q2**	**2024 Q3**	**2024 Q4**
High-quality liquid assets								
Total HQLA					**5 507**	**9 099**	**9 898**	**12 837**
Cash outflows								
Unsecured wholesale funding, of which:	**10 005**	**10 249**	**9 956**	**13 500**	**2 601**	**3 268**	**2 388**	**4 027**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	9 812	10 060	8 408	8 974	2 582	3 249	2 233	3 574
Non-operational deposits (all counterparties)	193	189	1 548	4 526	19	19	155	453
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	-	21	20	21	-	21	20	21
Other contingent funding obligations	-	-	-	-	-	-	-	-
TOTAL CASH OUTFLOWS					**2 601**	**3 289**	**2 408**	**4 048**
Cash inflows								
Secured lending (e.g. reverse repos)	-	-						
Inflows from fully performing exposures	1 518	1 819	2 106	2 258	759	910	1053	1129
Other cash inflows	75	95	56	45	75	95	56	45
TOTAL CASH INFLOWS					**834**	**1 005**	**1 109**	**1 174**
Total adjusted value								
Total HQLA					**5 507**	**9 099**	**9 898**	**12 837**
Total net cash outflows					**1 767**	**2 284**	**1 299**	**2 874**
Liquidity Coverage Ratio (%)					**312%**	**398%**	**762%**	**447%**

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 2024	Unweighted value by residual maturity				Sep 2024
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				6 177	6 177				3 623	3 623
Other capital instruments				2 000	2 000				2 290	2 290
Retail deposits and deposits from small business customers:										
Stable deposits		32 977	23 161	6 328	69 659		28 459	30 328	6 324	62 171
Less stable deposits		6 054			5 449		2 592			2 333
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		438	35	294	311		683			-
Total ASF					**73 596**					**70 417**
Required stable funding (RSF) item										
Total NSFR high-quality liquid assets (HQLA)	13 141					13315				
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		25			3		125			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:		7 793	7 049	47 903	48 139		7 379	6 758	45 857	46 047
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		651	37	300	925		264	4		212
Off-balance sheet items										
Total RSF					**49 067**					**46 272**
Net Stable Funding Ratio (%)					**150.0**					**152.2**

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. (ENC) Unencumbered assets.

In thousands of EUR	Carrying amount of encumbered assets	Carrying amount of unencumbered assets	Total
Assets of the reporting institution	**-**	**80 408**	**80 408**
Loans on demand		13 698	13 698
Equity instruments		-	-
Debt securities		-	-
Loans and advances other than loans on demand		63 243	63 243
Other assets		3 467	3 467

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.

Year 2024 In thousands of Euros	**Fixed remuneration**	**Variable remuneration**	**Number of the staff**
All staff	1 414	60	27
Management Board members of the Bank	341	-	3
Staff whose professional activities have a material impact on the Bank’s	994	1	12
Other employees	420	59	15

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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