

RISK MANAGEMENT AND CAPITAL ADEQUACY REPORT

A close-up photograph of a bee on a white flower, with other white flowers and green leaves in the foreground and background. The image is split diagonally, with a light blue background on the top left and a blurred natural background on the bottom right.

PILLAR III 2025

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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 Statement

Risk is inherent to any banking activity; however, the Bank’s inherent risk level is comparatively lower than that of traditional universal banks due to its focused and simple business model. The Bank operates a single business line — fully digital consumer lending — funded exclusively by term deposits from private individuals. The Bank does not engage in payment services, investment activities, trading, corporate lending, or other complex products, which reduces the overall risk profile and limits exposure to market (IRRBB), liquidity, operational, and conduct risks typically associated with broader banking operations.

Risk is managed through continuous identification, assessment, monitoring, and control processes, supported by a proportionate and effective risk management and internal control framework tailored to the scale and complexity of the Bank’s activities.

The Bank’s risk appetite defines the types and levels of risk the Bank is willing to assume in pursuing its strategic, financial, and operational objectives. Given the Bank’s simple and focused business model, the overall risk appetite is conservative. The Bank does not engage in payment services, trading activities, investment banking, corporate lending, or other complex products, which significantly reduces inherent risk compared with traditional universal banks.

The risk appetite framework consists of qualitative statements, quantitative limits, early-warning indicators, and escalation procedures. It ensures that risk-taking remains aligned with the Bank’s risk-bearing capacity, capital planning, liquidity position, operational capabilities, and regulatory requirements.

The Supervisory Board approves the Bank’s risk appetite annually as part of strategic planning and the ICAAP process. The Management Board establishes and implements the internal risk limit framework that is aligned with the approved risk appetite and, together with senior management, ensures its effective application in day-to-day operations. Risk appetites and internal limits guide lending decisions, liquidity management, operational controls, outsourcing arrangements, and business development evaluations.

The Bank assumes only risks that are well understood, measurable, controllable, and compatible with sustainable long-term growth. The following sections present the Bank’s Risk Appetite Statements, structured by major risk categories.

Risk Category	Appetite Level	Risk explanation and brief strategy
Credit Risk	Moderate	As a consumer lending bank, credit risk is the primary risk. The Bank maintains moderately conservative lending criteria and aims to ensure stable portfolio quality and low default rates.
IRRBB (Interest Rate Risk in the Banking Book)	High	The Bank accepts a higher level of IRRBB because its fixed-rate loan portfolio is funded by shorter-term deposits, resulting in a structural maturity mismatch. This mismatch is actively monitored, stress-tested, and mitigated through capital planning, and the Bank's long-term objective is to gradually reduce IRRBB exposure to a Medium appetite level. As part of the mitigation strategy, the Bank aims to extend deposit maturities to reduce the mismatch between assets and liabilities.
Liquidity Risk	Moderate	The Bank seeks to maintain adequate liquidity buffers and funding stability to meet obligations under both normal and stressed conditions. Deposit sources are diversified among private individuals and regions.
Operational Risk	Low	Given the fully digital operating model, the Bank maintains strong internal controls, automated processes, and robust oversight to minimize errors, service interruptions, and process failures.
Cybersecurity Risk	Low	As a fully digital bank, the Bank applies strict security standards and maintains zero tolerance for material cyber incidents, focusing on preventive controls and continuous monitoring.
AML/CTF & Sanctions Risk	Low	The Bank serves only private individuals, does not operate in high-risk geographies, does not provide payment services, and applies zero tolerance for financial crime, with strong onboarding and transaction-monitoring controls.
Reputational Risk	Low	The Bank maintains zero tolerance for actions that could damage public trust, regulatory relationships, or customer confidence.
Strategic / Business Risk	Moderate	The Bank is open to pursuing growth initiatives within prudent limits. Moderate deviations from financial or timing targets are acceptable provided capital adequacy and risk controls remain sound.
ESG Risk	Low	Operating a simple consumer lending business, the Bank's ESG risk is limited; focus areas include fair treatment of customers, responsible marketing, governance standards, and reducing environmental footprint as a fully digital institution.
Legal & Compliance Risk	Low	The Bank ensures full compliance with laws and regulatory requirements and applies proactive monitoring to prevent compliance breaches.
Outsourcing Risk	Low to Moderate	The Bank depends on several key vendors; therefore, it maintains strict oversight, diversification where possible, and contingency plans to mitigate vendor failures.
Leverage Risk	Low	The Bank maintains a conservative leverage profile, ensuring strong capital buffers and compliance with regulatory minima at all times.

Risk Management and Internal Control Framework

Risk management is an integral part of the Bank's strategic management and is essential for ensuring the long-term sustainability of the business model. The Bank applies a systematic approach to identifying, assessing, monitoring, and mitigating risks across all activities. Effective risk management ensures that risks remain within the approved risk appetite and support sustainable profitability.

The Risk Management Strategy and Internal Control Policy serves as the overarching framework that defines the Bank's risk governance structure, internal control principles, key processes, and responsibilities for managing different risk types.

The Bank applies the internationally recognised Three Lines of Defence model, ensuring a clear segregation of responsibilities, effective internal control, and robust risk governance aligned with the Bank's fully digital business model and proportionality principle.

The first line is responsible for identifying and managing risks in day-to-day activities. Business functions ensure that processes and controls operate effectively and that activities remain within the Bank's risk limits.

The second line provides independent oversight. The Risk Management, Compliance, and AML functions establish risk policies and methodologies, monitor key risks, and assess the effectiveness of first-line controls. They prepare independent risk assessments and report regularly to the Management Board and Supervisory Board.

The third line is an independent Internal Audit function that evaluates the effectiveness of governance, risk management, and internal controls. Internal Audit provides recommendations regarding the adequacy and effectiveness of the first and second lines' risk management activities and the overall internal control framework.

Risk Mitigation and Internal Controls

Risks are mitigated through clearly defined internal limits, documented and standardized operational processes, segregation of duties, the four-eyes principle, and preventive and detective controls. Operational risk events are recorded, analyzed, and used to strengthen internal controls and prevent recurrence. An annual risk self-assessment is conducted to identify control gaps and emerging risks.

Given the Bank's fully digital operating model and the evolving geopolitical environment, particular attention is devoted to ensuring the reliability, resilience, and security of information systems, including cybersecurity, business continuity, and IT incident management.

Governance and Responsibilities

The Management Board is responsible for establishing, maintaining, and overseeing the risk management and internal control framework, ensuring that risks remain within the approved risk appetite. Senior management implements the framework on a day-to-day basis, ensuring compliance with internal limits, policies, and procedures.

Specific principles for the management of individual risk types are defined in separate risk policies (e.g., Credit Risk Policy, Liquidity Risk Management Policy, Operational Risk Policy, AML/CTF Policy, Outsourcing Policy), which supplement the overarching Strategy.

To support the Management Board in matters related to risk, capital, internal controls, and governance, the Bank has established dedicated Board committees. The Audit Committee is responsible for oversight of the internal control framework, financial reporting integrity, and the effectiveness of internal and external audit. The Credit Committee oversees lending decisions, ensures adherence to the Bank's credit risk appetite, and monitors the quality and performance of the loan portfolio. The Crisis Management Committee is responsible for strengthening the Bank's ability to restore financial and operational viability in the event of stress or emergencies, in line with recovery planning principles. These committees prepare items for Management Board decision-making and ensure robust challenge, independence, and effective oversight across key areas of the Bank's operations.

Importance of Internal Controls

An effective internal control system is essential for the safe and sound operation of the Bank. Internal controls provide reasonable assurance regarding:

- effectiveness and efficiency of operations,
- reliability and integrity of financial and managerial reporting,
- compliance with legal and regulatory requirements,
- protection of assets and prevention of misconduct.

Through this framework, the Bank ensures prudent risk-taking, operational discipline, and long-term financial resilience.

Management Board's Statement

The Management Board of the Bank confirms that the Bank's internal control framework and risk management systems are adequate and proportionate, taking into account the Bank's business model, risk profile, and strategic objectives. The Management Board acknowledges its responsibility for ensuring that the Bank maintains sound risk management practices and complies with the requirements of the Capital Requirements Regulation and Directive (CRR/CRD IV), including the obligation to disclose risk management and capital adequacy information annually.

The Bank recognises the importance of continuously strengthening its risk management practices, including the proportionate integration of Environmental, Social and Governance (ESG) risks into its strategy and internal control system. ESG risks are assessed annually and incorporated into the Bank's broader risk management framework.

The Bank's business model depends on a fully digital operating environment supported by advanced IT systems and strong third-party integrations. As a result, cybersecurity, information security, vendor management and business continuity remain core priorities. Protecting customer data and maintaining trust are essential elements of the Bank's operational resilience.

The Management Board reaffirms its commitment to ensuring that all material risks are appropriately identified, assessed, monitored, and mitigated, and that necessary measures are taken to safeguard the Bank's long-term stability, operational continuity, and sustainable profitability.

The report has been approved by the decision of the Management Board of the Bank on March 20th, 2026.

/ digitally signed /
 Veiko Kandla
 Chairman
 of the Management Board

/ digitally signed /
 Danas Juzėnas
 Member
 of the Management Board

/ digitally signed /
 Kristina Simonovič
 Member
 of the Management Board

2. SCOPE OF DISCLOSURE

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

Table No 1. Disclosure requirements

Disclosure requirements with reference to the CRR Article	Disclosure in the Pillar III report	Disclosure in the Set of Annual Financial Reports
Article 435. Risk Management objectives and policies		p. 32
Article 436. Scope of application		p. 19
Article 437. Own Funds	p. 7-10	p. 40-41
Article 438. Capital requirements	p. 7-10	
Article 439. Exposure to counterparty credit risk	N/A	N/A
Article 440. Capital buffers	p. 9-10	
Article 441. Indicators of global systemic importance	N/A	N/A
Article 442. Credit risk adjustments	p. 12-15	p. 33-35, 45
Article 443. Unencumbered assets	p. 19	
Article 444. Use of ECAIs	N/A	N/A
Article 445. Exposures to market risk	p. 16-17	p. 37-38
Article 446. Operational risk	p. 15	p. 38-39
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. 16-17	p. 38
Article 449. Exposures to securitization positions	N/A	N/A
Article 450. Remuneration policy	p. 19-20	p. 41-42
Article 451. Leverage	p. 11-12	p. 41
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 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 came 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 earnings, amounted to 14.8% as of the reporting date. Leverage ratio was 7.3%.

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 sufficient capital to cover material risks that are not, or are only partially, covered by the regulatory capital requirement.

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, and 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 less than once per year. The results are presented in a report that discloses the nature of risks, 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.

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

- The Bank's primary financial objectives for 2025 were the continued growth of the loan portfolio and the achievement of strong profitability. Both goals were met, with business volumes increasing significantly and the Bank recording a net profit of EUR 1 627 thousand by the end of the financial year, compared with a net loss of EUR 115 thousand in 2024.
- Following the achievement of break-even at the beginning of the third quarter of 2024, the Bank has operated profitably ever since, improving its financial results month by month. Profitability was driven by stable administrative expenses and a significant increase in income. Fee and interest income from issued loans increased to EUR 9 072 thousand (EUR 5 770 thousand in 2024), representing 57% annual growth.
- The loan portfolio reached EUR 78 237 thousand at year-end (compared with EUR 63 243 thousand at the end of 2024), representing 24% growth. Annual sales volumes moderately exceeded 2024 levels.

- Retail deposits remained the most important source of funding for the Bank's loan issuance. By the end of the year, the deposit portfolio reached EUR 93 653 thousand (compared with EUR 68 520 thousand at the end of 2024), representing 37% growth.
- At year's end, the Bank served nearly 16 500 active loan and deposit customers across six countries, an 18% increase compared to the previous year. The Bank's total assets amounted to EUR 107 257 thousand, up from EUR 80 412 thousand at the beginning of the reporting period, reflecting 33% growth.
- Loans overdue more than 90 days amounted to 2.88% at the end of the year (1.15% at the end of 2024). The increase reflects earlier changes in the Bank's shift to an in-house debt collection strategy. Under this strategy, the Bank no longer sells non-performing claims but instead conducts court and enforcement procedures as a part of the debt collection process. Initial accumulation of non-performing loans is gradually compensated by increasing cash flow from enforcement proceedings handled by bailiffs. At the same time, the general payment behavior remained stable. The reserves for expected credit losses amounted to 1.9% compared with 1% a year earlier, demonstrating strong coverage.

More information about activities and financial results is available in the Year 2025 Set of Annual Financial Reports.

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

Table No 2. (KM1) Prudential regulatory metrics

<i>in thousands of EUR</i>	Dec 2025	Sep 2025	Jun 2025	Mar 2025	Dec 2024
Available capital (amounts)					
Common Equity Tier 1 (CET1)	7 640	7 210	6 635	6 383	6 177
Tier 1	7 640	7 210	6 635	6 383	6 177
Total capital	9 640	9 210	8 635	8 383	8 177
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	65 075	60 048	57 110	54 190	51 523
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)	11.7%	12.0%	11.6%	11.8%	12.0%
Tier 1 ratio (%)	11.7%	12.0%	11.6%	11.8%	12.0%
Total capital ratio (%)	14.8%	15.3%	15.1%	15.5%	15.9%
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 (%)	4.6%	4.9%	4.5%	4.6%	4.9%
Basel III leverage ratio					
Total Basel III leverage ratio exposure measure	104 155	105 074	91 478	83 055	77 418
Basel III leverage ratio (%) (row 2 / row 13)	7.3%	6.9%	7.3%	7.7%	8.0%
Liquidity Coverage Ratio					
Total high-quality liquid assets (HQLA)	24 593	28 602	18 773	14 178	13 141
Total net cash outflow	14 085	13 136	13 747	11 591	3 455
LCR (%)	175%	218%	137%	122%	380%
Net Stable Funding Ratio					
Total available stable funding	100 139	100 847	88 959	78 293	73 596
Total required stable funding	64 343	61 867	58 895	52 594	49 067
NSFR (%)	156%	163%	151%	149%	150%

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

<i>in thousands of EUR</i>	31.12.2025
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	14 960
Retained earnings	(4 218)
Common Equity Tier 1 capital before regulatory adjustments	10 742
Common Equity Tier 1 capital: regulatory adjustments	
Other intangibles other than mortgage servicing rights (MSR) (net of related tax liability)	(1 307)
Deferred tax assets (DTA) that rely on future profitability, excluding those arising from temporary differences	(1 781)
DTA arising from temporary differences	(14)
Total regulatory adjustments to Common Equity Tier 1 capital	(3 102)
Common Equity Tier 1 capital (CET1)	7 640
Additional Tier 1 capital (AT1)	-
Tier 1 capital (T1 = CET1 + AT1)	7 640
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)	9 640
Total risk-weighted assets	65 075
Capital adequacy ratios and buffers	
Common Equity Tier 1 capital (as a percentage of risk-weighted assets)	11.7%
Tier 1 capital (as a percentage of risk-weighted assets)	11.7%
Total capital (as a percentage of risk-weighted assets)	14.8%
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	4.6%

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

<i>in thousands of EUR</i>	31.12.2025
Risk exposure amount	
Credit risk according to the standardized approach	59 654
Market risk according to the standardized approach	-
Operational risk according to the basic indicator approach	5 421
Total risk exposure amount	65 075
Exposure amount for credit risk according to the standardized approach	
Central bank exposure	0
Institutional exposure	4
Retail loans (unsecured) exposure	57 455
Exposures in default	1 630
Equity	115
Other exposures	450
Total credit risk according to the standardized approach	59 654
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	4 772
Market risk according to the standardized approach	-
Operational risk according to the basic indicator approach	434
Total Minimum capital requirement	5 206

The carrying values reported in the financial statement and under the regulatory framework have no significant differences except for the deductions from capital under the regulatory framework, which present 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

<i>31/12/2025</i> <i>In thousands of EUR</i>	Carrying values as reported in the financial statements	Deduction from capital under the regulatory framework	Carrying values under the regulatory framework	Carrying values under 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	25 401		25 401	25 401			
Cash balances at commercial banks	21		21	21			
Loans and advances to customers	78 237		78 237	78 237			
Investments in associates	46		46	46			
Intangible assets	1 307	(1 307)	-				
Tangible assets	314		314	314			
Deferred tax assets	1 795	(1 795)	-				
Other assets	136		136	136			
Total assets	107 257	(3 102)	104 155	104 155	-	-	-
Liabilities							
Deposits from customers	93 653		93 653				
Debt securities in issue	1 961	45	2 006				
Other liabilities	900		900				
Total liabilities	96 514	45	96 559	-	-	-	-
Shareholders' equity							
Paid-in share capital	3 053		3 053				
Share premium	11 907		11 907				
Retained earnings	(4 218)		(4 218)				
Total shareholders' equity	10 742	-	10 742	-	-	-	-
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

<i>In thousands of EUR</i>	Dec 2025
Total consolidated assets as per published financial statements	107 257
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	(3 102)
Leverage ratio exposure measure	104 155

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

<i>In thousands of EUR</i>	Dec 2025	Sep 2025
On-balance sheet exposures		
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	107 257	108 139
(Asset amounts deducted in determining Basel III Tier 1 capital)	(3 102)	(3 065)
Total on-balance sheet exposures (excluding derivatives and SFTs)	104 155	105 074
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	7 640	7 210
Total exposures	104 155	105 074
Leverage ratio		
Basel III leverage ratio	7.3%	6.9%
National minimum leverage ratio requirement	3.0%	3.0%
Applicable leverage buffers	4.3%	3.9%

5. CREDIT RISK

The Bank maintains a moderate credit risk profile, as approved by the Supervisory Board, and applies conservative lending standards to ensure responsible risk-taking. Credit risk is managed through clearly defined internal limits—such as portfolio ECL levels, the 30/60/90 days-past-due ratios, and the non-performing loans ratio—which are monitored on a monthly basis. The Bank conducts regular stress testing, borrower reassessment, and analysis of early arrears trends to ensure early detection of any deterioration in credit quality. Due to the Bank’s simple retail-focused business model and the absence of investment activities, concentration and counterparty credit risks remain low.

The Bank continues to develop and enhance its credit risk management processes, including further testing of the recently updated ECL model, to strengthen the robustness of its risk assessment framework. 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

31/12/2025
In thousands of EUR

Asset classes	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Sovereigns and their central banks	25 401		25 401		0	0%
Non-central government public sector entities						
Multilateral development banks						
Banks	21		21		4	0%
Securities firms						
Corporates						
Regulatory retail portfolios	76 607		76 607		57 455	96%
Equity	46		46		115	0%
Defaulted loans	1 630		1 630		1 630	3%
Higher-risk categories						
Other assets	450		450		450	1%
Total	104 155	-	104 155	-	59 654	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→	0%	10%	20%	35%	50%	75%	100%	250%	Others	Total	
										credit exposures amount (post CCF and post-CRM) 31/12/2025 In thousands of Eur	
Asset classes↓											
Sovereigns and their central banks	25 401										25 401
Non-central government public sector entities											-
Multilateral development banks											-
Banks			21								21
Securities firms											-
Corporates											-
Regulatory retail portfolios						76 607					76 607
Equity								46			46
Past-due loans							1 630				1 630
Higher-risk categories											-
Other assets							450				450
Total	25 401	-	21	-	-	76 607	2 080	46	-		104 155

* Credit conversion factor (CCF)

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

As of December 31, 2025 (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%	100 588	56 834		
Estonia	1.50%	3 567	2 820		
Total		104 155	59 654	1.03%	4 772

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, 2025 (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	73 590	(286)	(92)	(5)	73 207	0.5%
0-30 days	2 467	(18)	(42)	(6)	2 401	2.7%
31-89 days	1 491	-	(47)	(79)	1 365	8.5%
90 days and more	2 172	-	-	(908)	1 264	41.8%
Total loans to customers	79 720	(304)	(181)	(998)	78 237	1.9%

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 an 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. From 180 days overdue, the provision for expected losses is constantly increasing to cover all defaulted exposure before the write-off. Credit-impaired financial assets are considered under stage 3; their ECL is always measured on a lifetime basis.

Additionally, Stage 2 and Stage 3 include financial assets for which the credit risk has increased significantly since initial recognition due to financial difficulties or other loss events. Forbearance measures are divided into short-period and long-period measures. Short-term: to meet temporary liquidity constraints, e.g., through suspension/reduction of monthly 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 maximum 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. The loan is considered in default when it is past due 90 days or more, or the borrower meets unlikely-to-pay criteria, including the significant difficulty of the borrower, bankruptcy, death, 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 the 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.

In 2025, the Bank implemented the ECL model update with the calculation of PD rates internally on the historical default rates. The PDs used in the ECL model are divided into classes, and the average per class at the reporting date was as follows: class A (low credit risk) 0.3%, class B 1.1%, class C 2.6%, and class D and less 38.2%. At the end of 2024, the percentages were as follows: class A 0.5%, class B 1.5%, class C 4.0%, and class D and less 14.6%.

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 that incorporates developments of the future economic environment in the expected credit loss calculation.

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 December 31, 2025	Upside	Baseline	Downside
Scenario probability weighting	30%	40%	30%

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

<i>In thousands of EUR</i>	Stage 1	Stage 2	Stage 3	Total
Amount as at 31.12.2024	(233)	(70)	(320)	(623)
Movement between stages	15		(779)	(764)
New originated	(157)	(1)		(158)
Derecognized during the period	103	6	80	189
Changes due to update in the methodology for estimation	(30)	(117)	(12)	(159)
Changes due to write-offs			32	32
Amount as at 31.12.2025	(303)	(181)	(999)	(1 483)

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

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

<i>31/12/2025</i> <i>In thousands of EUR</i>	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	2 172	77 548	1 483	1 483		78 237
Debt Securities						-
Off-balance sheet exposures						-
Total	2 172	77 548	1 483	1 483	-	78 237

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

<i>In thousands of EUR</i>	
Defaulted loans at end of the previous reporting period	695
Loans that have defaulted since the reporting period	1 509
Returned to non-defaulted status	-
Amounts written off	(32)
Other changes	-
Defaulted loans at the end of the reporting period	2 172

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.

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. In addition to calculating the capital requirement for operational risk based on the standard method, it is assessed whether the Bank's use of outsourcing requires additional Pillars 2 requirements.

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, companies need 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.

Starting from 2026, the Bank has enhanced its approach by analysing ESG-related risks across multiple time horizons (short-, medium-, and long-term), in line with emerging supervisory expectations and market practices. This includes evaluating how potential environmental developments—such as climate-related changes, evolving consumer behaviour, and broader macroeconomic trends—may affect the credit quality of the Bank's consumer loan portfolio over time. Although the Bank's exposure to physical climate risks is inherently low due to the absence of collateralised lending or real-estate portfolios, the Bank also assesses potential localised physical risks, such as flood-prone areas in Lithuania, by analysing the geographical distribution of its customers. This helps identify whether concentrations of borrowers in higher-risk locations could indirectly influence the Bank's portfolio performance in the future.

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 2025	Dec 2024	Dec 2025	Dec 2024
Parallel up	(2 272)	(1 547)	(449)	(272)
Parallel down	2 528	1 714	449	272
Steeper (shorts down, longs up)	(108)	133		
Flattener (shorts up, longs down)	(276)	(172)		
Flattener (shorts up, longs unchanged)	(936)	(228)		
Steeper (shorts down, longs unchanged)	388	91		
Maximum	2 528	1 714	449	272
Period	120 months	120 months	12 months	12 months
Tier 1 capital	7 640	6 177	7 640	6 177

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)			
	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4
High-quality liquid assets								
Total HQLA					17 035	14 753	24 357	24 402
Cash outflows								
Unsecured wholesale funding, of which:	18 735	11 577	14 774	12 651	9 252	7 024	9 927	8 117
Operational deposits (all counterparties) and deposits in networks of cooperative banks	12 933	10 853	13 737	11 863	8 672	6 952	9 823	8 038
Non-operational deposits (all counterparties)	5 802	724	1 037	788	580	72	104	79
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	22	21	20	19	22	21	20	19
Other contingent funding obligations	-	-	-	-	-	-	-	-
TOTAL CASH OUTFLOWS					9 274	7 045	9 947	8 136
Cash inflows								
Secured lending (e.g. reverse repos)	-	-						
Inflows from fully performing exposures	2 098	2 213	2 343	2 380	1 049	1 107	1 172	1 190
Other cash inflows	47	39	39	31	47	39	39	31
TOTAL CASH INFLOWS					1 096	1 146	1 211	1 221
Total adjusted value								
Total HQLA					17 035	14 753	24 357	24 402
Total net cash outflows					8 178	5 900	8 736	6 915
Liquidity Coverage Ratio (%)					208%	250%	279%	353%

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 2025 Weighted value	Unweighted value by residual maturity				Sep 2025 Weighted value
	No maturity	< 6 months	6 months to < 1 year	≥ 1 year		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
<i>In thousands of EUR</i>										
Available stable funding (ASF) item										
Capital:										
Regulatory capital				10 742	10 742				10 275	10 275
Other capital instruments				2 000	2 000				2 000	2 000
Retail deposits and deposits from small business customers:										
Stable deposits		34 136	14 281	4 434	50 430		32 640	17 242	4 350	51 738
Less stable deposits		40 803			36 723		40 634			36 571
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		604	37	226	245		740	37	245	264
Total ASF					100139					100847
Required stable funding (RSF) item										
Total NSFR high-quality liquid assets (HQLA)	24 593					28 602				
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		21			2		18			2
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:		9 062	8 184	59 585	59 270		8 866	8 036	57 209	57 079
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					-					-
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		1 630	209	3 375	5 110		1 373	191	3 317	4 786
Off-balance sheet items										
Total RSF					64 382					61 866
Net Stable Funding Ratio (%)					155.5					163.0

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.

<i>In thousands of EUR</i>	Carrying amount of encumbered assets	Carrying amount of unencumbered assets	Total
Assets of the reporting institution	-	107 257	107 257
Loans on demand		25 422	25 422
Equity instruments		-	-
Debt securities		-	-
Loans and advances other than loans on demand		78 237	78 237
Other assets		3 598	3 598

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, organisational 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.

The remuneration framework consists of fixed and variable remuneration.

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 28% 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 2025 In thousands of Euros	Fixed remuneration	Variable remuneration	Number of the staff
All staff	1 589	168	29
Management Board members of the Bank	353	37	3
Staff whose professional activities have a material impact on the Bank's	1 002	95	12
Other employees	587	73	17

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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