



European Merchant Bank UAB

Risk Management and Capital Adequacy Report Pillar 3 Annual Report Q4/2021

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1. Introduction

The European Merchants Bank`s (The Bank) Risk Management and Capital Adequacy Report - Q4/2021 is prepared in accordance with the requirements of the Part Eight of the Regulation (EU) No 575/2013 of the European Parliament and of the Council (the “CRR”) and the Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down the technical standards regarding public disclosures by institutions of the information referred to in Titles II and III of Part Eight of the Regulation (EU) No 575/2013.

The Bank is a specialized Bank established in Lithuania that is focusing on innovative international financial services. The Bank’s mission is to provide its customers with payment-related products and the knowledge that fulfil their wants and needs at the right price and to allow underfunded SMEs to access the real mid-market interest rates any time they need on a customer-friendly platform. The lending targets of the Bank include the development of micro, small and medium sized business entities.

This document has not been audited and does not form part of the Bank`s audited financial statements. It has been attested by the Management Board of the Bank.

2. Risk Governance

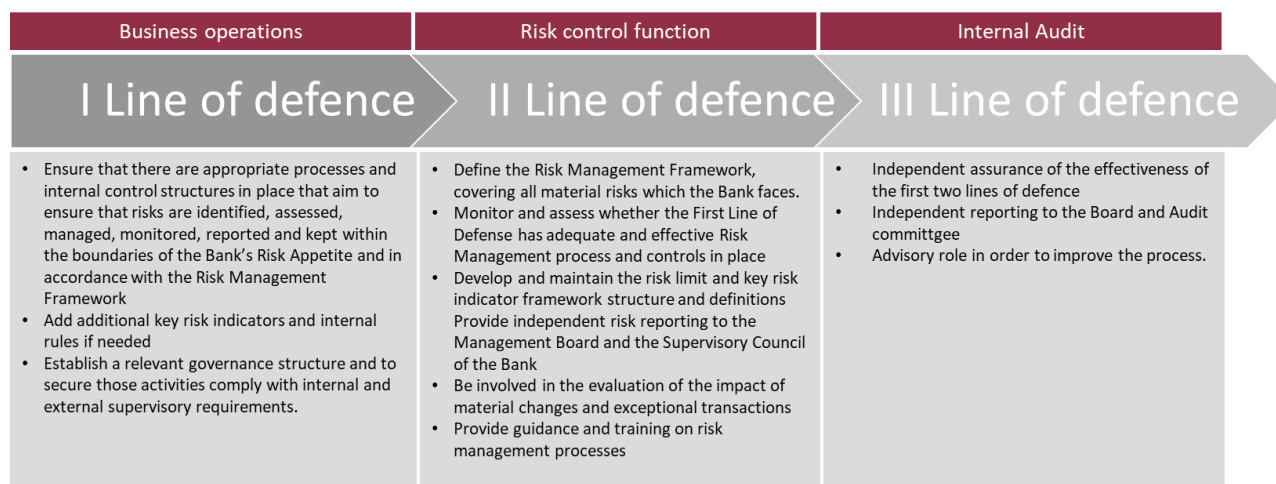
2.1 Risk Statement

The Bank`s Enterprise Risk Management Policy, Risk Taxonomy, Risk Appetite Statement Policy, and Policy on Risk Organization were approved by the Supervisory Board on June 2nd, 2022. The requirement to articulate risk appetite per risk type is governed by the Enterprise Risk Management Policy and Risk Taxonomy. Risk Appetite Statement Policy specifies the Bank`s risk appetite per risk type which is further implemented through the risk limit framework regulated by the Limits & Key Risk Indicators Policy.

The Bank`s Risk Appetite Statement Policy specifies the risk appetite for the Bank based on its risk capacity and key risk indicators per risk type as a quantitative measure or a qualitative statement depending on the risk type.

The Bank`s risk framework and governance structure are based on the Three Lines of Defense model with clearly defined roles and responsibilities of each level in the organization, governed by means of four overarching policies that define enterprise risk management, risk taxonomy, risk appetite and risk organization (Overarching Risk Policies). These overarching risk policies are supported by individual risk policies for each risk in the risk taxonomy.

The high-level roles and responsibilities in the Three Lines of Defense model are represented below:



The Bank has a two-board structure: Supervisory Board which consists of three members and Management Board which consists of five members. Selection of members of the Supervisory Board and Management Board is based on their actual knowledge, skills, and expertise. The Bank does not have separate Risk Committee, Risk Committee functions are carried out under Audit Committee.

Information flow on risk to the Management Board is performed by the Chief Risk Officer. The Bank at least annually evaluates the balance of knowledge, skills, diversity, and experience of the individual Management Board members (and the Head of Administration, where applicable) and of Management Board collectively.

The Supervisory Board approves and oversees the implementation of the Overarching Risk Policies. The Management Board implements the Policies according to powers delegated by the Supervisory Board. The position of risk takers are Supervisory Board members, Management Board members, Credit Committee and Asset and Liability Committee (ALCO) members. Also, the following positions are risk takers regardless of being a member of above boards & committees: Chief Executive Officer, Deputy Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Head of Treasury, Head of Internal Audit, Compliance Manager, COO.

Remuneration Policy

The Bank's remuneration scheme consists of 3 parts.

- 1) Fixed remuneration component: Fixed remuneration is monthly salary determined in the employment contract which in each case reflects the level of the employee's professional experience, role, responsibilities set by the job description and role charter, principle of remuneration, specific knowledge, skills and competences, the salary budget opportunities.
- 2) Benefits: Benefits may be granted to employees as a long-term or short-term benefits or allowances that may be received by the employees. Benefits are considered as part of the fixed remuneration and in addition, are intended to encourage employee's involvement, loyalty, forming the employer's distinctiveness, increasing its attractiveness, helping to achieve better performance and to provide a competitive overall reward package. Benefits apply regardless of the individual performance of the employees and are irrevocable for the validity of the benefits provided term of office and/or as long as the employee occupies a certain role to which the specific benefit is assigned.
- 3) One-time bonus payments: One-time bonuses might be paid at the initiative and discretion of the employer to motivate the employees without any link to any performance criteria (i.e., new year bonus).

The Bank does not apply variable remuneration; it will be applicable in 2023. The Bank has 16 risk takers. The average salary of the risk takers is gross EUR 6 949 (six thousand, nine hundred, forty-nine euros) as of August 2022.

Level	Number of Employees	Average Salary (Montly)	Total Salary (Montly)	Total Salary
Top Management (SB+MB)	9	9	83	994
Other Risk Takers	6	5	32	385
Others (All other employees)	47	3	131	1.568

Template EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile

	a	b	c	d	e	f	g	h	i	j	
	Management body remuneration			Business areas							-
	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total	
Total number of identified staff										59	
Of which: members of the MB	4	5	9								
Of which: other senior management									13		
Of which: other identified staff								1	40		
Total remuneration of identified staff											
Of which: variable remuneration											
Of which: fixed remuneration	4	5	9					1	53		

3. Capital Position

EU OV1 - Overview of risk weighted exposure amounts

		Total risk exposure amounts (TREA)		Total own funds requirements
		31 Dec 2021	31 Dec 2020	31 Dec 2021
1	Credit risk (excluding CCR)	90.740	50.279	43.098
2	Of which the standardised approach	90.740	50.279	43.098
3	Of which the Foundation IRB (F-IRB) approach			
4	Of which slotting approach			
EU 4a	Of which equities under the simple riskweighted approach			
5	Of which the Advanced IRB (A-IRB) approach			
6	Counterparty credit risk - CCR			
7	Of which the standardised approach			
8	Of which internal model method (IMM)			
EU 8a	Of which exposures to a CCP			
EU 8b	Of which credit valuation adjustment - CVA			
9	Of which other CCR			
10	Not applicable			
11	Not applicable			
12	Not applicable			
13	Not applicable			
14	Not applicable			
15	Settlement risk			
16	Securitisation exposures in the non-trading book (after the cap)			
17	Of which SEC-IRBA approach			
18	Of which SEC-ERBA (including IAA)			
19	Of which SEC-SA approach			
EU 19a	Of which 1250% / deduction			
20	Position, foreign exchange and commodities risks (Market risk)			
21	Of which the standardised approach			
22	Of which IMA			
EU 22a	Large exposures			
23	Operational risk	232	130	2.895
EU 23a	Of which basic indicator approach	232	130	2.895
EU 23b	Of which standardised approach			
EU 23c	Of which advanced measurement approach			
24	Amounts below the thresholds for deduction (subject to 250% risk weight)			
25	Not applicable			
26	Not applicable			
27	Not applicable			
28	Not applicable			
29	Total	90.972	50.409	45.993

EU KM1 - Key metrics

		31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021	31 Dec 2020
Available own funds (amounts)						
1	Common Equity Tier 1 (CET1) capital	8.540	8.630	8.530	9.200	4.658
2	Tier 1 capital	8.540	8.630	8.530	9.200	4.658
3	Total capital	8.540	8.630	8.530	9.200	4.658
Risk-weighted exposure amounts						
4	Total risk exposure amount	45.993	47.585	37.283	34.231	20.340
Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common Equity Tier 1 ratio (%)	18,6%	18,1%	22,9%	26,9%	22,9%
6	Tier 1 ratio (%)	18,6%	18,1%	22,9%	26,9%	22,9%
7	Total capital ratio (%)	18,6%	18,1%	22,9%	26,9%	22,9%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)						
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)					
EU 7b	of which: to be made up of CET1 capital (percentage points)					
EU 7c	of which: to be made up of Tier 1 capital (percentage points)					
EU 7d	Total SREP own funds requirements (%)	2,3%	2,3%	2,3%	2,3%	2,3%
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)						
8	Capital conservation buffer (%)	2,5%	2,5%	2,5%	2,5%	2,5%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)					
9	Institution specific countercyclical capital buffer (%)					
EU 9a	Systemic risk buffer (%)					
10	Global Systemically Important Institution buffer (%)					
EU 10a	Other Systemically Important Institution buffer (%)					
11	Combined buffer requirement (%)	10,5%	10,5%	10,5%	10,5%	10,5%
EU 11a	Overall capital requirements (%)	12,8%	12,8%	12,8%	12,8%	12,8%
12	CET1 available after meeting the total SREP own funds requirements					
Leverage ratio						
13	Total exposure measure	85.917	81.396	82.751	54.491	49.460
14	Leverage ratio (%)	9,9%	10,6%	10,3%	16,9%	9,4%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)						
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)					
EU 14b	of which: to be made up of CET1 capital (percentage points)					
EU 14c	Total SREP leverage ratio requirements (%)	3%	3%	3%	3%	3%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)						
EU 14d	Leverage ratio buffer requirement (%)	3%	3%	3%	3%	3%
EU 14e	Overall leverage ratio requirement (%)	3%	3%	3%	3%	3%
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	47.283	34.684	39.447	19.157	21.897
EU 16a	Cash outflows - Total weighted value	33.911	35.287	33.153	27.779	27.334
EU 16b	Cash inflows - Total weighted value	6.858	18.411	20.294	16.802	14.595
16	Total net cash outflows (adjusted value)	27.052	16.876	12.859	10.977	12.739
17	Liquidity coverage ratio (%)	174,8%	205,5%	306,8%	174,5%	171,9%
Net Stable Funding Ratio						
18	Total available stable funding	41.823	39.157	42.444	19.217	15.542
19	Total required stable funding	24.611	27.508	20.808	12.696	5.753
20	NSFR ratio (%)	169,9%	142,4%	204,0%	151,4%	270,2%

ICAAP information

ICAAP is the bank's internal process to assess its overall capital adequacy in relation to its risk profile and strategy to maintain capital at sound levels. The Bank's ICAAP and ILAAP processes are based on a normative approach. The normative perspective is a multi-year assessment of the Bank's ability to fulfil all its capital-related quantitative regulatory and supervisory requirements and demands, and to cope with other external financial constraints, on an ongoing basis. The normative perspective is expected to consider all material risks affecting the relevant regulatory ratios, including own funds and risk exposure amounts, over the 3-year planning period. Therefore, although its outcomes are expressed in regulatory metrics, the normative perspective is not limited to the economic environment and business strategy but continuity of the Bank, adequate capital (ICAAP), adequate liquidity (ILAAP) and competitive position. The Bank's capital management policies and practices support its business strategy and ensure that it is sufficiently capitalized to withstand adverse market and bank-specific developments.

EU CC1 - Composition of regulatory own funds

		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts of which: Instrument type 1 of which: Instrument type 2 of which: Instrument type 3		
2	Retained earnings	4.730	a
3	Accumulated other comprehensive income (and other reserves)	-	
EU-3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1		
5	Minority interests (amount allowed in consolidated CET1)		
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend		
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	15.300	b

Common Equity Tier 1 (CET1) capital: regulatory adjustments

7	Additional value adjustments (negative amount)			
8	Intangible assets (net of related tax liability) (negative amount)	-	1.225	c
9	Not applicable			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) - CRR are met) (negative amount)	-	805	d
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value			
12	Negative amounts resulting from the calculation of expected loss amounts			
13	Any increase in equity that results from securitised assets (negative amount)			
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing			
15	Defined-benefit pension fund assets (negative amount)			
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)			
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)			
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)			
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)			
20	Not applicable			
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative			
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)			
EU-20c	of which: securitisation positions (negative amount)			
EU-20d	of which: free deliveries (negative amount)			
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)			
22	Amount exceeding the 17,65% threshold (negative amount)			
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities			
24	Not applicable			
25	of which: deferred tax assets arising from temporary differences			
EU-25a	Losses for the current financial year (negative amount)			
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)			
26	Not applicable			
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)			
27a	Other regulatory adjustments			
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-	2.030	c+d
29	Common Equity Tier 1 (CET1) capital		8.540	b-a-c-d

Additional Tier 1 (AT1) capital: Instruments	
30	Capital instruments and the related share premium accounts
31	of which: classified as equity under applicable accounting standards
32	of which: classified as liabilities under applicable accounting standards
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties
35	of which: instruments issued by subsidiaries subject to phase out
36	Additional Tier 1 (AT1) capital before regulatory adjustments
Additional Tier 1 (AT1) capital: regulatory adjustments	
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)
41	Not applicable
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)
42a	Other regulatory adjustments to AT1 capital
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital
44	Additional Tier 1 (AT1) capital
45	Tier 1 capital (T1 = CET1 + AT1)
	8.540
Tier 2 (T2) capital: Instruments	
46	Capital instruments and the related share premium accounts
47	Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR
EU-47a	Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2
EU-47b	Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties
49	of which: instruments issued by subsidiaries subject to phase out
50	Credit risk adjustments
51	Tier 2 (T2) capital before regulatory adjustments
	8.540
Tier 2 (T2) capital: regulatory adjustments	
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)
54a	Not applicable
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)
56	Not applicable
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)
EU-56b	Other regulatory adjustments to T2 capital
57	Total regulatory adjustments to Tier 2 (T2) capital
58	Tier 2 (T2) capital
59	Total capital (TC = T1 + T2)
	8.540
60	Total Risk exposure amount
	45.994

Capital ratios and requirements including buffers		
61	Common Equity Tier 1 capital	8.540
62	Tier 1 capital	8.540
63	Total capital	8.540
64	Institution CET1 overall capital requirements	12,8%
65	of which: capital conservation buffer requirement	2,5%
66	of which: countercyclical capital buffer requirement	
67	of which: systemic risk buffer requirement	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	8.540
National minima (if different from Basel III)		
69	Not applicable	
70	Not applicable	
71	Not applicable	
Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	
74	Not applicable	
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	
Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	
82	Current cap on AT1 instruments subject to phase out arrangements	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	
84	Current cap on T2 instruments subject to phase out arrangements	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	

EU CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements

	31 Dec 2021	31 Dec 2020	Reference
Assets			
Cash and cash equivalents	54.644	28.876	
Terminal deposits		17.116	
Loans to customers	29.680	1.990	
Intangible assets	1.225	818	c
Tangible assets	58	83	
Right of use assets	315	442	
Deferred tax asset	805	700	d
Other assets	598	143	
Total Assets	87.325	50.167	
Liabilities			
Deposits from financial institutions	50.302	24.755	
Deposits from public	25.630	13.372	
Lease liabilities	289	421	
Other liabilities	533	5.443	
Total Liabilities	76.754	43.992	
Equity			
Capital	15.300	10.300	b
Retained earnings (loss)	-4.730	-4.124	a
Total Equity	10.570	6.176	
Total Equity and Liabilities	87.325	50.167	

EU CCA: Main features of regulatory own funds instruments and eligible liabilities instruments

1	Issuer	European Merchant Bank, UAB 304559043
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
2a	Public or private placement	N/A
3	Governing law(s) of the instrument	Lithuanian Republic law
3a	Contractual recognition of write down and conversion powers of resolution authorities	N/A
<i>Regulatory treatment</i>		N/A
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	15,3 million EUR
9	Nominal amount of instrument	15,3 million EUR
EU-9a	Issue price	The nominal value of a share is 1 euro
EU-9b	Redemption price	N/A
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	N/A
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
<i>Coupons / dividends</i>		N/A
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Discretionary
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
34a	Type of subordination (only for eligible liabilities)	No
EU-34b	Ranking of the instrument in normal insolvency proceedings	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
37a	Link to the full term and conditions of the instrument (signposting)	N/A

EU LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

	Applicable amount
1 Total assets as per published financial statements	87.325
2 Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	
3 (Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	
4 (Adjustment for temporary exemption of exposures to central banks (if applicable))	
5 (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) CRR)	
6 Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	
7 Adjustment for eligible cash pooling transactions	
8 Adjustment for derivative financial instruments	590
9 Adjustment for securities financing transactions (SFTs)	
10 Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	
11 (Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	
EU-11a (Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	
EU-11b (Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR)	
12 Other adjustments	- 1.998
13 Total exposure measure	85.917

EU LR2 - LRCom: Leverage ratio common disclosure

	CRR leverage ratio exposures	
	31 Dec 2021	31 Dec 2020
On-balance sheet exposures (excluding derivatives and SFTs)		
1 On-balance sheet items (excluding derivatives, SFTs, but including collateral)	85.275	48.645
2 Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework		
3 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
4 (Adjustment for securities received under securities financing transactions that are recognised as an asset)		
5 (General credit risk adjustments to on-balance sheet items)		
6 (Asset amounts deducted in determining Tier 1 capital)	- 4.730	- 818
7 Total on-balance sheet exposures (excluding derivatives and SFTs)	80.545	47.827
Derivative exposures		
8 Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)		
EU-8a Derogation for derivatives: replacement costs contribution under the simplified standardised approach		
9 Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	590	10,6
EU-9a Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach		
EU-9b Exposure determined under Original Exposure Method	590	10,6
10 (Exempted CCP leg of client-cleared trade exposures) (SA-CCR)		
EU-10a (Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)		
EU-10b (Exempted CCP leg of client-cleared trade exposures) (Original Exposure Method)		
11 Adjusted effective notional amount of written credit derivatives		
12 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
13 Total derivatives exposures	590	10,6

Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions		
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
16	Counterparty credit risk exposure for SFT assets		
EU-16a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR		
17	Agent transaction exposures		
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)		
18	Total securities financing transaction exposures		
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	4.782	1.623
20	(Adjustments for conversion to credit equivalent amounts)		
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures)		
22	Off-balance sheet exposures	4.782	1.623
Excluded exposures			
EU-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)		
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) CRR (on and off balance sheet))		
EU-22c	(Excluded exposures of public development banks (or units) - Public sector investments)		
EU-22d	(Excluded exposures of public development banks (or units) - Promotional loans)		
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units))		
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)		
EU-22g	(Excluded excess collateral deposited at triparty agents)		
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)		
EU-22i	(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)		
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)		
EU-22k	(Total exempted exposures)		
Capital and total exposure measure			
23	Tier 1 capital	8.540	4.658
24	Total exposure measure	85.917	49.460
Leverage ratio			
25	Leverage ratio (%)	9,9%	9,4%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)		
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)		
26	Regulatory minimum leverage ratio requirement (%)	3%	3%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)		
EU-26b	of which: to be made up of CET1 capital		
27	Leverage ratio buffer requirement (%)	3%	3%
EU-27a	Overall leverage ratio requirement (%)	3%	3%
Choice on transitional arrangements and relevant exposures			
EU-27b	Choice on transitional arrangements for the definition of the capital measure		
Disclosure of mean values			
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable		
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables		
	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves)		
30	incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)		
	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves)		
30a	incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)		
	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)		
31	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)		
31a	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)		

EU LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	CRR leverage ratio exposures
EU-1 Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	85.275
EU-2 Trading book exposures	
EU-3 Banking book exposures, of which:	85.275
EU-4 Covered bonds	
EU-5 Exposures treated as sovereigns	47.827
EU-6 Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns	
EU-7 Institutions	10.943
EU-8 Secured by mortgages of immovable properties	889
EU-9 Retail exposures	
EU-10 Corporates	24.646
EU-11 Exposures in default	
EU-12 Other exposures (eg equity, securitisations, and other non-credit obligation assets)	970

After the capital increase in January 2021, the Bank has expanded in loans and money market exposures which had a decreasing effect over the leverage ratio.

4. Liquidity Risk

Liquidity risk is defined as the risk of incurring losses resulting from the inability to meet payment obligations in a timely manner when they become due or from being unable to do so at a sustainable cost. Liquidity risk is governed through Risk Appetite Statement Policy, and Liquidity Management Strategy and Policy. The purpose of the Bank's Liquidity portfolio is to provide buffer of high-quality liquid, marketable and unencumbered assets.

The Bank recognizes that its deposit base consists of predominantly financial customers. Concentration, transactional behaviour, and maturity is continuously monitored at bi-weekly ALCO meetings and by KRIs in daily and monthly Risk reports. Intraday liquidity is managed by Treasury Department through the usage of funds deposited in the Bank of Lithuania.

The Bank monitors short and long-term liquidity ratios i.e., Liquidity Coverage Ratio, Net Stable Funding Ratio, and maturity gap to treat liquidity risk.

Liquidity reporting is performed on monthly and quarterly basis to the Bank of Lithuania including Liquidity Coverage Ratio, Additional Liquidity Monitoring Matrix, Net Stable Funding Ratio. Daily and monthly monitoring is performed to ensure compliance with prudential requirements.

Bank uses stress testing in ICAAP&ILAAP and Recovery and Resolution Planning to determine potential vulnerabilities in liquidity planning.

EU LIQ1 - Quantitative information of LCR

		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on (DD Month YYY)	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					32.988	22.410	14.396	6.847
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	18.133	14.593	10.449	6.776	3.199	2.328	1.230	753
3	Stable deposits	-	-	-	-	-	-	-	-
4	Less stable deposits	18.133	14.593	10.449	6.776	3.199	2.328	1.230	753
5	Unsecured wholesale funding	-	-	-	-	-	-	-	-
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	25.847	11.214	3.965	-	13.224	4.125	991	-
7	Non-operational deposits (all counterparties)	19.111	21.316	16.592	9.515	16.341	18.460	14.156	8.178
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	-	-	-	-	-	-	-	-
11	Outflows related to derivative exposures and other collateral requirements	3.170	2.489	2.072	1.447	327	249	398	572
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	-	-	-	-	-	-	-	-
14	Other contractual funding obligations	558	1.410	1.482	1.527	-	-	-	-
15	Other contingent funding obligations	-	-	-	-	-	-	-	-
16	TOTAL CASH OUTFLOWS					33.090	25.162	16.776	9.503
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	0	0	0	0	0	0	0	0
18	Inflows from fully performing exposures	16.847	16.723	14.673	11.497	16.767	16.676	14.656	11.480
19	Other cash inflows	0	0	0	0	0	0	0	0
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from					0	0	0	0
EU-19b	(Excess inflows from a related specialised credit institution)					0	0	0	0
20	TOTAL CASH INFLOWS	16.847	16.723	14.673	11.497	16.767	16.676	14.656	11.480
EU-20a	Fully exempt inflows	0	0	0	0	0	0	0	0
EU-20b	Inflows subject to 90% cap	0	0	0	0	0	0	0	0
EU-20c	Inflows subject to 75% cap	33090,4507	25162,00664	16775,77396	9502,570669	24.818	18.872	12.582	7.127
		0	0	0	0	0	0	0	0
TOTAL ADJUSTED VALUE									
EU-21	LIQUIDITY BUFFER					32.988	22.410	14.396	6.847
22	TOTAL NET CASH OUTFLOWS					16.324	8.486	4.194	2.376
23	LIQUIDITY COVERAGE RATIO					202%	264%	343%	288%

Table EU LIQB on qualitative information on LCR, which complements template EU LIQ1

The LCR promotes the short-term resilience of a bank's liquidity risk profile. It does this by ensuring that a bank has an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted into cash easily and immediately in private markets to meet its liquidity needs for a 30-calendar day liquidity stress scenario.

The Bank monitors LCR daily. LCR follows a decreasing pattern due to the Bank's business strategy to work with financial customers. The Bank provides financial services to EMI/PIs on an increasing level. Correspondent banking services are rather limited. Concentration on funding sources constitutes of mostly financial clients demand deposits and retail term deposits. Increasing trend in retail deposit supports the funding of The Bank. To compensate the high outflow rates, the Bank keeps its liquidity buffer in the Bank of Lithuania account. More than half of the total assets are high quality in portfolio. The Bank has only insignificant number of exchange rate derivatives to hedge foreign currency positions. The Bank's currency positions are relatively unimportant and mainly concentrated on USD, GBP, and TRY. Therefore, LCR is not calculated for other currencies.

EU LIQ2 - Net Stable Funding Ratio

		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments					8.540
2	Own funds					8.540
3	Other capital instruments					
4	Retail deposits		23.341			21.007
5	Stable deposits					
6	Less stable deposits		23.341			21.007
7	Wholesale funding:		52.620			12.086
8	Operational deposits		22.999			11.500
9	Other wholesale funding		29.621			586
10	Interdependent liabilities					
11	Other liabilities:		558	82	150	191
12	NSFR derivative liabilities					
13	All other liabilities and capital instruments not included in the above categories					
14	Total available stable funding (ASF)					41.823
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					0
EU-15a	Assets encumbered for a residual maturity of one year or more in a cover pool					
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:					
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut					
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions					
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		1.452	1.176	22.722	20.628
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk					
22	Performing residential mortgages, of which:					
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk					
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		8.891	-	2.370	3.259
25	Interdependent assets					
26	Other assets:		970			485
27	Physical traded commodities					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets					
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories					
32	Off-balance sheet items		-	-	4.782	239
33	Total RSF					24.611
34	Net Stable Funding Ratio (%)					170%

5. Credit Risk

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Loans are treated at Chief Executive Officer, Credit Committee, Management Board, and Supervisory Board authorization levels as per the Credit Decisions Making and Authorization Policy

5.1. Credit Quality

Table EU CRB: Additional disclosure related to the credit quality of assets

The Bank aims to keep its credit risk appetite in line with the risk appetite definition that has been approved by the Supervisory Board as medium risk and manages with a relevant set of KRIs including the total credit exposure to corporate client with risk grades corresponding PD threshold level and higher as a % of total corporate loan portfolio. Another metrics that's been applied as a KRI is the total non-EU country corporate exposure as % of total corporate loan portfolio exposure which is tracked regularly and under management scrutiny by monthly risk reports.

The Bank's takes into account ESG considerations upon credit decision making. While managing the loan portfolio, main consideration is having a balanced portfolio among industries, thus being not overexposed to specific industry segments. This is balanced by 2 sets of KRIs which limit the ratio allocated per each segment within total loan portfolio.

Main client segments of the Bank are manufacturing, agriculture, wholesale and retail trade, transportation, rental and leasing, real estate, and construction. On the other hand, in its expansion plans, Bank favours innovation and digitalization, sustainability and SME competitiveness in line with its growth strategy.

The Bank does not have any impaired loans.

Impairment of loans is recognized in the Bank– on an individual basis – in three stages under IFRS 9: Stage 1, Stage 2, Stage 3.

- Stage 1: when a loan is originated, Expected Credit Losses¹ (ECL) resulting from default events that are possible within the next 12 months are recognised (12-month ECL) and a loss allowance is established. On subsequent reporting dates, 12-month ECL also applies to existing loans with no significant increase in credit risk since their initial recognition. Interest revenue is calculated on the loan's gross carrying amount (that is, without deduction for ECLs). In determining whether a significant increase in credit risk has occurred since initial recognition, a Bank is to assess the change, if any, in the risk of default over the expected life of the loan.
- Stage2: if a loan's credit risk has increased significantly since initial recognition and is not considered low, lifetime ECLs are recognised. The calculation of interest revenue is the same as for Stage 1.
- Stage3: if the loan's credit risk increases to the point where it is considered credit-impaired, interest revenue is calculated same as for Stage 1 and Stage 2. Lifetime ECLs are recognized, as in Stage 2.

12-month ECL is the portion of lifetime ECLs associated with the possibility of a loan defaulting in the next 12 months. It is not the expected cash shortfalls over the next 12 months but the effect of the entire credit loss on a loan over its lifetime, weighted by the probability that this loss will occur in the next 12 months. It is also not the credit losses on loans that are forecast to actually default in the next 12 months. If an entity can identify such loans or a portfolio of such loans that are expected to have increased significantly in credit risk since initial recognition, lifetime ECLs are recognized.

According to Credit Monitoring and Administration Procedure, if the customers do not pay the principal or interest or commitment fee or more than one of them, they are obliged to pay to the bank on time, they are deemed to be in delay and the loan called “*past due loans*” from the 1st delay day. Customers who are in delay are monitored daily through delay lists and actions to be taken are determined with Credits, Sales. Bank actions are specified in the procedures in accordance with the banking legislation.

Days	Obligatory Actions
3 – 30 days	Relationship Manager calls to the customer to clarify the situation. If the customer indicates concrete day of covering the debt but the overdue is not covered on by that day, the Relationship Manager calls this day and clarifies reasons of the overdue. Sending reminder letter to the customer.
30 – 60 days	Repeated call, an analysis on reasons of overdue and possible credit restructuring. Sending reminder letter to the customer. An active cooperation with the customer regarding search for solution.
60 – 90 days	Sending warning letter if no other written agreements for debt payment were signed with the customer.
>90 days	Initiating enforcement procedures.

When an Early Warning Indicator has been triggered for closer monitoring and further investigation (whether the customer is past due or not) immediate action shall be taken in accordance with the credit risk policies and procedures of the Bank. The designated functions shall perform an analysis in order to assess the severity of the triggered event and to propose suitable action and follow-up. This analysis shall, without undue delay, be presented to the relevant credit decision-makers designated in the Credit Decision making and Authorisation Policy. Relevant credit decision-makers should, based on the abovementioned analysis and other relevant accessible information, decide on the appropriate next steps. The decision should be documented and should be communicated to relevant parts of the Bank for action and follow-up. In any case above 30+ past due loans are taken into watch list.

Past due more than 30 days of any customer’s financial instrument is also taken into stage 2. And after 90 days it transferred to stage 3.

In accordance with the EBA Guidelines on credit risk management practices and accounting for expected credit losses (EBA/GL/2017/06), uncollectability is recognised in the appropriate period through loss allowances or write-offs. When the Bank has no reasonable expectation of recovering contractual cash flow of the exposure it leads to a partial or full write-off of the exposure (IFRS 9.B3.2.16.r).

EU CR1 - Performing and non-performing exposures and related provisions

	Gross carrying amount/nominal amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					Accumulated partial write-off	Collateral and financial guarantees received			
	Performing exposures		Non-performing exposures			Performing exposures – accumulated impairment and provisions		Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures		
	Of which stage 1	Of which stage 2	Of which stage 2	Of which stage 3	Of which stage 1	Of which stage 2	Of which stage 2	Of which stage 3							
Cash balances at central banks and other demand deposits	54.626	54.626				-	1	-	1						
Loans and advances	29.773	29.773				-	93	-	93						
<i>Central banks</i>	-						-								
<i>General governments</i>	-						-								
<i>Credit institutions</i>	4.422	4.422				-	14	-	14						
<i>Other financial corporations</i>	-						-								
<i>Non-financial corporations</i>	25.351	25.351				-	79	-	79						
<i>Of which SMEs</i>	13.689	13.689				-	64	-	64						
<i>Households</i>	-						-								
Debt securities	-						-								
<i>Central banks</i>	-						-								
<i>General governments</i>	-						-								
<i>Credit institutions</i>	-						-								
<i>Other financial corporations</i>	-						-								
<i>Non-financial corporations</i>	-						-								
Off-balance-sheet exposures	4.782	4.782					-								
<i>Central banks</i>	-						-								
<i>General governments</i>	-						-								
<i>Credit institutions</i>	385	385					-								
<i>Other financial corporations</i>	-						-								
<i>Non-financial corporations</i>	4.397	4.397					-								
<i>Households</i>	-						-								
Total	89.181	89.181	-	-	-	-	94	-	94	0	0	0	0	0	0

EU CR1-A - Maturity of exposures

	Net exposure value					Total
	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	
Loans and advances		4.674	20.631	4.374		29.680
Debt securities						
Total		4.674	20.631	4.374		29.680

EU CQ3: Credit quality of performing and non-performing exposures by past due days

	Gross carrying amount/nominal amount										
	Performing exposures			Non-performing exposures							
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Cash balances at central banks and other demand deposits	54.626	54.626									
Loans and advances	29.773	29.773									
Central banks	-	-									
General governments	-	-									
Credit institutions	4.422	4.422									
Other financial corporations	-	-									
Non-financial corporations	25.351	25.351									
Of which SMEs	13.689	13.689									
Households	-	-									
Debt securities	-	-									
Central banks	-	-									
General governments	-	-									
Credit institutions	-	-									
Other financial corporations	-	-									
Non-financial corporations	-	-									
Off-balance-sheet exposures	4.782										
Central banks	-										
General governments	-										
Credit institutions	385										
Other financial corporations	-										
Non-financial corporations	4.397										
Households	-										
Total	89.181	84.399									

EU CQ5 - Credit quality of loans and advances to non-financial corporations by industry

	Gross carrying amount			Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
	Of which non-performing	Of which loans and advances subject to			
		Of which defaulted			
Agriculture, forestry and fishing	2.000			-	
Mining and quarrying					
Manufacturing	4.945			-	64
Electricity, gas, steam and air conditioning supply					
Water supply					
Construction	2.370				-
Wholesale and retail trade	1.852			-	0
Transport and storage	5.133			-	10
Accommodation and food service activities					
Information and communication					
Financial and insurance activities					
Real estate activities	8.054				-
Professional, scientific and technical activities	207				-
Administrative and support service activities	407			-	5
Public administration and defense, compulsory social security					
Education					
Human health services and social work activities	383				-
Arts, entertainment and recreation					
Other services					
Total	25.351			-	79

According to CRR, the columns “of which non-performing” and “of which loans and advances subject to impairment” in EU CQ5, are applicable to institutions with a threshold ratio on Non-performing loans and advances (NPL ratio) of 5% or above for three quarter. The Bank’s NPL ratio is 0%

EU CQ6 - Collateral valuation - loans and advances,

According to CRR, EU CQ6 is applicable to institutions with a threshold ratio on non-performing loans and advances (NPL ratio) of 5% or above. The Bank's NPL ratio is 0%.

5.2. Credit Risk Standardised Approach

Disclosure of the use of the standardised approach

The Bank adopts the standardized approach to calculate the capital requirements for credit risk. The Bank nominates three external credit assessment institutions (ECAIs): Standard & Poor's, Moody's, and Fitch. Exposures classes for which each ECAIs used are exposures to institutions and exposures to corporates.

Standardised Approach: Mapping of ECAIs' credit assessments to credit quality steps

Long term mapping

Credit Quality Step	Fitch's assessments	Moody's assessments	S&P assessments	Corporate	Institution (includes banks)			Sovereign
					Sovereign method	Credit Assessment method		
						Maturity > 3 months	Maturity 3 months or less	
1	AAA to AA-	Aaa to Aa3	AAA to AA-	20%	20%	20%	20%	0%
2	A+ to A-	A1 to A3	A+ to A-	50%	50%	50%	20%	20%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	100%	100%	50%	20%	50%
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	100%	100%	100%	50%	100%
5	B+ to B-	B1 to B3	B+ to B-	150%	100%	100%	50%	100%
6	CCC+ and below	Caa1 and below	CCC+ and below	150%	150%	150%	150%	150%

EU CR4 - Standardised approach - Credit risk exposure and CRM effects

Exposure classes	Exposures before CCF and before		Exposures post CCF and post CRM		RWAs and RWAs density	
	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWAs	RWAs density (%)
Central governments or central banks	47.827		47.827		-	0%
Regional government or local authorities						
Public sector entities						
Multilateral development banks						
International organisations						
Institutions	10.943	975	10.943	783	10.720	91%
Corporates	18.872	2.535	18.872	960	21.576	109%
Retail						
Secured by mortgages on immovable property	889	501	889	251	570	50%
Exposures in default						
Exposures associated with particularly high risk	5.773	1.361	5.773	402	9.263	150%
Covered bonds						
Institutions and corporates with a short-term credit assessment						
Collective investment undertakings						
Equity						
Other items	970	-	970	-	970	100%
TOTAL	85.274	5.372	85.274	2.395	43.098	49%

Template EU CR5 – Standardised approach risk weight distribution

Exposure classes	Risk weight															Total	Of which unrated	
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others			
Central governments or central banks	47.827																47.827	-
Regional government or local authorities																	-	-
Public sector entities																	-	-
Multilateral development banks																	-	-
International organisations																	-	-
Institutions	-	590	-	-	4.510	-	-	-	-	3.739	1.150	1.737	-	-			11.726	7.308
Corporates	-	-	-	-	-	-	-	-	-	7.882	11.951	-	-	-			19.832	19.832
Retail exposures																	-	-
Exposures secured by mortgages on immovable property	-	-	-	-	-	-	1.140	-	-	-	-	-	-	-			1.140	1.140
Exposures in default																	-	-
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	6.175	-	-	-			6.175	6.175
Covered bonds																	-	-
Exposures to institutions and corporates with a short-term credit assessment																	-	-
Units or shares in collective investment undertakings																	-	-
Equity exposures																	-	-
Other items	-	-	-	-	-	-	-	-	-	970	-	-	-	-			970	970
TOTAL	47.827	590	-	-	4.510	-	1.140	-	-	12.591	19.275	1.737	-	-	-	-	87.669	35.425

5.3 Counterparty Credit Risk

Counterparty credit risk (CCR) is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The Bank applies "Original exposure method" as per CRR Article 282. The Bank performs forward transactions to hedge foreign exchange risk. Counterparty credit risk is calculated in line with CRR Article 282 (3)(b) and (4)(b)(iii).

6. Market Risk

Market risk is defined as the risk of losses arising from movements in market prices. The Bank is not involved in trading activities on its behalf, nor it has a trading book. Market risk in practice corresponds to foreign exchange risk, which is monitored daily. The Bank applies CRR Article 351 and calculates own funds requirement for foreign exchange risk when its open position exceeds 2% of its total own funds namely CET 1 capital. Bank does not exceed 2% and allocate capital for market risk by the end of year.

7. Interest Rate Risk in the Banking Book

Interest rate risk in the banking book (IRRBB) refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions. When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of a bank's assets, liabilities, and off-balance sheet items and hence its economic value. Management Board retains the responsibility of effective management of IRRBB. Bank performs Interest rate gap report regularly in compliance with regulations. Economic Value of Equity (EVE) and Net Interest Income (NII) are monthly calculated and informed to the Management. Detailed stress and scenario analysis are performed in ICAAP/ILAAP process.

8. Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank does not want to be exposed to Operational Risk. However, this is inevitable since Operational Risk is inherent in all banking products, processes, services, models, functions and IT-systems. The Bank risk appetite for Operational Risk is low, this applies on Risk Type level as well as for all Operational Risk Subtypes. A low-risk appetite means that the Bank shall manage Operational Risk to be resilient and not experience disruptions, reputational impact and operational losses in accordance with the principles set in this Policy. Operational Risk management shall be conducted according to a sound practice.

The Bank uses Basic Indicator Approach (BIA) to treat operational risk from a capital adequacy perspective

EU OR1 - Operational Risk Measurement

	Banking activities	Relevant indicator			Own funds requirements	Risk exposure amount
		31 Dec 2023	31 Dec 2022	31 Dec 2021		
1	Banking activities subject to basic indicator approach (BIA)	8	338	4286	232	2895
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches					
3	<u>Subject to TSA:</u>					
4	<u>Subject to ASA:</u>					
5	Banking activities subject to advanced measurement approaches AMA					