European Merchant Bank UAB

Risk Management and
Capital Adequacy Report
Pillar 3 Annual Report Q4/2023

Contents

1. Introduction

European Merchants Bank`s (The Bank) Risk Management and Capital Adequacy Report - Q4/2023 is prepared in accordance with the following regulatory texts:

- the requirements of 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.'
- Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 EBA/GL/2016/11, 04/08/2017
- Recommended voluntary ESG disclosures (Sustainability Disclosure of Information Recommendations, BoL, January 2023)

The Bank is a specialized Bank established in Lithuania and focuses on innovative international financial services. The Bank's mission is to provide its customers with payment-related products, 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.

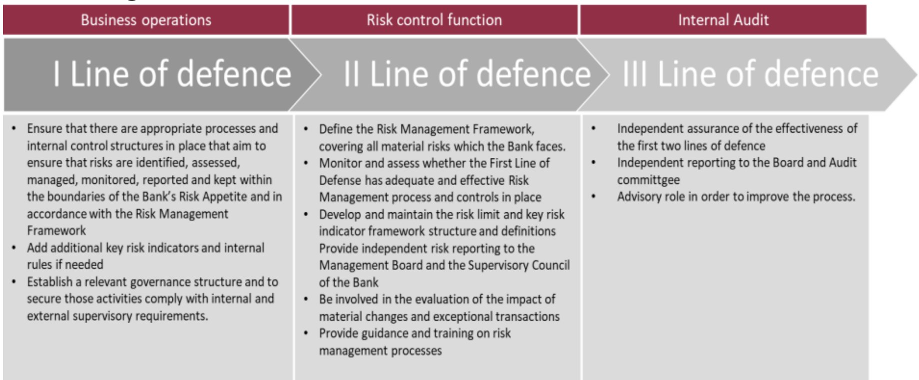
This document has not been audited and does not form part of the Bank`s audited financial statements. It has been attested by the Management Board of the Bank.

The disclosures presented below are based on 2023-12-31 financial figures.

2. Risk Management Approach

Table 1: EU OVA – Institution risk management approach

Article 435(1)(f) in Articles 435(1)(c) and 435(2)(e)	(a)	• The Bank`s EERM framework is governed by the Bank`s Enterprise Risk Management Policy, Risk Taxonomy, Risk Appetite Statement Policy, and Policy on Risk Organization (Overarching Risk Policies) that were approved by the Supervisory Board on June 13th, 2023. These overarching risk policies are supported by individual risk policies for each risk in the Risk Taxonomy. 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, which is further implemented through the risk limit framework regulated by the Limits & Key Risk Indicators Policy. • The Bank through its Strategic Planning process governed by Strategic Management Guidelines and Strategic Risk Management Policy continually assesses the market and organizational developments related to its business model, evaluates the related existing and emerging risks and annually revises its Risk Appetite Statement with respect to its material risks. • The performance of the Bank and its resulting risk profile is continuously monitored vis-a-vie the defined risk appetite per risk type by means of Key Risk Indicators and Limits, and reported daily, bi-weekly, and monthly to the Management Board.

Article 435(1)(b)	(b)	• The Bank`s Enterprise Risk Management (ERM) framework is jointly owned by the Chief Risk Officer and Compliance Officer. (This report covers the Chief Risk Officer’s scope only.) • The Bank`s Enterprise Risk Management (ERM) framework and governance structure are based on the Three Lines of Defence model with clearly defined roles and responsibilities of each level in the organization. 
	(b)	• The Bank has a two-tiered board structure: Supervisory Board consists of three members and Management Board 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 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 consists of 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 Internal Audit, Compliance Manager, COO. • The Compliance Officer was reappointed in 2023.
Article 435(1)(b)	(c)	• Business Lines as First Line of Defense are responsible for effective management of their relevant risks and the Key Risk Indicators under their ownership. Risk culture in the Bank is fostered through risk conscious strategic planning and continuous risk trainings by the Second Line of Defense Risk function.
Article 435(1)(c) Article 435(2)(e)	(d) (e)	• Second Line of Defense Risk function conducts daily, bi-weekly, and monthly risk monitoring reporting to Management Board and ALCO, and quarterly to Supervisory Board with respect to the risk profile of the Bank in terms of the material risks defined in its Risk Taxonomy and revised annually as per to Strategic Planning lifecycle.
Article 435(1)(a)	(f)	• The Bank conducts an annual Stress Testing Program in the context of Internal Capital and Liquidity Assessment processes and runs both a macroeconomic and a bank-specific adverse scenarios as well as reverse stress testing. The Bank specifies and reports risk mitigation action plans in its annual ICAAP/ILAAP assessment report.

3. Renumeration Policy

The Bank's remuneration scheme consists of the following:

1. Fixed remuneration component (fixed salaries)
2. Additional benefits
3. Variable remuneration component (annual variable remuneration and one-time bonuses). Guaranteed variable remuneration is not applicable.

Employees are subject to an equal pay system, without discrimination based on gender, age, nationality, race, social status, religion, social orientation, etc.

An employee’s total remuneration package is determined based on the role and position of the individual employee, professional experience, seniority, education, responsibility, job complexity, market conditions, the results of the business unit in which the employee is employed, the individual’s performance, the remuneration range applicable to the job position level.

Bank’s Fixed Salary Principles:

Fixed salary is the 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, and the remuneration range applicable to the job position level.

Additional Benefits:

On an initiative of the Bank benefits may be granted to employees as long-term or short-term benefits or allowances that may be received by the employees (e.g., health insurance, additional leave days, etc.). Benefits 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 without providing an incentive to take risks, and therefore they are not considered to be a remuneration for the work, or functions performed. Benefits are irrevocable for the validity of the benefits provided term of office and / or if the employee occupies a certain role to which the specific benefit is assigned.

Performance Based Variable Remuneration

The portion of remuneration consists of an immediate portion and a deferred portion (when applicable) to promote trustworthy and effective risk management.

The Bank does not offer guaranteed variable remuneration. A variable remuneration fund is formed only after assessing the Bank’s performance, considering current and future risks, costs of the capital employed and liquidity support needs. The variable remuneration fund and its size must not limit the ability of the Bank to strengthen its capital base.

Variable remuneration is paid by linking the employee's individual performance goals with the Bank's long-term interests. Variable remuneration shall be paid in cash - in full at once or deferred in parts (when applicable).

One-time Bonuses

One – time bonus is paid to all employees regardless of their seniority level, work experience within the Bank and (or) other aspects of the employment relationship between the Bank and the employee. One-time bonus is paid to all employees as an equal percentage of the monthly salary of each employee.

Deferred Payments

When deferral is applicable, the actual payment to the employee for that year and deferral amounts & schedules should be followed under the following schema:

- Up to the amount equivalent to 25% of the employee's annual fixed remuneration is paid in cash as variable remuneration in Year 1 (reporting year).
- The amount (if applicable) equivalent to between 25% - 40% of an employee's annual fixed remuneration is deferred to Year 2 to be paid in cash as variable remuneration.
- The amount (if applicable) equivalent to over 40% of employee's annual fixed remuneration is deferred to Year 3 to be paid in cash as variable remuneration.

Detailed information regarding the Remuneration is provided in a separate Remuneration Policy and published on https://em.bank/corporate-governance/.

As of 31 December 2023, the Bank has 20 risk-takers. The average salary of the risk takers is gross EUR

7948 (seven thousand, nine hundred, forty- eight euros) as of the end of year.

Template EU REM1 - Remuneration awarded for the financial year

		Supervisory Function	Management Function	Other Senior Management	Other Identified Staff
Fixed Remuneration	No of identified staff	4	5	7	4
	Total Fixed Remuneration	**454,064**	**647,667**	**560,718**	**125,177**
	Of which cash based	454,064	647,667	560,718	125,177
	(Not applicable in the EU)				
	Of which: shares or equivalent ownership interests				
	Of which: share-linked instruments or equivalent non-cash instruments				
	Of which: other instruments				
	(Not applicable in the EU)				
	Of which: other forms				
	(Not applicable in the EU)				
Variable Remuneration	No of identified staff	4	5	7	4
	Total Variable Remuneration*	**0**	**123,584**	**83,651**	**9,452**
	Of which cash-based	0	123,584	83,651	9,452
	Of which: deferred				
	Of which: shares or equivalent ownership interests				
	Of which: deferred				
	Of which: share-linked instruments or equivalent non-cash instruments				
	Of which: deferred				
	Of which: other instruments				
	Of which: deferred				
	Of which: other forms				
	Of which: deferred				
	Total Remuneration (2+10)	**454,064**	**771,251**	**644,369**	**134,629**

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 Control Functions**	**All Other**	**Total**
1	Total No of Identified Staff										20
2	Of which: members of the MB	4	5	9							
3	Of which: other senior management				0	0	0	0	2	5	
4	Of which: other identified staff				0	0	0	0	2	2	
5	Total remuneration of identified staff	454,064	771,251	1,225,315	0	0	0	0	216,998	562,000	
6	Of which: variable remuneration*	0	123,584	123,584	0	0	0	0	17,829	75,275	
7	Of which: fixed remuneration	454,064	647,667	1,101,731	0	0	0	0	199,169	486,725	

4. Position

EU OV1 - Overview of risk weighted exposure amounts.

		Total risk exposure amounts (TREA)		Total own funds requirements
		31/12/2023	31/12/2022	31/12/2023
1	**Credit risk (excluding CCR)**	149,660	115,017	40,119
2	Of which the standardised approach	149,660	115,017	40,119
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**	1,008	560	12,599
EU 23a	Of which basic indicator approach	1,008	560	12,599
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**	**150,668**	**115,577**	**52,718**

EU KM1 - Key metrics

		31/12/2023	30/09/2023	30/06/2023	31/03/2023	31/12/2022
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	9,274	8,528	8,513	8,468	8,663
2	Tier 1 capital	9,274	8,528	8,513	8,468	8,663
3	Total capital	9,274	8,528	8,513	8,468	8,663
	Risk-weighted exposure amounts					
4	Total risk exposure amount	52,718	47,061	44,656	38,763	52,718
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	17.6%	18.1%	19.1%	21.8%	22.8%
6	Tier 1 ratio (%)	17.6%	18.1%	19.1%	21.8%	22.8%
7	Total capital ratio (%)	17.6%	18.1%	19.1%	21.8%	22.8%
	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 (%)	0.74%				
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 (%)	13.54%	12.8%	12.8%	12.8%	12.8%
12	CET1 available after meeting the total SREP own funds					
	Leverage ratio					
13	Total exposure measure	146,165	123,057	129,408	103,030	113,842
14	Leverage ratio (%)	6.3%	6.9%	6.6%	8.2%	7.6%
	Additional own funds requirements to address the risk of excessive					
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)	28,109	27,190	28,418	25,642	40,455
EU 16a	Cash outflows - Total weighted value	72,117	51,104	53,703	49,211	52,744
EU 16b	Cash inflows - Total weighted value	54,088	38,328	64,734	49,161	39,558
16	Total net cash outflows (adjusted value)	18,029	12,776	13,426	12,303	13,186
17	Liquidity coverage ratio (%)	155.9%	212.8%	211.7%	208.4%	306.8%
	Net Stable Funding Ratio					
18	Total available stable funding	65,887	61,915	65,083	46,737	50,198
19	Total required stable funding	29,856	27,627	27,851	22,160	21,724
20	NSFR ratio (%)	220.7%	222.6%	232.3%	208.9%	231.1%

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	- 3,326	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)	- 1,945	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)	- 755	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)**	- 2,700	c+d
29	**Common Equity Tier 1 (CET1) capital**	**9,274**	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)**	**9,274**
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**	**9,274**
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)**	**9,274**
60	**Total Risk exposure amount**	**52,719**

Capital ratios and requirements including buffers		
61	Common Equity Tier 1 capital	9,274
62	Tier 1 capital	9,274
63	Total capital	9,274
64	Institution CET1 overall capital requirements	13.5%
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**	9,274
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

	31/12/2023	31/12/2022	Reference
Assets			
Cash and cash equivalents	107,580	87,897	
Bonds at amortized cost	415		
Loans to customers	35,925	23,726	
Derivatives	12	5	
Intangible assets	1,945	1,616	c
Tangible assets	28	37	
Right of use assets	50	188	
Deferred tax asset	755	603	d
Trade and other receivables	136	222	
Other assets	794	684	
Total Assets	**147,640**	**114,978**	
Liabilities			
Deposits from financial institutions	75,063	60,309	
Deposits from public	58,699	41,410	
Derivatives			
Lease liabilities	-	143	
Trade and other payables	312	313	
Other liabilities	1,593	1,921	
Total Liabilities	**135,667**	**104,096**	
Equity			
Capital	15,300	15,300	b
Retained earnings (loss)	-3327	-4418	a
Total Equity	**11,973**	**10,882**	
Total Equity and Liabilities	**147,640**	**114,978**	

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
	Regulatory treatment	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 d	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 N/A
16	Subsequent call dates, if applicable	N/A

	Coupons / dividends	N/A
17	Fixed or floating dividend/coupon	N/A
		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	147,640
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	41
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)	294
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	- 2,700
EU-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	617
EU-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR)	273
12	Other adjustments	
13	**Total exposure measure**	146,165

EU LR2 - LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures	
		31 Dec 2023	31 Dec 2022
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	146,761	114,978
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)	- 2,700	- 2,219
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**144,061**	**112,759**
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	41	38
EU-9a	Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach		
EU-9b	Exposure determined under Original Exposure Method	41	38
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**	**41**	**38**
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	890	1,036
20	(Adjustments for conversion to credit equivalent amounts)		
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated associated with off-balance sheet exposures)		
22	**Off-balance sheet exposures**	**890**	**1,036**
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**	9,274	8,663
24	**Total exposure measure**	**146,165**	**113,842**
Leverage ratio			
25	Leverage ratio (%)	6.3%	7.6%
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		
30	Total exposure measure (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)		
30a	Total exposure measure (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)		
31	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)		
31a	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)		

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:**	**146,761**
EU-2	Trading book exposures	
EU-3	Banking book exposures, of which:	146,761
EU-4	Covered bonds	
EU-5	Exposures treated as sovereigns	106,210
EU-6	Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns	
EU-7	Institutions	3,649
EU-8	Secured by mortgages of immovable properties	463
EU-9	Retail exposures	
EU-10	Corporates	32,705
EU-11	Exposures in default	
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	3,734

5. 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 are continuously monitored bi-weekly at ALCO meetings and by KRIs in daily and monthly Risk reports. Intraday liquidity is managed 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 are performed to ensure compliance with prudential requirements.

The 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 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
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)					29,352	26,682	26,763	26,849
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	43,676	41,040	42,193	43,102	4,796	4,378	4,410	4,629
3	*Stable deposits*	-	-	-	-	-	-	-	-
4	*Less stable deposits*	43,676	41,040	42,193	43,102	4,796	4,378	4,410	4,629
5	Unsecured wholesale funding	-	-	-	-	-	-	-	-
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	36,882	30,706	28,549	26,475	42,128	37,662	37,434	37,224
7	*Non-operational deposits (all counterparties)*	8,814	8,666	9,305	9,436	12,284	12,145	13,076	13,503
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	*Secured wholesale funding*					-	-	-	-
10	Additional requirements	-	-	-	-	-	-	-	-
11	*Outflows related to derivative exposures and other collateral requirements*	-	-	-	-	-	-	-	-
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	3,450	3,212	3,108	3,170	345	321	311	317
14	Other contractual funding obligations	1,076	1,021	1,036	1,050	-	-	-	-
15	Other contingent funding obligations	-	-	-	-	-	-	-	-
16	TOTAL CASH OUTFLOWS					59,552	54,508	55,230	55,672
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	63,140	58,211	59,373	60,100	62,939	58,012	59,156	59,894
19	Other cash inflows	-	-	-	-	-	-	-	-
EU-19a	(Difference between total weighted inflows and total weighted outflows arising					- -	- -	- -	- -
EU-19b	(Excess inflows from a related specialised credit institution)					- -	- -	- -	- -
20	TOTAL CASH INFLOWS	63,140	58,211	59,373	60,100	62,939	58,012	59,156	59,894
EU-20a	*Fully exempt inflows*	- -	- -	- -	- -	- -	- -	- -	- -
EU-20b	*Inflows subject to 90% cap*	- -	- -	- -	- -	- -	- -	- -	- -
EU-20c	*Inflows subject to 75% cap*	59,552 -	54,507 -	55,230 -	55,672 -	44,664 -	40,881 -	41,423 -	41,754 -
TOTAL ADJUSTED VALUE									
EU-21	LIQUIDITY BUFFER					29,352	26,682	26,763	26,849
22	TOTAL NET CASH OUTFLOWS					14,888	13,627	13,808	13,918
23	**LIQUIDITY COVERAGE RATIO**					**197%**	**196%**	**194%**	**193%**
						198%	**180%**	**178%**	**176%**

Table EU LIQB on qualitative information on LCR, which complements template EU LIQ1 in accordance with Article 451a (2) CRR.

LCR measures the short-term resilience of a bank's liquidity risk profile 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 in case of 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 (Electronic Money Institutions/Payment Institutions). Correspondent banking services are rather limited. Concentration on funding sources results mostly from financial clients` demand deposits and retail term deposits. Increasing trend in retail deposits 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 in the portfolio are of high quality. The Bank has only insignificant amount of foreign exchange derivatives to hedge foreign currency positions. The Bank’s currency position is 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				**9,274**	**9,274**
2	*Own funds*				9,274	9,274
3	*Other capital instruments*					
4	Retail deposits		**49,157**			**44,241**
5	*Stable deposits*					
6	*Less stable deposits*		49,157			44,241
7	Wholesale funding:		**84,936**			**12,372**
8	*Operational deposits*		18,914			9,457
9	*Other wholesale funding*		66,022			2,915
10	Interdependent liabilities					
11	Other liabilities:		1,844	-	-	-
12	*NSFR derivative liabilities*					
13	*All other liabilities and capital instruments not included in the above*					
14	**Total available stable funding (ASF)**					**65,887**
	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					
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:*		3,958	4,594	24,560	25,152
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*		1,461	620	1,795	2,251
25	Interdependent assets					
26	Other assets:		1,034			517
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		-	-	3,633	182
33	**Total RSF**					**28,102**
34	**Net Stable Funding Ratio (%)**					**221%**

6. Credit Risk

Credit risk is 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 in compliance with the Credit Decision Making and Authorization Policy.

6.1. 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 was approved by the Supervisory Board as medium risk and manages with a relevant set of KRIs including the total credit exposure to corporate clients with risk grades corresponding PD threshold levels and higher as a % of total corporate loan portfolio. Another metric that is 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.

While managing the loan portfolio, main consideration is having a balanced portfolio among industries in order not to be overexposed to specific industry segments. This is balanced by two sets of KRIs which limit the ratio allocated to each segment within total loan portfolio.

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

The Bank has two impaired loans with the gross amount of 1.754 K Euros and provision was calculated for 581K Euros.

Following IFRS9 loans are classified by stages: Impairment of loans is recognized 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 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 loan"* 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 dure 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 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), non-collectability 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

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		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			
005	**Cash balances at central banks and other demand deposits**	**30,645**	**30,645**		**-**			**- 3**	**- 3**		**-**					
010	**Loans and advances**	**35,527**	**35,527**		**1,754**		**1,754**	**- 167**	**- 163**	**- 3**	**- 581**	**-**	**581**			
020	*Central banks*	-			-			-			-					
030	*General governments*	-			-			-			-					
040	*Credit institutions*	2,415	*2,415*		-			- 28	- 28	-	-					
050	*Other financial corporations*	-			-			-			-					
060	*Non-financial corporations*	32,684	*32,684*		1,754		1,754	- 139	- 136	- 3	- 581	-	581			
070	*Of which SMEs*	24,319	*24,319*		-		-	- 85	- 85		-		-			
080	*Households*	-			-			-			-					
090	**Debt securities**	**428**	**428**		**-**			**- 12**	**- 12**		**-**					
100	*Central banks*	-			-			-			-					
110	*General governments*	-			-			-			-					
120	*Credit institutions*	-			-			-			-					
130	*Other financial corporations*	-			-			-			-					
140	*Non-financial corporations*	428	*428*		-			- 12	- 12		-					
150	**Off-balance-sheet exposures**	**3,633**	***3,633***		**-**			**-**	**-**		**-**					
160	*Central banks*	-			-			-			-					
170	*General governments*	-			-			-			-					
180	*Credit institutions*	-	-		-			-			-					
190	*Other financial corporations*	-			-			-			-					
200	*Non-financial corporations*	3,633	3,633		-			-			-					
210	*Households*	-			-			-			-					
220	**Total**	**70,232**	**70,232**	**-**	**1,754**	**-**	**1,754**	**- 183**	**- 179**	**-3**	**-581**	**0**	**-581**	**0**	**0**	**0**

EU CR1-A - Maturity of exposures

	a	b	c	d	e	f
	Net exposure value					
	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
Loans and advances		9,172	25,424	2,684		37,280
Debt securities						
Total		9,172	25,424	2,684		37,280

EU CR2: Changes in the stock of non-performing loans and advances

		Gross carrying amount
010	**Initial stock of non-performing loans and advances**	**21**
020	Inflows to non-performing portfolios	1,754
030	Outflows from non-performing portfolios	21
040	Outflows due to write-offs	21
050	Outflow due to other situations	-
060	**Final stock of non-performing loans and advances**	**1,754**

EU CQ1: Credit quality of forborne exposures

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
			Of which defaulted	Of which impaired				
Cash balances at central banks and other demand deposits								
Loans and advances	713	1,506	1,506	1,506	-2	-549	1,668	957
Central banks								
General governments								
Credit institutions								
Other financial corporations								
Non-financial corporations	713	1,506	1,506	1,506	-2	-549	1,668	957
Households								
Debt Securities								
Loan commitments given								
Total	713	1,506	1,506	1,506	-2	-549	1,668	957

EU CQ2: Quality of forbearance

		Gross carrying amount of forborne exposures
010	Loans and advances that have been forborne more than twice	
020	Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	

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

	a	b	c	d	e	f	g	h	i	j	k	l
	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	**30,645**	**30,645**										
Loans and advances	**35,527**	**35,527**		**3,055**	**1,301**	**-**	**-**	**-**	**-**	**-**	**-**	**1,754**
Central banks	-	-		**-**								
General governments	-	-		**-**								
Credit institutions	2,415	2,415		**-**								
Other financial corporations	-	-		**-**								
Non-financial corporations	32,684	32,684		**3,055**	**1,301**							**1,754**
Of which SMEs	24,319	24,319		**1,301**	**1,301**							**-**
Households	-	-		**-**								
Debt securities	**428**	**428**		**-**								
Central banks	-	-		**-**								
General governments	-	-		**-**								
Credit institutions	-	-		**-**								
Other financial corporations	-	-		**-**								
Non-financial corporations	428	428		**-**								
Off-balance-sheet exposures	**3,633**											
Central banks	-											
General governments	-											
Credit institutions	-											
Other financial corporations	-											
Non-financial corporations	3,633											
Households	-											
Total	**70,232**	**66,172**		**3,055**	**1,301**	**-**	**-**	**-**	**-**	**-**	**-**	**1,754**

EU CQ4: Quality of non-performing exposures by geography

		a	b	c	d	e	f	g
		Gross carrying/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
010	***On-balance-sheet exposures***	***1,754***	***1,754***	***1,754***	***1,754***	***-581***		
020	*Lithuania*	1,754	1,754	1,754	1,754	-581		
070	*Other countries*							
080	***Off-balance-sheet exposures***	-						
090	*Lithuania*							
140	*Other countries*							
150	***Total***	1,754	1,754	1,754	1,754	-581		

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

		a	b	c	d	e	f
		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 impairment**		
				Of which defaulted			
010	Agriculture, forestry and fishing	2,262	247	247	-	37	
020	Mining and quarrying						
030	Manufacturing	4,063			-	12	
040	Electricity, gas, steam and air conditioning supply						
050	Water supply						
060	Construction	780			-	1	
070	Wholesale and retail trade	7,148			-	20	
080	Transport and storage	6,528	1,506	1,506	-	566	
090	Accommodation and food service activities						
100	Information and communication						
110	Financial and insurance actvities						
120	Real estate activities	9,260			-	58	
130	Professional, scientific and technical activities	163				-	
140	Administrative and support service activities	1,839			-	9	
150	Public administration and defense, compulsory social security						
160	Education						
170	Human health services and social work activities	410				-	
180	Arts, entertainment and recreation	1,984			-	20	
190	Other services				-	12	
200	**Total**	**34,438**	**1,754**	**1,754**	**- -**	**735**	**-**

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 0,08%

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 0,08%.

6.2. 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&Passessments	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 CRM		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	106,210	-	106,210	-	-	0%
Regional government or local authorities						
Public sector entities						
Multilateral development banks						
International organisations						
Institutions	3,681	-	3,651	-	5,563	152%
Corporates	30,742	3,633	30,658	891	28,573	91%
Retail						
Secured by mortgages on immovable property	464	-	463	-	232	50%
Exposures in default			1,173		1,760	150%
Exposures associated with particularly high risk	2,100	-	2,086	-	3,129	150%
Covered bonds						
Institutions and corporates with a short-term credit assessment						
Collective investment undertakings						
Equity						
Other items	1,034	-	1,034	-	864	84%
TOTAL	**144,231**	**3,633**	**145,275**	**891**	**40,120**	**27%**

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	106,210															106,210	-
Regional government or local authorities																-	
Public sector entities																-	
Multilateral development banks																-	
International organisations																-	
Institutions	-	-	-	-	1,264	-	-	-	-	-	657	1,730	-	-		3,651	271
Corporates	-	-	-	-	-	-	144	-	-	25,129	6,276	-	-	-		31,549	31,549
Retail exposures																-	-
Exposures secured by mortgages on immovable property	-	-	-	-	-	-	463	-	-	-	-	-	-	-		463	463
Exposures in default											1,173					1,173	1,173
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	2,086	-	-	-		2,086	2,086
Covered bonds																-	-
Exposures to institutions and corporates with a short-term credit assessment																-	-
Units or shares in collective investment undertakings																-	-
Equity exposures																-	-
Other items	-	-	-	-	96	-	186	-	-	752	-	-	-	-		1,034	1,034
TOTAL	**106,210**	**-**	**-**	**-**	**1,360**	**-**	**793**	**-**	**-**	**25,881**	**10,192**	**1,730**	**-**	**-**	**-**	**146,166**	**36,576**

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).

EU CCR1 – Analysis of CCR exposure by approach

		a	b	c	d	e	f	g	h
		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU-1	EU - Original Exposure Method (for derivatives)	29	16		1.4	41	41	41	41
EU-2	EU - Simplified SA-CCR (for derivatives)				1.4				
1	SA-CCR (for derivatives)				1.4				
2	IMM (for derivatives and SFTs)								
2a	*Of which securities financing transactions netting sets*								
2b	*Of which derivatives and long settlement transactions netting sets*								
2c	*Of which from contractual cross-product netting sets*								
3	Financial collateral simple method (for SFTs)								
4	Financial collateral comprehensive method (for SFTs)								
5	VaR for SFTs								
6	**Total**								

EU CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights

	Exposure classes	Risk weight											
		a	b	c	d	e	f	g	h	i	j	k	l
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
1	Central governments or central banks												
2	Regional government or local authorities												
3	Public sector entities												
4	Multilateral development banks												
5	International organisations												
6	Institutions												
7	Corporates									41			41
8	Retail												
9	Institutions and corporates with a short-term credit assessment												
10	Other items												
11	**Total exposure value**												

EU CCR8 – Exposures to CCPs

		a	b
		Exposure value	RWEA
1	**Exposures to QCCPs (total)**		
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which		
3	(i) OTC derivatives		
4	(ii) Exchange-traded derivatives		
5	(iii) SFTs		
6	(iv) Netting sets where cross-product netting has been approved		
7	Segregated initial margin		
8	Non-segregated initial margin		
9	Prefunded default fund contributions		
10	Unfunded default fund contributions		
11	**Exposures to non-QCCPs (total)**		
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	41	41
13	(i) OTC derivatives	41	41
14	(ii) Exchange-traded derivatives		
15	(iii) SFTs		
16	(iv) Netting sets where cross-product netting has been approved		
17	Segregated initial margin		
18	Non-segregated initial margin		
19	Prefunded default fund contributions		
20	Unfunded default fund contributions		

7. 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, and it does not carry a trading book either. 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.

EU MR1 - Market risk under the standardised approach

		a
		RWEAs
	Outright products	
1	Interest rate risk (general and specific)	
2	Equity risk (general and specific)	
3	Foreign exchange risk	23
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus approach	
7	Scenario approach	
8	Securitisation (specific risk)	
9	**Total**	23

8. 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 generates 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.

In 2023, the Bank initiated using Moody's Risk Confidence Module (RCO), the results of 2023.12.31 reflect this tool's output, whereas results of 2022.12.31 reflect calculations of manual nature. RCO uses behavioural assumptions while calculating non-maturing deposits maturity. Non-maturing deposits are assigned a maturity (runoff rate) by a combination of BOL recommendations, LCR and NSFR run off ratios. Vostro accounts and accounts owned by financial institutions were assumed to mature over-night. Safeguard accounts and Corporate current accounts are distributed to maturity buckets by percentage. 36 % of these accounts matures within the first month, 14 % matures during the first year while the rest matures up to five years on an average.

The Bank carries downside NII risk and mitigates this risk by means of balance sheet maturity management.

EU IRRBB1 - Interest rate risks of non-trading book activities

Supervisory shock scenarios		a	b	c	d
		Changes of the economic value of equity		Changes of the net interest income	
		2023-12-31	2022-12-31	2023-12-31	2022-12-31
1	Parallel up	32	-30	831	195
2	Parallel down	-58	60	-843	-195
3	Steepener	-47	-45		
4	Flattener	30	52		
5	Short rates up	38	129		
6	Short rates down	-72	-132		

9. 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		a	b	c	d	e
		Relevant indicator			Own funds requirements	Risk exposure amount
		31/12/2021	31/12/2022	31/12/2023		
1	Banking activities subject to basic indicator approach (BIA)	4,286	6,569	9,304	1,008	12,599
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches					
3	*Subject to TSA:*					
4	*Subject to ASA:*					
5	Banking activities subject to advanced measurement approaches AMA					

10.ESG Risk Disclosures

The Bank implemented its ESG framework in 2023 and approved ESG Policy, Materiality Assessmment Procedure and Methodology. In this framework, the following has been accomplished:

- To assess the impact of climate- related risks and opportunities on the Bank`s business model and strategy, the Bank conducted a double materiality assessment for ESG risks in 2023. The double materiality principle recognizes that an ESG topic should be assessed from two perspectives: the impact of ESG factors on the Bank's operations and developments (the "outside-in view") and the impact of the Bank on people and the environment (the "inside-out view"). Double materiality assessment involved impact materiality assessment of the Bank`s own impact in terms of ESG risk factors, and financial materiality assessment of the Bank`s ESG risk exposure in its loan portfolio, deposit clients and outsourcing partners.
- To assess the Bank`s ESG impact, the Bank conducted a stakeholder survey for its main stakeholders, i.e. employees, clients, and suppliers. The prioritized topics that have been identified for Stakeholder Survey 2023 were: Current state assessment, Work environment, Products and Services, and Governance.

- The resulting Materiality Matrix 2023 suggested that Cybersecurity, and Fair and ethical corporate governance emerge as most critical considerations in the eyes of the Bank stakeholders both in terms of their expectations from the Bank and their observations that the Bank regards as most significant areas. Additionally, rising awareness for climate change, employee education and development, transparent communication, and environmental disclosures were identified by the Bank`s stakeholders as areas with expected increased focus by the Bank in 2024.
- To assess its ESG risk exposures through its loan portfolio, deposit clients and outsourcing partners, the Bank assessed environmental risks of its stakeholders in terms of physical and transition risks.
- To assess **Transition risk**, the transition risk assessments from UNEP FI's TCFD Banking Program (hereinafter – UNEP FI methodology), issued in September 2020, was used as basis of analysis. The UNEP FI methodology was assessed on August 28, 2023 and mapped the Sectors, outlined in it to the NACE codes, used in the EU
- In order to assess **Physical risk**, the physical risk assessments from SASB Standards Climate risk technical bulletin, updated in 2022 was used as basis of analysis. The SASB methodology was assessed on August 28, 2023 and mapped the Sectors, outlined in it to the NACE codes, used in the EU.
- The Bank included ESG risks factors in its strategic planning, and ICAAP/ILAAP processes and in its lending strategy such that zero tolerance sectors are avoided in lending, deposit collecting, and outsourcing activities.
- Transition risk and physical risk concentrations are monitored and reported on a monthly basis. The Bank avoids financing projects that do not reduce transition risk in high transition risk sectors.