

# Fellow Bank Plc

Pillar III - Capital and risk  
management report 2022

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## **INTRODUCTION**

Fellow Bank focuses on retail banking, offering selected banking services to personal and business customers. Fellow Bank's offering includes current, savings and deposit accounts, lending to personal and business customers, and online purchase payment products. Thorough and adequately resourced risk management is an integral part of the company's daily business management. The key types of risks in Fellow Bank are credit risk, liquidity risk, operational and market risk. Considering the nature of Fellow Bank's business operations credit and liquidity risks are the primary risks.

### **Disclosure of Pillar III information**

This report presents comprehensive information on the risks, risk management and capital adequacy required by applicable regulation. EU Capital Requirements Regulation 575/2013 (CRR), Part 8, sets requirements for the disclosure obligation of institutions and the disclosure of information concerning banks' risks, their management and capital adequacy. Additionally, for example, the European Banking Authority (EBA) has provided more detailed guidance on the disclosure obligations.

The company complies with its disclosure obligation by publishing comprehensive information on its capital adequacy and risk management (so-called Pillar III information) alongside its annual report. Pillar III report contains a qualitative and quantitative report. Pillar III report contains the information required from a small and non-complex institution and Fellow Bank falls into this category. The information in Pillar III is unaudited. Risk management, capital adequacy and other risk-related information are also described and disclosed as part of the Board of Directors' report and the financial statements. Other information required by the Pillar III requirements,

such as Corporate Governance Statement and Remuneration report are available on Fellow Bank's website.

### **Risk appetite**

Fellow Bank defines its risk appetite as the level of risk by amount and type that the company is prepared to seek and accept. The board-level risk appetite is translated into business-level targets and limits. Targets and risk limits are set for each business unit and furthermore to all product categories. Ongoing monitoring and reporting of risk exposures against the risk limits are carried out by the business units and the Risk Control Unit to ensure that risk-taking activities remain within the risk appetite.

### **Risk management in Fellow Bank**

The company's Board of Directors has the primary responsibility for risk management. The Board of Directors confirms the risk strategy, risk management principles and responsibilities, risk limits and other guidelines according to which risk management and internal control are organized. Fellow Bank's risk management strategy is based on the goals and business strategy confirmed by the Board. Fellow Bank focuses on retail banking and offers selected banking services to personal and business customers. The company does not have excessive customer or risk exposure concentrations. At the end of reporting period there was one fully secured exposure that exceeded

10 % of Tier 1 own funds. The company's Board of Directors sets the level of risk appetite by approving risk area-specific risk strategies and the necessary risk limits and monitoring limits. The implementation of the risk strategy is monitored regularly through the monitoring and reporting of risk limits, which is carried out independently of business operations.

The company keeps its capital adequacy at a safe level. The company's capital adequacy and risk-bearing capacity will be strengthened through profitable business operations and, in addition, debt and equity instruments that increase own funds. The Board of Directors is regularly provided with information on the company's various risks and their levels. The Board of Directors also approves the authority and framework for risk-taking by defining risk limits for credit and market risks.

Within the limits of the mandate, the responsibility for day-to-day risk monitoring and control lies with the Heads of business units. Risk reporting practices meet the requirements set for risk management, considering the nature and scope of the company's operations.

## Risk position / Key ratios and figures

### Credit risk

Credit risk is the company's primary risk. It is managed in accordance with the credit risk policy approved by the Board of Directors by setting

targets and risk limits for the loan portfolio's quality and concentrations. These limits are followed by the business units and the risk control team. During Fellow Bank's first year of operation, the strong growth in the loan portfolio increased the amount of credit risk, but the relative credit risk position has remained stable. Fellow Bank's customers include both personal and small and medium sized (SME)

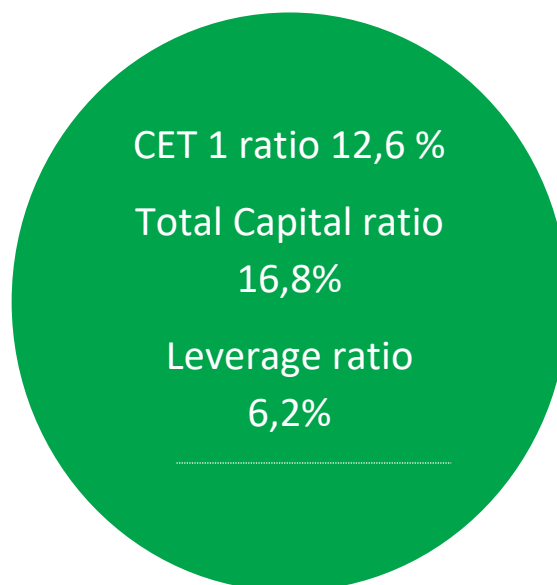
business customers. After the closure of peer-to-peer and crowdfunding activities, the company has systematically targeted lending towards customers with a lower credit risk. With a diversified customer base, there are no individual significant customer risks. Although one fully secured exposure exceeded 10 % of Tier 1 own funds. The outstanding amount of the loan portfolio before deducting provisions for credit losses was EUR 163.8 million at the end of the financial year.

### Own funds and Capital adequacy

The Board of Directors confirms the risk strategies and defines the target levels for capital, which covers all material risks arising from business operations and changes in the operating environment. The company's Board of Directors defines the risk limits related to the operations.

Fellow Bank Group's capital adequacy ratio was 16.8 % and the common equity Tier 1 ratio was 12.6 %, exceeding the banks' total capital requirement (10.5 %). The total capital requirement for banks consists of a minimum capital requirement of 8.0 % in accordance with Pillar I and an additional fixed capital requirement of 2.5 % in accordance with Act on the Credit Institutions.

At the end of the review period, the group's capital structure was strong and mostly consisted of core capital (CET 1) and secondary



capital (Tier 2). The group's own funds (TC) were EUR 23.5 million: primary capital (T1) EUR 17.7 million was entirely common equity Tier 1 ratio (CET1) and secondary capital (T2) EUR 5.8 million consisted of debenture loan.

| <b>CAPITAL AND RISK POSITION, EUR 1,000</b>  | <b>31.12.2022</b> |
|--|-------------------|
| Common Tier Capital before adjustments       | 28 281            |
| Adjustments to Common Tier 1 <b>Capital</b>  | -10 582           |
| Common Tier 1 Capital in total (CET1)        | 17 700            |
| Additional Tier 1 Capital before adjustments | 0                 |
| Adjustments to Tier 1 Capital                | 0                 |
| Additional Tier 1 Capital in total (AT1)     | 0                 |
| Total Capital (T1 = CET1 + AT1)              | 17 700            |
| Tier 2 Capital before adjustments            | 6100              |
| Adjustments to Tier 2 Capital                | -250              |
| Tier 2 Capital in total (T2)                 | 5 849             |
| Total risk weighted exposure amounts         |                   |
| Credit and Counterparty risk                 | 120 512           |
| Market risk                                  | 756               |
| Operational risk                             | 19 198            |
| Risk weighted exposure in total              | 140 466           |
| Common Equity Tier 1 ratio (CET 1), %        | 12,6              |
| Tier 1 ratio (T1), %                         | 12,6              |
| Total Capital Ratio (TC), %                  | 16,8              |

Fellow Bank's leverage ratio was 6.2 % at the end of the review period. Leverage ratio decreased during the second half of 2022 by 0.8 % percentage points. The main driver of the reduction was due to Tier 1 capital, which decreased by EUR 1.8 million. exposure amount increased by the growth in lending volumes for both retail and business lending sectors.

| <b>LEVERAGE RATIO, EUR 1,000</b> | <b>31.12.2022</b> |
|----------------------------------|-------------------|
| Total Equity                     | 17 700            |
| Total Exposure Amount            | 283 819           |
| Leverage ratio (LR), %           | 6,2               |

## Liquidity risk

The company's liquidity risks arise from the maturity difference between funding and lending operations. The sufficiency of liquidity has been ensured by setting a limit on the company's cash reserves determined by the company's Board of Directors. Fellow Bank adheres to a liquidity risk appetite whereby there must be sufficient liquidity to ensure that Fellow Bank can always meet its cash flow obligations. Liquidity risk limits and triggers are set to ensure that the liquidity risk profile of the company remains within the liquidity risk appetite.



The company's liquidity coverage ratio (LCR) at the end of the review period was 403,3 % (whereas supervisory minimum requirement is 100%) Average LCR for the last quarter was 370%. 100% of the liquidity buffer was Level 1 assets with very high liquidity. The buffer consists of unpledged, high-quality, and very liquid funds. Net stable funding Ratio (NSFR) at the end of the period was 188.3% (the minimum requirement is 100%).

No minimum requirement for own funds and eligible liabilities (MREL) has been set for the company in resolution plan.

## Market and interest rate risk

The market risk consists of the interest rate risk of the bank's financial balance and the currency risk. The interest rate risk is not significant. The loan portfolio is the main source for interest rate risk as there

tends to be a mismatch between the interest rates that company set on customer loans and on deposits. The new lending is mainly variable rate and tied to the 3-month Euribor. The company currently has few fixed-rate loans and the share is constantly declining. Fellow Bank does not have active treasury investments at the end of review period.

Strong changes in market interest rates underline the importance of managing the interest rate risk. The company continuously monitors the development of interest rate risk through, among other things, a sensitivity analysis of the present value of the balance sheet and the change in the net interest income. If the interest rate were to increase by two percentage points, the company's own funds would increase by 5.7 percent, due to positive earnings development based on the situation on December 31, 2022. If the interest rate were to decrease by two percentage points, own funds would decrease by 4.7 percent.

## Compliance and operational risk

Compliance Risk is defined in Fellow Bank as the risk of legal or regulatory sanctions, material financial loss, fines or loss to reputation Fellow Bank may suffer because of its failure to comply with laws, regulations, rules, agreements, related self-regulatory organization standards, and codes of conduct applicable to its licensed operations. The Board of Directors holds the ultimate responsibility for the management of compliance risk in the Fellow Bank. The Management at all levels of the company is responsible for effective management of Compliance Risk in Fellow Bank. Fellow Bank holds itself to high standards when carrying on its business.

Operational risk refers to the risk of direct or indirect financial loss resulting from inadequate or failed internal processes, people, and systems, or external events. Operational risks also comprise legal, compliance, and information security risks. Operational risks are thus

related to management systems, operational processes, people, and various external factors or threats. Operational risks are managed by the business line. The most significant source of operational risks are development of the new products and services, risks related to IT-security and compliance risk. The company's board confirms the principles of operational risk management every year. In operational risk management, the company's main goal is to manage reputational risk and ensure business continuity and regulatory compliance in the short and long term.

### **Risk statement approved by the Board of Directors**

The Board of Directors of Fellow Bank approves the risk management policy including the principles concerning risk management and risk monitoring. The Board sets the risk appetite and the top-level limits and approves strategies for various risks. The Board is regularly reported on various risks and risk limit overdrafts and their development. With this announcement, the Board of Directors confirms that the risk management arrangement and systems at Fellow Bank are adequate in relation to the company's risk profile and strategy.



## **RISK MANAGEMENT IN FELLOW BANK**

### **Objective of risk management**

The Board of Directors of Fellow Bank have primary responsibility for the company's risk management. The Board confirms the principles and responsibilities of risk management, the company's risk limits and other general instructions according to which risk management and internal controls are organized.

The objectives of the risk management framework in Fellow Bank are:

- Making the management aware of the risks having financial significance in the short or long term.
- Ensuring rationality of business and risk management processes; creating a decision-making basis, proportional to company's risk-taking ability, for risk-taking and risk mitigation.
- Ensuring full commitment of the employees to continuous risk management work.
- Making risk management a part of normal daily management.

### **Three lines of defense**

The strategies and processes to manage risk and to organize internal control in Fellow Bank are applied according to the three lines of defense. There are independent functions established in the company to ensure the implementation of effective and comprehensive internal controls. Independent functions are:

- Risk control function (second line of defense)
- Compliance function (second line of defense)
- Internal audit function (third line of defense)

## **Organization and principles of risk management**

### **Board of Directors**

The Board approves the risk management policy including the principles concerning risk management and risk monitoring. The Board sets the risk appetite and the top-level limits. Within these limits Credit and Risk Committee and/or the Heads of the Business Units give restrictive guidelines. The Board also regularly assesses the stress testing framework and test results. The results of the stress tests are taken into consideration when defining or reviewing the business strategy, risk strategy and risk limits. The Board sets main principles and methods concerning risk measurement and valuation.

### **Credit and risk management committee**

Credit and risk management committee is a supervisory and consultative body working under the mandate of the Board. Credit and risk management committee members are appointed by the Board. The committee's mandates and responsibilities are described in the working order of committee and include the following:

- Controlling the bank's credit, market, and liquidity risks.
- Controlling the banks' balance sheet usage and structure
- Preparation of decisions on risks and risk management to the Board (including risk limits)
- Expressing opinions on issues with significant impact on company's risk profile
- Deciding on matters where the Board has delegated decision making authority to Credit and risk management committee.
- Reporting to the CEO and the Board on the overall risk profile of the company
- Reporting and presenting an overview of its activities to the Board including reporting to the Board on decisions made under the authority delegated by the Board.
- Control the adequacy of operational risk management.

## CEO

The CEO is responsible for organizing risk management in Fellow Bank. The organization and responsibilities are defined so that the tasks concerning risk management and control do not compromise the compliance of the Risk Management Policy principles. The CEO and other senior management regularly assess the results of stress tests. The results of the stress tests are taken into consideration when defining or reviewing the business strategy, risk strategy and risk limits. The CEO and Credit and risk management committee have a responsibility to maintain the risk limit system and define clear mandates on risk taking. The CEO is also responsible for implementing the internal control and monitoring systems regarding risk management. CEO and the Management team is responsible for making sure that the personnel know the key risk management and control principles in Fellow Bank and operate accordingly. Head of business units are responsible for managing business risk.

## Group Risk Control

Group Risk Control (GRC) is an independent unit established to monitor and control risk-taking mandates. GRC provides the business units with detailed reports on risk taking and provides the Board, Management team and Credit and risk management committee with aggregate level risk reports. GRC supports line management in the creation of its own risk management. GRC unit oversees the implementation of the financial and the non-financial risk policies. GRC unit monitors and controls the Risk Management Framework and oversees that all risks that Fellow Bank is or could be exposed to, are identified, assessed, monitored, managed, and reported on. GRC is responsible for following, controlling, and quantifying the holistic risk profile of Fellow Bank. GRC aim is to ensure and supervise that the company's risk management is at a sufficient level in relation to the quality, scope, diversity and risks of the company's business, and that all new and

material, previously unidentified risks are included in the risk management of the company's business operations.

The GRC has several objectives:

- Analysing and reporting material risks to the management (daily) and the Board & Credit and risk management committee (monthly)
- Daily monitoring of financial risk positions both on unit and aggregate level and elevating limit breaches
- Reporting risks which are inconsistent with the risk appetite to the management.
- Suggesting and implementing changes to the risk management framework
- Act as an early warning centre
- Compliance with regulatory rules related to risk management
- Coordination of the risk assessment of new products or other material changes, such as new systems or outsourcing.

## Compliance

Compliance risk is defined in Fellow Bank as the risk of legal or regulatory sanctions, material financial loss, fines or loss to reputation Fellow Bank may suffer because of its failure to comply with laws, regulations, rules, agreements, and standards applicable to its operations. The Board holds the ultimate responsibility for the management of compliance risk in the Fellow Bank. The Management at all levels of the company is responsible for effective management of Compliance Risk in Fellow Bank.

The purpose of the Compliance function is to ensure regulatory compliance within the company by supporting the executive management and business units in the application of legislation, regulations and internal guidelines. In addition, the Compliance

function participates in the identification, monitoring and reporting of risks of regulatory non-compliance.

Fellow Bank aims to mitigate compliance risks in accordance with its risk appetite. Fellow Bank holds itself to high standards when carrying on its business and strives to always observe the spirit as well as the letter of applicable laws and regulations in every part of its business. In line with this, Fellow Bank requires its business units as well as its personnel to keep a good understanding of and strict compliance with applicable laws, regulations, and standards in each of the markets and jurisdictions in which Fellow Bank operates.

Compliance is sufficiently independent from business operations. The concept of independence does not mean that Compliance cannot work closely with Management and staff in the various business units. Indeed, a co-operative working relationship between Compliance and business units should help to identify and manage Compliance Risks at an early stage.

Compliance function's tasks include to identify, document, and assess the Compliance Risks associated with Fellow Bank's banking services, including the development of new products and business practices, the proposed establishment of new types of business or customer relationships, or material changes in such relationships and distribution channels and to ensure that Compliance Risks are comprehensively monitored.

Compliance function reports directly to the Board and the Audit Committee in accordance with the Compliance Policy and working orders of the Board of Directors. The report shall include all relevant information on the implementation and effectiveness of the overall control environment for banking services and activities, on the risks that have been identified and, on the complaints-handling reporting as well as remedies undertaken or to be undertaken.

Compliance shall report on an ad-hoc basis directly to the Management team of Fellow Bank where it detects a significant risk of failure by Fellow Bank to comply with its obligations. Compliance shall also report directly to the management of the relevant business unit and all significant information shall be reported to both hierarchical and functional line. If deemed necessary, or there is a significant risk of non-compliance with the statutory obligations of the relevant Group company, Compliance also has the right to report directly to the Board and/or Audit Committee, bypassing normal reporting lines. Compliance regularly reports any material findings to the Board and the Audit Committee.

The control functions of Fellow Bank i.e., Compliance, Risk Control and Internal Audit have regular meetings with CEO of Fellow Bank and report all necessary compliance and risk related issues to the CEO and vice versa.

The scope and breadth of the activities of Compliance are subject to periodic review by the internal audit function. The audit function keeps the Compliance informed of any audit findings relating to Compliance.

Compliance unit works closely with the Risk Control unit. Compliance and Risk Control together assess and report Compliance Risks in accordance with the guidelines for identification, assessment, control and reporting of operational risks.

### **Internal Audit**

Independent Internal Audit is responsible for reviewing the application and effectiveness of risk management procedures and risk assessment methodologies. Internal audit conducts risk-based and general audits and reviews that the Internal governance arrangements, processes, and mechanisms are sound and effective, implemented and consistently applied. Internal audit is also in charge of the independent review of the first two lines of defense including ensuring that the

segregation of duties is defined and established between risk management (first line) and risk control (second line).

## **Business and support units**

Business and support units represent the first line of defense. They have the primary responsibility of risk taking in Fellow Bank.

Head of business units are responsible for managing risks in their units, including risk limitations, monitoring and control. Heads of Units are responsible for identification of risks inherent in their operations. Risk management within the units is organized so that the risks inherent in the respective business unit are considered. Heads of units are responsible for the existence of up-to-date procedures and guidelines concerning risk management within their units and for controlling those all-relevant personnel are aware of and acts in compliance with these guidelines. Heads of units control and manage the daily business flow. Heads of units are responsible for prompt management of issues that might arise through operational incidents. Heads of units are responsible for assessing the adequacy of risk limits and proposing changes to them. Adequacy of risk limits should be based on continuous identification and stress testing of risks within the units.

Business and support units each prepare and update their own more detailed guidelines or instructions which are based Fellow Bank board's approved risk management policy. Risk management is every employee's responsibility. Team leaders are responsible for ensuring that their team members are familiar with risk management related guidelines and comply with them. Units are also responsible for the operational risk incident reporting to GRC.

## OWN FUNDS AND CAPITAL ADEQUACY

### Own funds

Fellow Bank Group's capital adequacy figures are presented on 31.12.2022. In the comparison period, the Fellow Finance Group calculated the amount of capital required for payment institution operations in accordance with the laws and regulations regulating payment institutions. At the end of 2021, Fellow Finance's own funds stood at EUR 10.4 million, with a minimum own fund's requirement of EUR 0.5 million.

Fellow Bank Group's capital adequacy ratio was 16.8 per cent and the Tier 1 capital ratio was 12.6 per cent, exceeding the banks' total capital requirement (10.5 per cent). The total capital requirement for banks consists of a statutory minimum solvency requirement of 8.0 per cent under Pillar I and a fixed capital add-on requirement of 2.5 per cent under the Credit Institutions Act.

At the end of the period under review, the Group's capital structure was strong and consisted mainly of Common Equity Tier 1 capital and tier 2 capital. The Group's own funds (TC) was EUR 23.5 million. Core capital (T1) was EUR 17.7 million and consisted entirely of Common Equity Tier 1 capital (CET1). Supplementary Tier 2 capital (T2) of EUR 5.8 million consisted of a debenture loan.

### Leverage ratio

Fellow Bank leverage ratio leverage ratio (Leverage Ratio) is presented in accordance with the Commission's delegated act and represents the company's tier 1 capital relationship to total adjusted assets and off-balance sheet items. Leverage ratio has been calculated with figures for the end of the reporting period. After CRR II entered into force in 2021, a 3% binding minimum requirement for the leverage ratio was introduced. For the Leverage ratio, a target set by the Board of 4% has

been introduced, exceeding the minimum regulatory requirement by 1%.

Fellow Bank's leverage ratio was 6.2 per cent at the end of the review period. Leverage ratio decreased during the second half year of 2022 by 0.8% percentage points. The main driver of the reduction was due to Tier1 capital, that decreased by EUR 1,8 million. The exposure amount increased by the growth in lending volumes for both retail and business lending sectors.

Fellow Bank monitors excessive leverage as part of the capital management process. Company's leverage ratio is set at the internal minimum target level as part of the overall risk strategy and risk budgeting.

### Capital adequacy

The objective of Fellow Bank's capital adequacy management is to secure the sufficiency of the company's capital in relation to all material risks of its operations. To achieve this goal, the company identifies and assesses all risks relevant to its operations and, based on these, measures its risk-bearing capacity to correspond to the overall risk position. The capital adequacy management process plays a key role in determining the overall risk position.

The capital management process is based on capital requirements under Pillar I of CRR regulation and risks outside it, such as interest rate risk and business risk. In its internal assessment process, the company estimates the amount of capital sufficient to cover unexpected losses arising from risks outside Pillar I. The Company's Board of Directors has overall responsibility for capital adequacy management. The Company's Board of Directors confirms the general principles for the organization of the internal capital adequacy assessment process.

The Board of Directors confirms the risk strategies and defines target levels for capital, which covers all material risks arising from business operations and changes in the operating environment. The company's Board of Directors is responsible for managing the company's capital adequacy, which also defines the risk limits related to the operations. The Board of Directors annually reviews the risks related to the

management of the company's solvency, the capital plan and the limits set for the risks.

Below is presented the information regarding Fellow Bank own funds according to CRR article 437.

## Template EU KMI - Key metrics template

|               |  |                   | <b>c</b>    |
|---------------|--|-------------------|-------------|
|               |  | <b>31.12.2022</b> | 30.6.2022   |
|               | <b>Available own funds (amounts)</b>   |                   |             |
| <b>1</b>      | Common Equity Tier 1 (CET1) capital  | 17 699 781        | 19 587 133  |
| <b>2</b>      | Tier 1 capital   | 17 699 781        | 19 587 133  |
| <b>3</b>      | Total capital  | 23 549 096        | 19 587 133  |
|               | <b>Risk-weighted exposure amounts</b>  |                   |             |
| <b>4</b>      | Total risk exposure amount   | 140 465 817       | 100 968 618 |
|               | <b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>   |                   |             |
| <b>5</b>      | Common Equity Tier 1 ratio (%)   | 12,6 %            | 19,4 %      |
| <b>6</b>      | Tier 1 ratio (%)   | 12,6 %            | 19,4 %      |
| <b>7</b>      | Total capital ratio (%)  | 16,8 %            | 19,4 %      |
|               | <b>Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)</b> |                   |             |
| <b>EU 7a</b>  | Additional own funds requirements to address risks other than the risk of excessive leverage (%)   | 0 %               | 0 %         |
| <b>EU 7b</b>  | of which: to be made up of CET1 capital (percentage points)  | -                 | -           |
| <b>EU 7c</b>  | of which: to be made up of Tier 1 capital (percentage points)  | -                 | -           |
| <b>EU 7d</b>  | Total SREP own funds requirements (%)  | 8 %               | 8 %         |
|               | <b>Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)</b>  |                   |             |
| <b>8</b>      | Capital conservation buffer (%)  | 2,50 %            | 2,50 %      |
| <b>EU 8a</b>  | Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)   | 0 %               | 0 %         |
| <b>9</b>      | Institution specific countercyclical capital buffer (%)  | 0 %               | 0 %         |
| <b>EU 9a</b>  | Systemic risk buffer (%)   | 0 %               | 0 %         |
| <b>10</b>     | Global Systemically Important Institution buffer (%)   | 0 %               | 0 %         |
| <b>EU 10a</b> | Other Systemically Important Institution buffer (%)  | 0 %               | 0 %         |
| <b>11</b>     | Combined buffer requirement (%)  | 2,50 %            | 2,50 %      |
| <b>EU 11a</b> | Overall capital requirements (%)   | 10,50 %           | 10,50 %     |

|               |  |             |             |
|---------------|--|-------------|-------------|
| <b>12</b>     | CET1 available after meeting the total SREP own funds requirements (%)   | 11 378 819  | 15 043 545  |
|               | <b>Leverage ratio</b>  |             |             |
| <b>13</b>     | Total exposure measure   | 283 819 081 | 281 310 203 |
| <b>14</b>     | Leverage ratio (%)   | 6,24 %      | 6,96 %      |
|               | <b>Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)</b> |             |             |
| <b>EU 14a</b> | Additional own funds requirements to address the risk of excessive leverage (%)  | -           | -           |
| <b>EU 14b</b> | of which: to be made up of CET1 capital (percentage points)  | -           | -           |
| <b>EU 14c</b> | Total SREP leverage ratio requirements (%)   | 3 %         | 3 %         |
|               | <b>Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)</b>                |             |             |
| <b>EU 14d</b> | Leverage ratio buffer requirement (%)  | -           | -           |
| <b>EU 14e</b> | Overall leverage ratio requirement (%)   | 3 %         | 3 %         |
|               | <b>Liquidity Coverage Ratio</b>  |             |             |
| <b>15</b>     | Total high-quality liquid assets (HQLA) (Weighted value -average)  | 129 607 479 | 150 120 880 |
| <b>EU 16a</b> | Cash outflows - Total weighted value   | 53 000 085  | 55 313 625  |
| <b>EU 16b</b> | Cash inflows - Total weighted value  | 17 729 126  | 10 229 139  |
| <b>16</b>     | Total net cash outflows (adjusted value)   | 35 270 959  | 45 084 485  |
| <b>17</b>     | Liquidity coverage ratio (%)   | 370,18 %    | 329,62 %    |
|               | <b>Net Stable Funding Ratio</b>  |             |             |
| <b>18</b>     | Total available stable funding   | 240 656 161 | 203 906 574 |
| <b>19</b>     | Total required stable funding  | 127 778 033 | 109 675 485 |
| <b>20</b>     | NSFR ratio (%)   | 188,3 %     | 185,9 %     |



## CREDIT RISK

### Definition

Credit risk is defined as the risk of loss resulting from the failure of Fellow Bank borrowers and other counterparties to fulfill their contractual obligations, and that collateral provided does not cover Fellow Bank claims.

Credit risk is the company's key risk and is managed in accordance with the credit risk policy approved by the Board of Directors by setting targets and risk limits for the loan portfolio's quality and concentrations. These limits are followed by business units and Risk Control Unit.

Credit risk consists mainly of company's outstanding loan portfolio. Credit risk and counterparty risk also arise from other receivables, and off-balance-sheet commitments, such as unused credit facilities and limits.

### Credit risk profile

Fellow Bank's credit risk profile is driven primarily by loans to personal and business customers. With a diversified customer base, there are no major individual significant customer risks. Although one fully secured exposure exceeded 10 % of Tier 1 own funds. The outstanding amount of loan portfolio before deducting provisions for credit losses was EUR 163.8 million at the end of the financial year.

| Loan amount (t euros)                 | 2022    | %    | 2021   | %   |
|---------------------------------------|---------|------|--------|-----|
| Personal customers Finland            | 126 393 | 77%  | 12 529 | 58% |
| Personal customers other EU countries | 6 130   | 19%  | 3 320  | 11% |
| Business customers Finland            | 30 993  | 4%   | 2 088  | 30% |
| Business customers other EU countries | 277     | 0,2% | 181    | 1%  |

Overall, the bank's lending to personal customers is mainly based on unsecured lending products. Credit losses are an inherent part of unsecured lending. Fellow Bank bears and controls the credit risk with preset limits following its business strategy.

Fellow Bank business lending is based mainly on secured lending products. Fellow Bank uses both collaterals and guarantors. In business lending Fellow Bank aims to minimize credit losses. Business customer loan amount varies between 1 000 euros to maximum of 3 MEUR depending on the product. For each product there are specific credit granting process and each customer and counterparty creditworthiness are assessed with careful consideration.

### Credit risk management principles

The strategies and processes to manage credit risk are applied according to the three lines of defense and are based on the risk management policy. The group risk management policies, including credit risk management policy, are based on governing laws and regulations, and functions as a base for setting up credit risk limits.

Credit decision making is delegated to business units. The business units assess the credit risk in each transaction and bears the overall responsibility for credit risks in its own customer base. Business units are allowed to make independent credit decision within approved credit risk limits. The Board determines the overall risk levels for the different credit risk types.

Fellow Bank has adequate credit risk measurement methods and procedures for limit setting and monitoring. In lending to personal customers, the company applies statistical credit risk assessment methods (credit risk models) to model the expected credit loss risk. Credit risk models assess the debtor's expected credit loss risk. Group Risk Control unit supports and actively follows and monitors credit risk

development. The Risk Control unit supports business units in credit risk monitoring and is responsible for performing independent risk analysis and reporting.

The development of credit risks is regularly monitored in various methods. Credit risk monitoring considers for example, the quality of the credit portfolio, the structure and development of non-performing loans. Non-performing loans include expected credit loss level 3 and level 2 loans with collateral risk is significant. In addition, the development of credit risks is monitored in relation to the credit risk limits.

Credit risk positions are continuously monitored with respect to the set limits. All limit breaches are documented, reported, and analyzed according to the agreed guidelines. Receivables that are close to the set limits are identified and reviewed more carefully.

Fellow Bank borrowers are continuously assessed and periodically reviewed based on internal rules dependent on segment, limit amounts and level of risk. If credit weakness is identified in relation to a customer exposure it receives special attention in terms of more frequent reviews. In addition to continuous monitoring, head of business units may suggest changes to credit granting criteria and these decisions are taken in Credit and risk committee, to ensure that credit risk limit remains within approved credit risk appetite.

### **Credit risk management organization**

Fellow Bank Board of Directors approve high level guidelines & policies for credit risk appetite and risk limits. Credit and risk committee approves specific credit policies, makes credit decisions for large business loans, and sets and approves credit risk limits within the risk limits defined by the board. CEO of the Fellow Bank approves the credit pricing.

Head of business units defines credit policies, which must be within the line of the Board's and approved by Credit and risk management committee's guidelines & policies, credit pricing, and credit parameters. Credit analyst team supports all business units by producing systematic credit risk reporting and supports business units in defining credit policies.

Group Risk Control is a part of the second line of defense and is independent of the Business units. GRC monitors credit risk limits and performs independent risk analysis and reporting.

An independent internal audit in the third line of defense performs audits on the first two lines of defense. Internal Audit reviews the application and effectiveness of risk management procedures and risk assessment methodologies.

### **Credit quality assessment and credit risk mitigation**

Loans to business customers are mainly based on lending products with collateral or guarantee. In business lending Fellow Bank aims to minimize credit losses. Loans to personal customers are based on unsecured lending products, meaning there is not that often collaterals or guarantors, few exceptions do exist.

Personal customer lending is mostly unsecured. Fellow Bank carefully assesses the creditworthiness of its personal customers. Creditworthiness is estimated according to statistical credit scoring model developed for given market and product. In addition, personal customers' credit risk is controlled by defining product and market specific limits for total outstanding credit portfolio. During the lifetime of the loan, unlikeliness to pay is carefully monitored and analyzed and any indications of payment delays or increase in credit risk is reviewed more carefully.

For business customers credit risk is controlled and mitigated in the following ways: defining product and market specific limits for total outstanding credit portfolio, following a defined process by which new customers and individual credit applications are processed before they are approved, estimating credit worthiness according to credit risk analysis and controlling realized non-performing loans.

Credit and risk management committee approves which assets are approved as collateral and the haircuts. Evaluation of collateral and use of covenants are defined in the Fellow Bank's credit policies for business units. There are different types of collateral valuation percentages by type of security, and securities are valued prudently at fair value.

### **Definition of default and accounting principles**

According to the Fellow Bank's accounting principles, on each reporting date, an assessment of whether a significant increase in the credit risk of a receivable has occurred is performed. The assessment is primarily based on the change in the probability of default since initial recognition, and on whether the borrower has a delinquent loan payment (30 days) or is subject to forbearance measures. A loan is considered in default if a significant loan payment is delinquent by 90 days or more. A loan is also considered in default if a significant loan payment is delinquent by less than 90 days, but the borrower is subject to bankruptcy or debt restructuring, or the borrower's ability to settle his or her loan obligations to their fullest extent is considered unlikely.

The definition of default (DoD) is implemented in Fellow Bank on a customer level. DoD includes unlikeliness to pay criteria. Based on UTP-criteria and other information of borrower's payback ability, Fellow Bank monitors actively changes in loan customer's situation.

The definition of impaired and of past due and default for accounting and regulatory purposes is aligned in the bank. Past due (more than 90

days) are impaired with some exceptions from e.g., fraud or technical defaults.

### **Credit risk adjustments**

Credit risk adjustments are executed either according to the IFRS 9 expected credit loss (ECL) model, or a manual decision made by the heads of business units in the Fellow Bank based on counterparty analysis. Fellow Bank has only specific credit risk adjustments, which are calculated using the IFRS 9 ECL model (expected credit losses). For non-defaulted loans which credit risk has not significantly increased (ECL Stage 1), the expected credit losses for a 12-month period are calculated. For non-defaulted loans whose credit risk has increased significantly (ECL Stage 2), as well as for defaulted loans (ECL Stage 3), the expected credit losses for the remaining lifetime of the loan are calculated.

The ECL model assesses the cost to the bank the amount of the final credit loss after the collateral allocated to the loan has been realized.

### **Counterparty credit risk**

Counterparty risk arises from the investment of liquid assets and in the context of treasury management, of the individual large customer entities and industry concentrations. At the end of the reporting period, Fellow Bank does not have active treasury investments and thus no material counterparty credit risk.

Below is presented Fellow Bank total risk exposure amounts according to the requirements laid down in Article 92 of the EU Capital Requirements Regulation 575/2013 and in Article 73 of Directive 2013/36/EU.

## Template EU OV1 – Overview of total risk exposure amounts

|               |  | Total risk exposure amounts (TREA) |            | Total own funds requirements |
|---------------|--|------------------------------------|------------|------------------------------|
|               |  | a                                  | b          | c                            |
|               |  | 31.12.2022                         | 30.6.2022  | 31.12.2022                   |
| <b>1</b>      | Credit risk (excluding CCR)                                      | 120 511 566                        | 86 323 618 | 9 640 925                    |
| <b>2</b>      | Of which the standardised approach                               | 120 511 566                        | 86 323 618 | 9 640 925                    |
| <b>3</b>      | Of which the Foundation IRB (F-IRB) approach                     |                                    |            |                              |
| <b>4</b>      | Of which slotting approach                                       |                                    |            |                              |
| <b>EU 4a</b>  | Of which equities under the simple riskweighted approach         |                                    |            |                              |
| <b>5</b>      | Of which the Advanced IRB (A-IRB) approach                       |                                    |            |                              |
| <b>6</b>      | Counterparty credit risk - CCR                                   | 0                                  | 0          |                              |
| <b>7</b>      | Of which the standardised approach                               |                                    |            |                              |
| <b>8</b>      | Of which internal model method (IMM)                             |                                    |            |                              |
| <b>EU 8a</b>  | Of which exposures to a CCP                                      |                                    |            |                              |
| <b>EU 8b</b>  | Of which credit valuation adjustment - CVA                       |                                    |            |                              |
| <b>9</b>      | Of which other CCR   |                                    |            |                              |
| <b>10</b>     | Not applicable   |                                    |            |                              |
| <b>11</b>     | Not applicable   |                                    |            |                              |
| <b>12</b>     | Not applicable   |                                    |            |                              |
| <b>13</b>     | Not applicable   |                                    |            |                              |
| <b>14</b>     | Not applicable   |                                    |            |                              |
| <b>15</b>     | Settlement risk  |                                    |            |                              |
| <b>16</b>     | Securitisation exposures in the non-trading book (after the cap) |                                    |            |                              |
| <b>17</b>     | Of which SEC-IRBA approach                                       |                                    |            |                              |
| <b>18</b>     | Of which SEC-ERBA (including IAA)                                |                                    |            |                              |
| <b>19</b>     | Of which SEC-SA approach   |                                    |            |                              |
| <b>EU 19a</b> | Of which 1250% / deduction                                       |                                    |            |                              |

|               |  |                    |                    |                   |
|---------------|--|--------------------|--------------------|-------------------|
| <b>20</b>     | Position, foreign exchange and commodities risks (Market risk)           | 756 317            | 995 000            | 60 505            |
| <b>21</b>     | Of which the standardised approach                                       | 756 317            | 995 000            | 60 505            |
| <b>22</b>     | Of which IMA   |                    |                    |                   |
| <b>EU 22a</b> | Large exposures  |                    |                    |                   |
| <b>23</b>     | Operational risk   | 19 197 934         | 13 650 000         | 1 535 835         |
| <b>EU 23a</b> | Of which basic indicator approach  | 19 197 934         | 13 650 000         | 1 535 835         |
| <b>EU 23b</b> | Of which standardised approach   |                    |                    |                   |
| <b>EU 23c</b> | Of which advanced measurement approach                                   |                    |                    |                   |
| <b>24</b>     | Amounts below the thresholds for deduction (subject to 250% risk weight) |                    |                    |                   |
| <b>25</b>     | Not applicable   |                    |                    |                   |
| <b>26</b>     | Not applicable   |                    |                    |                   |
| <b>27</b>     | Not applicable   |                    |                    |                   |
| <b>28</b>     | Not applicable   |                    |                    |                   |
| <b>29</b>     | <b>Total</b>   | <b>140 465 817</b> | <b>100 968 618</b> | <b>11 237 265</b> |

22 (36)

## LIQUIDITY RISK

### Definition

Liquidity risk can be defined as the difference in the balance of incoming and outgoing cash flows. The risk may be realized if the company is unable to meet its due payment obligations. The company's biggest liquidity risks arise from the maturity difference between borrowing and lending. The sufficiency of liquidity has been ensured by setting a limit on the company's liquidity reserves determined by the Company's Board of Directors.

### Liquidity risk profile

The company's Liquidity Coverage Ratio at the end of the review period was 403 % (whereas Supervisory minimum requirement is 100 %). 100% of the liquidity buffer was Level 1 assets with very high liquidity. The buffer consists of unpledged, high-quality, and very liquid funds.

and Net Stable Funding Ratio (NSFR at the end of the period was 188.3% (minimum requirement 100%). The company has no issued debt instruments other than Tier 2 debenture loan.

There is no minimum requirement for own funds and deductible liabilities (MREL) set for the company in the resolution plan.

Cash inflows (3 months average)

17 729

Total net cash outflows (3 months average)

35 271

Net Stable Funding ratio

Total available stable funding

240 656

Total required stable funding

127 778

NSFR-ratio %

188,3

### Liquidity risk management

Fellow Bank's liquidity risk management starts from the company's ability to acquire enough competitively priced funding for the short and long term. An important part of liquidity risk management is planning the liquidity position for both the short and long term. That is managed by setting a limit approved by the company's Board of Directors for the company's cash resources. The company prepares for the repayment of future debts by limiting new lending in the coming years, if necessary, and thus ensures the liquidity position.

The heads of units are responsible for the liquidity risk created in their functions. They are responsible for the liquidity risk concerning their own respective business and product areas.

Fellow Bank liquidity risk management is organized in a way that it ensures that the liquidity risk metrics used to govern, measure, and mitigate liquidity risk are always adequate and usable. Credit and risk management committee's responsibility is to ensure methodology meets Fellow Bank's specific requirements. Governance, measurement, and mitigation is organized in a way which guard against any conflict of

#### LCR JA NSFR Development

31.12.2022

Liquidity

LCR-ratio (3 months average) %

370

Total high quality liquid asset (3 months average)

129 607

Cash outflows (3 months average)

53 000

interest between the parties. All relevant personnel are aware of the guidelines and principles regarding liquidity management and that all relevant business units understand the liquidity strategy and the implications that their actions may have on company's liquidity position. The CEO and Management team follow Fellow Bank's liquidity position and risks, capital markets developments and all other events that could affect Fellow Bank liquidity position.

Liquidity management focuses especially on identifying how much liquidity is required to keep Fellow Bank's operations running and monitoring the funding base. One of Fellow Bank's liquidity management objectives is to have long term funding in balance with lending portfolio.

### **Liquidity risk monitoring and reporting**

The target is that liquidity risk is surveyed and monitored across the whole company in a way which ensures that all relevant cash flow elements related to Fellow Bank liquidity are defined and monitored. Fellow Bank uses Early Warning indicators and limits to ensure an early response to any developments that might trigger stress on its liquidity position. The early warning indicator is a limit making sure adequate measures are taken in times of liquidity constraints.

Fellow Bank manages liquidity efficiently and accurately by having clear roles and responsibilities between units and teams. Group Risk Control monitors and analyzes liquidity position and provides the CEO, Credit and risk management committee and Management team adequate information regarding liquidity risk. GRC provides the Board with adequate information regarding liquidity risk. Cash Management and Finance teams monitor continuously liquidity risk limits.

Fellow Bank has a liquidity buffer that acts as the primary counter-balancing vehicle vs. existing liabilities. Finance team is responsible for managing the buffer. Credit and risk management committee's

responsibility is to monitor the size and composition of the buffer. Credit and risk management committee analyzes the composition of the liquidity buffer.

The Board of Directors receives reports on liquidity risk position on a regular basis. Liquidity risk measurement and reporting topics covers the development of key liquidity ratios LCR and NSFR, development of financing costs, concentrations in funding base, substantial changes in the liquidity reserve, and possible diminishing alternative finance sources and stress tests.

### **Stress testing**

Stress testing is done to ensure that Fellow Bank can remain a going concern and withstand any form of financial stress. Credit and risk management committee oversees the development of the scenarios. The stress tests form an integral part of the risk culture at Fellow Bank as the results are used to determine the size of the Liquidity Buffer required and furthermore the composition of the buffer.

Stress test scenarios are kept updated. Credit and risk management committee should provide new scenarios on a shorter notice when current scenarios no longer reflect the defined business strategy and risk appetite. Credit and risk management committee is responsible for evaluating and approving the new scenarios and the methodology. The ability to stress test at will is kept during times of high liquidity even if the stress tests are performed less frequently. Stress tests include market-wide stress and idiosyncratic stress. Stress testing considers all substantial risks related. Credit and risk management committee is responsible for approving the detailed stress test principles.

## MARKET RISK

### Market risk

Fellow Bank does not have market risk as defined in Pillar I, other than currency risk. The market risk consists of the interest rate risk of the banking book and currency risk. The interest rate risk of the banking book is not significant and mainly consists of differences in interest rates and maturities between assets and liabilities. Market risk is managed by the Board of Directors in line with the strategy and conservative risk appetite.

The loan portfolio is the main source for foreign exchange risk, as loans in foreign markets (Denmark/DKK, Poland/PLN) are granted in local currencies. Foreign currency risks are kept at a moderate level to avoid material financial losses because of exchange rate movements. The largest foreign exchange positions on 31.12.2022 were: PLN (Polish zloty) 0.2 M€ SEK (Swedish krona) 0.4 M€ and DKK (Danish krone) 0.9 M€, a -10% decrease in the exchange rate of currencies would cause a loss of -0.02 M€ for the company.

The correlation of these currencies with the exchange rate of the euro, is relatively high, which reduces the risk. Of the net loan stock, 99% was euro-denominated loans. Other balance sheet items do not pose any exchange rate risks that are material to Fellow Bank.

Bank's Treasury is responsible for controlling the foreign exchange risk and mitigating the risk. Foreign exchange risk is reported by Treasury and Group Risk Control as part of monthly risk reporting for Credit and risk management committee and the Board.

### Interest rate risk

The loan portfolio is the main source for interest rate risk as there tends to be a mismatch between the interest rates that company set

on customer loans and on deposits. Interest rate risk is a current or prospect risk to company's capital and earnings arising from adverse movements in interest rates.

The interest rate risk of the banking book (IRRBB) constitutes company's interest rate risk. Interest Rate Risk in the Banking Book is part of Basel Committee on Banking Supervision (BCBS) capital framework Pillar 2 and currently institutions are acting under the EBA IRRBB guidelines published in July 2018 (EBA GL 2018/02).

Fellow Bank's new lending is mainly floating rate and tied to a 3-month Euribor. The company currently has few fixed-rate loans, and the share is constantly declining.

Interest rate risk managements importance is growing due to recent strong changes in market interest rates conditions. The company continuously monitors the development of interest rate risk through, among other things, a sensitivity analysis based on standardized scenarios defined by EBA IRRBB guidelines, of the present value of the balance sheet (EVE) and the change in net interest income (NII). On 31.12.2022, the company's interest rate risk was +5.7 / -4.7 % of own funds if the interest rate level were to rise/ fall by two percentage points.

The company's objective is to balance the interest bases of the banking book and to reduce unforeseen fluctuations in net interest income. The pricing of lending and borrowing is a key factor in the development of the company's net interest income.

### Managing interest rate risk

Company continuously measures interest rate risk through the IRRBB interest rate sensitivity analysis, by assessing the impact of interest rate changes on the present value of the balance sheet and net interest income.



IRRBB is measured, monitored, and managed using the six standardized scenarios based on two key risk metrics: Economic value of equity (EVE) and Net interest income value (NII). EVE scenario outcomes are assessed on regular basis and monitored against risk appetite limits and reported to the Board. The earnings risk metric measures the change in Net Interest Income (NII) relative to a base scenario. The model uses a constant balance sheet assumption, implied forward rates and behavioral modelling for the non-maturity deposits and reinvestments.

The measurement of IRRBB is based on assumptions. Key assumptions relate to asset and liability reinvestments and non-maturity deposits and receivables. The calculation is based on payment plans of loans and interest rate forecasts of balance sheet items. Changes in exchange rates do not cause significant variation in net interest income due to the low amount of foreign exchange risk.

The company's objective is to balance the interest bases of receivables and liabilities and to reduce unforeseen fluctuations in net interest income. The pricing of borrowing and lending is a key factor in the development of the company's net interest income. The amount of interest rate risk is reported regularly to the Board of Directors, which has defined risk limit for interest rate risk.

Risk positions and the respective limit utilization is reported daily at least to CEO and Heads of units and monthly to Credit and risk management committee and to the Board. The regular reporting to the Board regarding the market risk include at least the following:

- Bank's total group-wide Interest rate risk (NII & EVE)
- Bank's total group-wide FX exposure
- Results of stress tests
- Limit usage on reported market risks
- Board level limit overdrafts during the period

Below table shows the standardized scenarios defined by Basel Committee

#### Interest rate sensitivity analysis

|  | 31.12.2022 |
|--|------------|
| All rates rise by 200 b.p.   | 1 336 309  |
| All rate decline by 200 b.p.   | -1 115 607 |
| Short term rates decline by 250 b.p. and long-term rates decline by 100 b.p. | -8 922     |
| Short term rates rise by 250 b.p. and long-term rates decline by 100 b.p.    | 223 837    |
| Short term rates rise by 250 b.p.  | 603 264    |
| Short term rates decline by 250 b.p.   | -403 394   |

## OPERATIONAL RISK

### Definition

Operational risk refers to the risk of direct or indirect financial loss resulting from inadequate or failed internal processes, people, and systems, or external events. Operational risks also comprise legal, compliance, and information security risks. Operational risks are thus related to management systems, operational processes, people, and various external factors or threats. Operational risks are managed by the business line. The most significant source of operational risks are development of the new products and services, risks related to IT-security and compliance risk.

The company's board confirms the principles of operational risk management every year. In operational risk management, the company's main goal is to manage reputational risk and ensure business continuity and regulatory compliance in the short and long term. Operational risk management ensures that the company's values and strategy are implemented throughout the business. Operational risk management covers all material risks related to business.

Objectives of the operational risk management are to ensure:

- risks can be identified at an early stage,
- identified risks are assessed and mitigated on the level required by the magnitude of the risk
- level of mitigation is performed according to the targets set by the risk strategy
- identified risks are controlled adequately
- operational risk management efficiency and principles are constantly improved.

### Managing operational risk

Operational risk management is risk based, where the largest operative risks are regularly assessed. Fellow Bank seeks to reduce the likelihood of operational risk through internal instructions and training of staff. Each employee is responsible for managing operational risk in their work. Actual operational risks are reported to the management of the business unit. Control points defined for processes are also central part of the operational risk management. New products, services and suppliers of outsourced services are approved separately by the company's formal approval process before implementation. The approval process ensures that the risks associated with new products and services have been properly identified and assessed. The same approval process also applies when developing existing products.

Group Risk Control is responsible for monitoring the risk mitigation is done according to planned actions. GRC together with Credit and risk management committee is responsible for making sure mitigation levels are adequate and in compliance with the Risk strategy. Mitigation is performed risk-based meaning emphasis is on the largest risks and risks.

Operational risk self-assessment (ORSA) process is on-going process of risk identification and assessment of key risks within all units of Fellow Bank. The objective of the ORSA process is to identify, assess and mitigate Fellow Bank's substantial operational risks and control the mitigation process. The conclusions of ORSA are reported to the Board and management team. The ORSA process and its instructions are approved by the Management team. The company's management receives at least annually the risk assessments of the business units and a report on the actual risks (ORSA). Based on ORSA-process a separate report to the Board of Directors is compiled. With the help of the created process, the Board of Directors can form an overall

picture of the operational risks to the business and their possible impact on the company.

## Appendix: Summary Table of Pillar III requirements

| Article of CRR and CRR2 | Title                                   | Description   | Index / Reference                                  |
|-------------------------|---|---|--|
|                         |   | Institutions shall disclose their risk management objectives and policies for each separate category of risk, including the risks referred to under this Title. These disclosures shall include:  |  |
| 435                     | Risk Management objectives and policies | the strategies and processes to manage those risks;   | Pillar III report – Risk management in Fellow Bank |
|                         |   | The structure and organization of the relevant risk management function including information on its authority and statute, or other appropriate arrangements;  | Pillar III report – Risk management in Fellow Bank |
|                         |   | the scope and nature of risk reporting and measurement systems;   | Pillar III report                                  |
|                         |   | the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants;   | Pillar III report                                  |
|                         |   | Declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate regarding the institution's profile and strategy;   | Pillar III report – Introduction                   |
|                         |   | a concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. This statement shall include key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body. | Pillar III report – Introduction                   |

|             |                      |  |  |
|-------------|----------------------|--|--|
|             |                      | Institutions shall disclose the following information, including regular, at least annual updates, regarding governance arrangements:  |  |
|             |                      | the number of directorships held by members of the management body;  | Fellow Bank website                                    |
|             |                      | the recruitment policy for the selection of members of the management body and their actual knowledge, skills, and expertise;  | Corporate governance statement and Fellow Bank website |
|             |                      | the policy on diversity regarding selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved;  | Corporate governance statement and Fellow Bank website |
|             |                      | whether or not the institution has set up a separate risk committee and the number of times the risk committee has met;  | Corporate governance statement and Fellow Bank website |
|             |                      | the description of the information flow on risk to the management body.  | Pillar III report – Risk management in Fellow Bank     |
| Article 436 | Scope of application | Institutions shall disclose the following information regarding the scope of application of the requirements of this Regulation in accordance with Directive 2013/36/EU:   |  |
|             |                      | the name of the institution to which the requirements of this Regulation apply   | Pillar III report                                      |
|             |                      | an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: (i) fully consolidated; (ii) proportionally consolidated; (iii) deducted from own funds; (iv) neither consolidated nor deducted | Not applicable   |
|             |                      | any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries;  | Not applicable   |
|             |                      | the aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries;   | Not applicable   |

|             |   |   |   |
|-------------|---|---|---|
|             |   | if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9.  | Not applicable  |
| Article 437 | Own funds   | Institutions shall disclose the following information regarding their own funds:  |   |
|             |   | a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution | Not Applicable; capital Adequacy<br>The consolidation group is the same as legal concern. |
|             |   | a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution:  |   |
|             |   | the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;  | Pillar report – Template EU KM1   |
|             |   | separate disclosure of the nature and amounts of the following: (i) each prudential filter applied pursuant to Articles 32 to 35; (ii) each deduction made pursuant to Articles 36, 56 and 66; (iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79;                  | Pillar report – Template EU KM1   |
|             |   | a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;  | Pillar report – Template EU KM1   |
|             |   | where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.  | Not applicable  |
| Article 438 | Disclosure of own funds requirements and risk-weighted exposure amounts | Institutions shall disclose the following information regarding the compliance by the institution with the requirements laid down in Article 92 of this Regulation and in Article 73 of Directive 2013/36/EU  |   |
|             |   | a) summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities;  | Pillar III report – credit risk   |
|             |   | b) the amount of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU and its composition in terms of Common Equity Tier 1, additional Tier 1 and Tier 2 instruments;                        | Not applicable  |

|             |                                      |  |                                     |
|-------------|--------------------------------------|--|-------------------------------------|
|             |                                      | c) upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process;  | Not applicable                      |
|             |                                      | d) the total risk-weighted exposure amount and the corresponding total own funds requirement determined in accordance with Article 92, to be broken down by the different risk categories set out in Part Three and, where applicable, an explanation of the effect on the calculation of own funds and risk-weighted exposure amounts that results from applying capital floors and not deducting items from own funds; | Pillar III report – Template EU OV1 |
|             |                                      | e) the on- and off-balance-sheet exposures, the risk-weighted exposure amounts and associated expected losses for each category of specialized lending referred to in Table 1 of Article 153(5) and the on- and off-balance sheet exposures and risk-weighted exposure amounts for the categories of equity exposures set out in Article 155(2);   | Pillar III report – Template EU OV1 |
|             |                                      | f) the exposure value and the risk-weighted exposure amount of own funds instruments held in any insurance undertaking, reinsurance undertaking or insurance holding company that the institutions do not deduct from their own funds in accordance with Article 49 when calculating their capital requirements on an individual, sub-consolidated and consolidated basis;   | Not applicable                      |
|             |                                      | g) the supplementary own funds requirement and the capital adequacy ratio of the financial conglomerate calculated in accordance with Article 6 of Directive 2002/87/EC and Annex I to that Directive where method 1 or 2 set out in that Annex is applied;  | Not applicable                      |
|             |                                      | h) the variations in the risk-weighted exposure amounts of the current disclosure period compared to the immediately preceding disclosure period that result from the use of internal models, including an outline of the key drivers explaining those variations.   | Not applicable                      |
| Article 439 | Exposure to counterparty credit risk | Institutions shall disclose the following information regarding the institution's exposure to counterparty credit risk as referred to in Part Three, Title II, Chapter 6:  |                                     |
|             |                                      | a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures;   | Not applicable                      |
|             |                                      | discussion of policies for securing collateral and establishing credit reserves;   | Not applicable                      |

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|             |  | a discussion of policies with respect to wrong-way risk exposures;   | Not applicable  |
|             |  | a discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating;   | Not applicable  |
|             |  | gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements; | Not applicable  |
|             |  | measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6 whichever method is applicable:  | Not applicable  |
|             |  | the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure;   | Not applicable  |
|             |  | the notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group;                       | Not applicable  |
|             |  | the estimate of $\alpha$ if the institution has received the permission of the competent authorities to estimate $\alpha$  | Not applicable  |
| Article 440 | Capital buffers                            | An institution shall disclose the following information in relation to its compliance with the requirement for a countercyclical capital buffer referred to in Title VII, Chapter 4 of Directive 2013/36/EU:   |   |
|             |  | the geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer;  | Not applicable  |
|             |  | the amount of its institution specific countercyclical capital buffer.   | Not applicable  |
| Article 441 | Indicators of global systemic importance   | G-SIIs shall disclose, on an annual basis, the values of the indicators used for determining their score in accordance with the identification methodology referred to in Article 131 of Directive 2013/36/EU.   | Not applicable  |
| Article 442 | Exposures to credit risk and dilution risk | Institutions shall disclose the following information regarding the institution's exposure to credit risk and dilution risk:   |   |
|             |  | the definitions for accounting purposes of 'past due' and 'impaired';  | Pillar III report – credit risk and also in the annual report |



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|  |  | a description of the approaches and methods adopted for determining specific and general credit risk adjustments;  | Pilar III report – credit risk and also in the Annual Report |
|  |  | the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes;  | Not applicable   |
|  |  | the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;  | No major exposures outside Finland                           |
|  |  | the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate;   | Not material information                                     |
|  |  | the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;  | Annual report  |
|  |  | by significant industry or counterparty type, the amount of: impaired exposures and past due exposures, provided separately. specific and general credit risk adjustments. charges for specific and general credit risk adjustments during the reporting period;   | Pilar III report – credit risk                               |
|  |  | the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area;  | No material exposures outside Finland                        |
|  |  | the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately. The information shall comprise:<br>a description of the type of specific and general credit risk adjustments;<br>the opening balances;<br>the amounts taken against the credit risk adjustments during the reporting period;<br>the amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments; | Annual report  |

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|             |                                      | the closing balances.   |   |
| Article 443 | Unencumbered assets                  |   | Not applicable  |
| Article 444 | Use of Standardised Approach / ECAIs |   | Not applicable  |
| Article 445 | Exposure to market risk              |   | Fellow Bank does have not any balance on trading book |
| Article 446 | Operational risk                     | Institutions shall disclose the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for; a description of the methodology set out in Article 312(2), if used by the institution, including a discussion of relevant internal and external factors considered in the institution's measurement approach, and in the case of partial use, the scope and coverage of the different methodologies used. | Pillar III report – operational risk                  |
| Article 447 | Disclosure of Key metrics            | Institutions shall disclose the following key metrics in a tabular format:  |   |
|             |                                      | the composition of their own funds and their own funds requirements as calculated in accordance with Article 92;  | Pillar III report – Template EU KM1                   |
|             |                                      | the total risk exposure amount as calculated in accordance with Article 92(3);  | Pillar III report – Template EU KM1                   |
|             |                                      | where applicable, the amount and composition of additional own funds which the institutions are required to hold in accordance with point (a) of Article 104(1) of Directive 2013/36/EU;  | Pillar III report – Template EU KM1                   |
|             |                                      | their combined buffer requirement which the institutions are required to hold in accordance with Chapter 4 of Title VII of Directive 2013/36/EU;  | Pillar III report – Template EU KM1                   |
|             |                                      | their leverage ratio and the total exposure measure as calculated in accordance with Article 429  | Pillar III report – Template EU KM1                   |
|             |                                      | the following information in relation to their liquidity coverage ratio as calculated in accordance with the delegated act referred to in Article 460(1): (i) the average or averages, as applicable, of their liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period; (ii) the average or averages, as applicable, of total liquid assets, after                  | Pillar III report – Template EU KM1                   |

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|             |  | applying the relevant haircuts, included in the liquidity buffer pursuant to the delegated act referred to in Article 460(1), based on end-of-the month observations over the preceding 12 months for each quarter of the relevant disclosure period; (iii) the averages of their liquidity outflows, inflows and net liquidity outflows as calculated pursuant to the delegated act referred to in Article 460(1), based on end-of-the month observations over the preceding 12 months for each quarter of the relevant disclosure period; |   |
|             |  | the following information in relation to their net stable funding requirement as calculated in accordance with Title IV of Part Six: (i) the net stable funding ratio at the end of each quarter of the relevant disclosure period; (ii) the available stable funding at the end of each quarter of the relevant disclosure period; (iii) the required stable funding at the end of each quarter of the relevant disclosure period;   | Pillar III report – Template EU KM1                                 |
|             |  | their own funds and eligible liabilities ratios and their components, numerator and denominator, as calculated in accordance with Articles 92a and 92b and broken down at the level of each resolution group, where applicable.   | Pillar III report – Template EU KM1                                 |
| Article 448 | Exposure to interest rate risk on positions not included in the trading book | Institutions shall disclose the following information on their exposure to interest rate risk on positions not included in the trading book:  |   |
|             |  | the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk;   | Pillar II report – market and interest rate risk                    |
|             |  | the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.  | Pillar II report – market and interest rate risk                    |
| Article 449 | Exposure to securitization positions   |   | Not applicable - Fellow Bank does not have securitization positions |
| Article 450 | Remuneration policy  |   | Available on Fellow Bank website                                    |

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| Article<br>451 | Leverage | 1. Institutions shall disclose the following information regarding their leverage ratio calculated in accordance with Article 429 and their management of the risk of excessive leverage: |                                      |
|                |          | the leverage ratio and how the institution applies Article 499(2) and (3);  | Not applicable                       |
|                |          | a breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements;            | Not applicable                       |
|                |          | where applicable, the amount of derecognized fiduciary items in accordance with Article 429(11);  | Not applicable                       |
|                |          | a description of the processes used to manage the risk of excessive leverage  | Pillar III report - capital adequacy |