finora group

RISK MANAGEMENT AND CAPITAL ADEQUACY REPORT

PILLAR 3
2024

CONTENT

I. INTRODUCTION

Background of the Risk Management and Capital Adequacy report

The Risk Management and Capital Adequacy (Pillar III) report, hereinafter – Pillar III report or Report, of AS Finora Group consolidated, hereinafter – the Group, is prepared according to the Capital Requirements Directive IV (CRD IV, European Parliament and Council Directive 2013/36/EU), the Capital Requirements Regulation (CRR, European Parliament and Council Regulation (EU) No 575/2013) as well as European Banking Institution's regulatory technical standards and implementing technical standards (ITS/RTS).

Pillar III report complements the set of the Group's annual financial reports with additional information and is intended to be read in conjunction with these annual Group's financial reports, which combined give a sufficient and accurate description of the risk profile of the Group.

Pillar III report contains information on risk management, risk measurement and capital adequacy in accordance with the abovementioned requirements. The objective of Pillar III report is to inform shareholders and other stakeholders of the Group's risk management, including policies, methodologies, and practices.

AS Finora Group in brief

Finora Group is founded in 2014, primarily based on Estonian capital, offering a wide range of financial services to SMEs in Estonia and Lithuania. The Group's parent company is AS Finora Group. After its subsidiary Finora Bank UAB, hereinafter – the Bank, obtained a banking license in 2022, parent company primarily functions as a holding company. The Group's most significant entity is the Bank – a credit institution registered in Lithuania, which commenced operations in 2019. After receiving the banking license in 2022, the Bank operates in Lithuania and as a branch in Estonia, offering loan, leasing, factoring, and guarantee services. The Estonian branch of the Bank was registered in January 2024 and provides banking services in the Estonian market. After the Bank started its operations, the Group no longer issues any loans. It primarily focuses on holding company activities, capital raising, and managing the inherited loan portfolio.

II. APPROVAL OF GROUP'S MANAGEMENT

The Group's management confirms that the Group's system of internal control and risk management measures are adequate and sufficient in relation to the nature of the Group's business and strategy.

III. SCOPE OF DISCLOSURE

The table below presents disclosed information in the Pillar III report in conjunction with the set of annual financial reports:

Disclosure requirements

Table No. 1

Disclosure requirements with reference to the CRR Article	Disclosure in the Pillar III report	Disclosure in the set of annual financial reports
Article 435: Risk Management objectives and policies	p. 5, 6, 8	p. 36
Article 436: Scope of application	p. 3	p. 16
Article 437: Own Funds	p. 8	p. 43
Article 438: Capital requirements	p. 8	p. 43
Article 439: Exposure to counterparty credit risk	not applicable	not applicable
Article 440: Capital buffers	p. 6	p. 55
Article 441: Indicators of global systemic importance	not applicable	not applicable
Article 442: Credit risk adjustments	p. 10	p. 13
Article 443: Unencumbered assets	p. 15	not applicable
Article 444: Use of ECAIs	not applicable	not applicable
Article 445: Exposures to market risk	p. 6	p. 42
Article 446: Operational risk	p. 11	p. 41
Article 447: Exposures in equities not included in the trading book	not applicable	not applicable
Article 448: Exposures to interest rate risk on positions not included in the trading book	p. 11	p. 41
Article 449: Exposures to securitization positions	not applicable	not applicable
Article 451: Leverage	p. 6	p. 43
Article 452: Use of IRB approach to the credit risk	not applicable	not applicable
Article 453: Use of credit risk mitigation techniques	p. 9	p. 45
Article 454: Use of the Advanced Measurement Approaches to operational risk	not applicable	not applicable
Article 455: Use of Internal Market Risk models	not applicable	not applicable

IV. CAPITAL ADEQUACY

The goal of the Group is to be a leading and preferred partner in the SME sector, offering flexible and tailored financing solutions through the Bank, for small and medium-sized enterprises. The Group's goal is to create sustainable value for all stakeholders. Therefore, the Group strives for competitive returns on invested capital and market-leading cost efficiency, while balancing risk management, delivering excellent customer experience, and maintaining a strong commitment to sustainability. The Group's core business has been financing small and medium-sized enterprises (SMEs), and the Group will continue to primarily focus on business financing through the Bank.

Table No 2 provides an overview of the Group 's capital adequacy and key ratios.

Overview of the Group 's capital adequacy and key ratios

Table No 2
kEUR

vailable own funds (amounts)	2024-12-31
Common Equity Tier 1 (CET1) capital	1 831
Tier 1 capital	4 831
Tier 2 capital	1 610
Total capital	6 441
Risk-weighted exposure amounts	
Total risk exposure amount	20 371
Capital ratios (as a percentage of risk-weighted exposure amount)	
Common Equity Tier 1 ratio (per cent)	8,98%
Tier 1 ratio (per cent)	23,71%
Total capital ratio (per cent)	31,61%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)	
Capital conservation buffer (per cent)	2,50%
Total SREP own funds requirements (per cent)	11,50
Leverage ratio	
Leverage ratio (per cent)	15,79%
Liquidity Coverage Ratio	
Total high-quality liquid assets (HQLA)	4 211
Total net cash outflows	1 287
Liquidity coverage ratio (per cent)	723,54%
Net Stable Funding Ratio	
Total available stable funding	28 595
Total required stable funding	26 433
NSFR ratio (per cent)	108,18%

The table below presents data on the Group's own funds, capital adequacy ratios and buffers.

Own Funds items and Capital adequacy ratios and buffers

Table No 3
kEUR

Common Equity Tier 1 (CET1) capital: instruments and reserves	2024-12-31
Capital instruments and the related share premium accounts	10 348
Retained earnings	(8 266)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	2 082
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets (net of related tax liability) (negative amount)	(571)
Other reserves	320
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(251)**
Common Equity Tier 1 (CET1) capital	**1 831**
Additional Tier 1 (AT1) capital	**-**
Tier 1 (T1) capital (T1 = CET1 + AT1)	**1 831**
Tier 2 (T2) capital	**1 610**
Total capital (TC = T1 + T2)	**3 441**
Total risk exposure amount	**20 371**
Capital ratios and buffers	
Common Equity Tier 1 (as a percentage of total risk exposure amount)	8,98%
Tier 1 (as a percentage of total risk exposure amount)	23,71%
Total capital (as a percentage of total risk exposure amount)	31,61%
Overall capital requirement (capital conservation buffer, plus countercyclical buffer, plus additional own funds requirements to address the risks other than the risk of excessive leverage)	2,50%
Of which: capital conservation buffer requirement (per cent)	2,50%
Of which: countercyclical buffer requirement (per cent	0,00%
Of which: additional own funds requirements to address the risks other than the risk of excessive leverage	

The table below provides data on total risk-weighted assets (RWA) and the minimum capital requirements.

Risk-weighted assets (RWA) and the minimum capital requirements

Table No 4
kEUR

Risk exposure amount	2024-12-31
Credit risk according to standardized approach	18 058
Market risk according to standardized approach	-
Operational risk according to basic indicator approach	2 313
Total risk exposure amount	20 371

Credit risk exposure amount according to standardized approach	
Central governments and central banks	-
Institutions	998
Corporates	-
Retail	11 381
Exposures in default	2 907
Other exposures	2 772
Total credit risk, standardized approach	**18 058**
Market risk	
Currency risk	**-**
Total market risk	**-**

The table N o 5 provides data on a reconciliation of regulatory capital to the balance sheet items.

Reconciliation of balance sheet items

Table No 5
kEUR

2024-12-31				
Assets	**As reported in published financial statements**	**Subject to deduction from own funds**	**Under scope of prudential consolidation**	**Credit risk framework**
Cash and balances at central banks	4323		4323	4323
Cash and balances at commercial banks	4989		4989	4989
Loans to customers	28786		28786	28786
Tangible assets	571	-571	0	0
Intangible assets	118		118	118
Commercial paper and bonds at fair value	0		0	0
Deferred tax assets	0		0	0
Other assets	2654		2654	2654
Total assets	**41441**	**-571**	**40870**	**40870**
Liabilities				
Retail deposits from customers	25762		25762	
Other fixed term deposits	2058		2058	
Subordinated loan capital	2290		2290	
Other liabilities	8929		8929	
Total liabilities	39 039		39 039	
Equity				
Paid up capital	10348		10348	
Other reserves	320		320	
Retained earnings	-8266		-8266	
Total equity	**2402**		**2402**	
Off-balance items				
Off-balance items	**1459**		**1459**	

V. CREDIT RISK

A credit risk is the risk of financial loss if the Group's customers fail to meet their contractual obligations to the Group. It is the most important risk in the Group, which arises from lending activities (credits, leasing, factoring and guarantees, hereinafter – exposures or loans) to customers – small and medium sized companies, as well as private individuals. Currently, the Group does not have credit facilities with large non-financial companies and exposures to financial institutions. As mentioned above, the Group no longer issues any credit exposures as well. Counterparty credit risk, settlement risk and concentration risks are considered to be part of the credit risk.

The Group aims to maintain a well-diversified loan portfolio with acceptable risk, thus the Group provides its services throughout the Bank only if the customer's creditworthiness satisfies the Bank's requirements as laid out in the Bank's internal regulation, as well as external prudential requirements. Since the Group no longer issues loans itself, the Bank's credit risk management policy is disclosed in more detail below. The credit risk management process goal is that credit risks would be identified, controlled and communicated to management on a timely manner. The Bank uses loan customer rating model in making credit decisions for selected customers. The Group manages the credit risk of the inherited portfolio, and the Bank manages the credit risk of its own portfolio, both at the portfolio level and at the individual loan level.Credit risk management also takes into account the relationship between this risk and other significant risks (AML, Operational and other) too.

The main credit risk mitigation measures are collateral (mortgage, pledge), like real estate, equipment, inventories and trade receivables, as well as guarantees provided ILTE, a financial entity incorporated by the State, also European Investment Fund (EIF) guaranties.

Besides, the Bank's organizational and operational structure ensures that incompatible activities is being performed by different employees. The Bank's ensures that the business units, which initiates credit transactions is separated from risk units, which presents independent risk opinion on the financing transaction.

The Bank operates in a classic three lines of defence governance structure:

- the Bank's business units comprise the First Line of Defence and all employees are responsible for understanding and managing the risks for which they are accountable. Business management owns the risks within their respective area of responsibility and is responsible for ensuring that there are appropriate processes and internal control structures in place that aim to ensure that risks are identified, assessed, managed, monitored, reported and kept within the boundaries of the Bank's risk appetite;
- the Second Line of Defence comprises independent risk and compliance functions which are responsible for the design and management of the risk and control framework. The Second Line of Defence refers to the independent control functions – risk control organization and compliance organization. The Second Line of Defence is organizationally independent from the First Line of Defence and does not carry out operational activities in the business or the unit they monitor and control;

- the Third Line of Defence comprises the internal audit function. The Third Line of Defence is organizationally independent from the First and Second Lines and does not carry out operational activities or other functions.

Credit impairment provisions are measured according to an expected credit loss model in a line with International Financial Reporting Standards IFRS 9. All loans, performing as well as non-performing, will carry a credit impairment provision (loss allowance) depending on their stage allocation. The exposures are allocated to one of three stages:

- Stage 1 - Performing exposures where the credit risk has not increased significantly since initial recognition;
- Stage 2 - Performing exposures where the risk of default has increased significantly since initial recognition, but the asset is still not classified as credit-impaired;
- Stage 3 - Credit-impaired exposures.

The Bank uses both the individual and the collective provisioning calculation methods. The individual provisioning calculation method is applied when the position of a customer or a group of related customers exceeds a certain threshold, or when the position is classified in Stage 3. For all other positions, the Bank applies the collective evaluation method. Positions assessed under the collective method are further grouped by similar characteristics into separate sub-categories, to which different parameters (PD, LGD) are applied. The Group uses collective evaluation method with the similar principles.

Table No6 provides data on the effect of credit risk mitigation (CRM) and Table No 7 provides a breakdown of credit risk exposures by asset class and risk weight using the standardised approach.

The effect of credit risk mitigation (CRM) **Table No 6**

kEUR

2024-12-31						
	Exposures before CCF and CRM	Exposures in default	Credit risk mitigation	Exposure value	Credit conversion factor	Exposures post CCF and CRM
Central governments or central banks	4 323			4 323		
Regional governments or local authorities						
Public sector entities						
Multilateral development banks						
International organizations						
Institutions	4 989		-	4 989	998	998
Corporates	-	-	-	-	-	-
• Of which: SME's	-	-	-	-	-	-
Retail	28 061	774	275	27 786	12 662	11 381
• Of which: SME's	28 061	774	275	27 786	12 662	11 381

Secured by mortgages on immovable property						
• Of which: SME's						
Exposures in default	3 803	-	1 865	1 938	2 907	2 907
Items associated with particular high risk	-	-	-	-	-	-
Covered bonds						
Claims on institutions and corporates with a short-term credit assessment						
Collective investment undertakings						
Equity exposures						
Other exposures	2 772	-	-	2 772	2 772	2 772
Total	**43 948**	**774**	**2 140**	**41 808**	**19 339**	**18 058**

The breakdown of credit risk exposures

Table No 7
kEUR

Risk weight	2024-12-31, rizikos svoriai									Total
Exposure classes	0%	10%	20%	35%	40%	75%	100%	150%	Kita	Exposures post CCF and CRM
Central governments or central banks	4 323									-
Public sector entities										
Multilateral development banks										
Institutions			4 989							998
Corporations										
Retail						28 061				11 117
Covered bonds										
Exposures in default								3 803		2 907
Items associated with particular high risk										
Other exposures							2 772			2 772
Total	**4 323**	**-**	**4 989**	**-**	**-**	**28 061**	**2 772**	**3 803**	**-**	**18 058**

Table No8 provides data on overdue exposures breakdown.

Breakdown of overdue exposures

Table No 8
kEUR

2024-12-31	Expected credit loss (ECL)					
Credit quality of exposures by past due days	Gross carrying amount/nominal amount	Stage 1	Stage 2	Stage 3	Gross amount	Expected loss, %
Not past due or past due ≤ 30 days	26486	-252			26234	0,95%
Past due > 30 days ≤ 90 days	1561		-25		1536	1,60%
Past due > 90 days	3816			-2 803	1013	73,45%
Total	31863	-252	-25	-2 803	28783	9,67%

VI. OPERATIONAL RISK

Since almost all activities are focused within the Bank, the key operational risk management measures implemented by the Bank are disclosed below. Operational risk is the potential loss resulting from the failure or inefficiency of people, processes or information systems. These risks include reputational and legal risks, but not strategic and business risks, which are assessed separately. Legal risk is the risk that an obligated party will default on its obligations. Reputation risk is a negative public focus on the Group/Bank and its business, regardless of its reality, which reduces the customer base, reduces revenue and increases legal costs. To reduce operational risk, the Bank defines and documents all important business processes, defining tasks and responsibilities in accordance with strict rules, and continuously improving information systems.

The main principle for organizing workflows is 1)to follow the "four-eyes principle" and 2)to segregate the business-generating functions from the recording and monitoring functions.

The Group and the Bank uses the Basic Indicator Approach to calculate the minimum required capital need for operational risk. The capital requirement for operational risk is equal to 15% of the average over three last year annual revenue of the Group and the Bank.

Anti Money Laundering and Terrorist Financing risk, as a part of Operational risk, is the risk that the Bank's products will be used for money laundering or terrorist financing, which may include reputational and/or compliance risks. Reputational risk is the risk that actual or suspected involvement in money laundering or terrorist financing will have a material effect on the Bank's financial performance, which will also give rise to compliance risk. Compliance risk is the risk that the Bank will not be able to comply with the rules established for the prevention of money laundering and terrorist financing. To prevent this, the Bank's management monitors the compliance of economic activities, customers profiles with the established rules and the adequacy of internal procedures and control systems. The Bank's business model is also based on principles that mitigate this risk.

VII. INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) AND CURRENCY RISK

The Group's and the Bank's interest rate risk is related to changes in the interest rates of the banking book (IRRBB). Interest rate risk refers to the mismatch between assets and liabilities due to interest rate changes, as well as the probability that the current value of financial instruments will change in a negative direction due to ongoing changes. The purpose of monitoring and managing interest rate risk is to assess the profitability of the Group's/Bank's interest-generating products, forecast future profits, and avoid significant profit declines due to interest rate changes. The Group's does not collect any deposits and no longer issues loans, has fairly small inherited loan portfolio, IRRBB risk not material. The loans granted by the Bank have either fixed or variable interest rates, while deposits have a fixed interest rate. For long term financing, a variable interest rate, typically based on EURIBOR, is usually applied, while for short term financing, a fixed interest rate may be used. The Bank's management analyses the market situation and avoids potential loan product pricing scenarios where an increase in interest costs could have a significant impact on the Bank's financial results. The Bank does not face foreign exchange risk as it does not offer products in any currency other than the euro.

VIII. LIQUIDITY COVERAGE RATIO (LCR)

Table No9 provides Liquidity Coverage Ratio (LCR) calculation.

(CR5) (LIQ1) Liquidity Coverage Ratio (LCR) calculation

Table No 9
kEUR

2024-12-31		
High-quality liquid assets	Total unweighted value	Total weighted value
Total high-quality liquid assets (HQLA)		4 211
Cash outflows		
Retail deposits and deposits from small business customers, of which:	24 418	1 287
Deposits exempted from the calculation of outflows	23 131	
Other retail deposits		
Unsecured wholesale funding:		
Operational deposits (all counterparties) and deposits in networks of cooperative banks		
Non-operational deposits (all counterparties)		
Unsecured debt		
Secured wholesale funding		
Additional requirements		
Outflows related to derivative exposures and other collateral requirements		
Outflows related to loss of funding on debt products		
Credit and liquidity facilities		
Other contractual funding obligations	2 215	0
Other contingent funding obligations		
Total cash outflows		1 287
Cash inflows		
Secured lending (eg reverse repos)		
Inflows from fully performing exposures		
Other cash inflows	5 576	5 283
Total cash inflows	5 576	5 283
Total adjusted value		
Liquidity buffer		4 211
Total net cash outflows		582
Liquidity Coverage Ratio (in per cent)		723,54%

IX. NET STABLE FUNDING RATIO (NSFR)

Table No10 provides Net stable funding ratio (NSFR).

(LIQ2) NSFR calculation

Table No 10
kEUR

	2024-12-31				
Available stable funding (ASF) items Capital items and instruments	No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value
Own funds				3 253	3 253
Other capital instruments					
Retail deposits					
Stable deposits					
Less stable deposits		3 615	14 812	7 336	23 920
Wholesale funding:					
Operational deposits					
Other wholesale funding		9 303	215	285	1 422
Interdependent liabilities					
Other liabilities:					
NSFR derivative liabilities					
All other liabilities and capital instruments not included in the above categories		1 184			0
Total available stable funding (ASF)					28 595
Required stable funding (RSF)					
Total high-quality liquid assets (HQLA)	4 211				
Deposits held at other financial institutions for operational purposes					
Performing loans and securities:					
Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0 per cent haircut					
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions					
Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		6 861	793	22 878	21 979

With a risk weight of less than or equal to 35 per cent under the Basel II Standardised Approach for credit risk					
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35 per cent under the Basel II Standardised Approach for credit risk					
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					
Interdependent assets					
Other assets:					
Physical traded commodities					
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
NSFR derivative assets					
NSFR derivative liabilities before deduction of variation margin posted					
All other assets not included in the above categories		716	24	3 641	4 381
Off-balance sheet items					
RSF from off-balance sheet items		481	474	503	73
Total required stable funding (RSF)					26 433
Net Stable Funding Ratio (per cent)					108,18%

X. UNENCUMBERED ASSETS

Table No11 provides data on unencumbered assets.

Unencumbered assets

Table No 11
kEUR

	2024-12-31			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets			41441	
Loans on demand			9312	
Equity instruments				
Debt securities			0	
Loans and advances other than loans on demand			28786	
Other assets			3343	

XI. ESG RISK

Given that the Bank is the core of the Group's company, ESG risk management is a focus within the Bank. The Bank is currently small and non-complex, and manages primarily a portfolio of small and medium sized enterprises, it is mostly acts in accordance with the guidelines issued by the European Central Bank, the European Banking Authority, and the Bank of Lithuania concerning the management of Environmental, Social, and Governance (ESG) risks.

In 2024, the Bank conducted an ESG risk assessment based on the methodological guidelines of the EBA (European Banking Authority) and the European Commission. The ESG risk assessment was carried out in the following stages:

- Identification of ESG risks, applying the double materiality principle in the context of all risks relevant to the Bank (credit, market, operational, liquidity, reputational, business model, etc.);
- Assessment of ESG risk, based on probability, financial impact, and time horizon criteria, resulting in the establishment of an ESG risk materiality matrix.

ESG risk aspects are integrated into the Bank's strategy, policies, and internal procedures. In order to ensure ongoing monitoring and management of ESG risks and incidents, the Bank has approved key ESG performance and risk indicators (KPIs/KRIs), such as restricting lending to certain industries with significant environmental impact, ensuring that at least 85% of the Bank's employees have completed ESG training, among others — all of which are monitored on a monthly basis.

The Bank assesses that ESG risks do not differ across the regions where it operates, i.e., the Republic of Lithuania and the Republic of Estonia