RISK MANAGEMENT AND CAPITAL ADEQUACY REPORT

31 December 2022

PayRay Bank Risk Management and Capital Adequacy Report 2022

CONTENT

1. INTRODUCTION

PayRay Bank, UAB (hereinafter referred to as the Bank) has prepared the Risk Management and Capital Adequacy Report (Title III) in accordance with the IV Capital Requirements Directive (CRD IV) (Directive 2013/36/EU of the European Parliament and of the Council) and the Capital Requirements Regulation (CRR) (Regulation of the European Parliament and the Council), (EU) No 575/2013) as well as European Banking Institution's regulatory technical standards and implementing technical standards (ITS/RTS). As a small and non-complex institution, the Bank has compiled the report in accordance with the relevant disclosure requirements set out in Article 433(b) of the CRR. The report complements the annual financial statement and is intended to be read together with the annual financial statement. The report shall include information on risk management, risk assessment, and capital adequacy in accordance with the above requirements. The purpose of the Risk Management and Capital Adequacy Report is to inform shareholders and other stakeholders about the Bank's risk management, including policies, methodologies, and practices.

2. SCOPE OF DISCLOSURE

The table below shows the information presented in the Risk Management and Capital Adequacy Report and the relationship between this information and the information contained in the Bank's annual financial statement.

Table No. 1. Disclosure requirements

Disclosure requirement CRR articles	Presentation in the Pillar III report	Table (applicable)	Presentation in the Annual Financial Statement
Article 435 Risk management objectives and policies	Section 3	EU OVA EU LIQA EU CRA EU MRA EU ORA	n/a
Article 438 Capital requirements	Section 4	EU OV1	Page 46 (Group) Page 44 (Bank)
Article 447 Key Metrics	Section 4	EU KM1	Page 12 (Group) Pages 11, 12 (Bank)
Article 450 Remuneration policy	Section 5	REMA REM1 REM2 REM3 REM5	Pages 18, 46 (Group) Pages 18, 43 (Bank)

3. RISK MANAGEMENT OBJECTIVES AND POLICIES

3.1 RISK MANAGEMENT **(Table EU OVA)**

The Bank analyses, assesses, assumes, and manages the risks or groups of risks it faces in its day-to-day business activities. The purpose of risk management is to ensure a sufficient return on equity by managing risks conservatively. In implementing its risk management strategy, the Bank aims not only to mitigate and minimize potential risks but also to ensure an optimal risk return and efficient allocation of capital.

Risk assessment is a continuous, ongoing process, involving both the ongoing analysis of existing risks through various risk-related assessments and the identification of new or emerging risks in the process of introducing new products and in the event of external or intra-group changes. The internal capital adequacy assessment process (ICAAP) includes, at least annually, an overall risk self-assessment of the risks specific to the Bank.

The main risks of the Bank are credit and liquidity risks. Other risks to which the Bank is exposed include concentration, operational, and interest rate risks for banking book (IRRBB) risks. The Bank is developing a framework for qualitative and quantitative assessment parameters for Environmental, Social and Governance (ESG) risks (which include the risks of climate change), which will be integrated into processes and the Bank's governance system. Other risks are considered to be not material and are therefore not assessed.

Risk management is a structured, coordinated, and continuous process at all levels of the Bank, with the following objectives: to align business strategy and risk tolerance; to find solutions in response to risk; to reduce operating losses and to improve the capital allocation.

To avoid conflicts of interest, the units performing risk control functions are separated from the units whose direct activities are related to the exposure to the various risks of banking activities by using the three lines model:

- the first line, which includes the Bank's business units directly serving customers or indirectly involved in the provision of services to the Bank's customers, is responsible for the ongoing and active management of risk in its function as well as the implementation of controls and processes to mitigate risks;
- internal risk control functions are performed by the second line (Risk Management Department), which is responsible for reviewing and monitoring the Bank's controls;
- the third line is the Internal Audit function, which provides an independent and objective assessment of risk management and the effectiveness and adequacy of the Bank's internal control system.

3.2 STRATEGIES AND PROCESSES TO MANAGE RISKS **(Table EU OVA – continued)**

The Bank's Supervisory Board has approved the Bank's Enterprise Risk Management Policy, which covers the main principles of risk management and the allocation of roles and responsibilities in the risk management framework. The risk management framework includes processes to ensure that the Bank identifies, assesses, manages, and monitors risks and reports on them. These processes cover all identified material risks. The Bank's risk management system includes:

- risk appetite and key monitored risk indicators;
- remuneration policy that is consistent with and encourages effective risk management;
- internal capital and liquidity adequacy assessment processes (ICAAP & ILAAP);
- identification of significant risks and development of measures to manage them;
- internal control over risk management;

- internal audit, which regularly assesses the effectiveness of risk management processes.

To ensure that the Bank operates in an acceptable risk environment in its current and future activities, the Supervisory Board of the Bank has established an overall risk appetite. Risk appetite is defined as the level of risk that the Bank is willing to accept in the conduct of its business. Based on risk appetite, individual risk limits have been set for material risks, which are the means of monitoring and controlling the magnitude of the risks assumed. Risk limits and indicators provide early warning of changes in risk and are closely monitored to ensure that risks are kept within the risk appetite.

3.3 A CONCISE RISK STATEMENT APPROVED BY THE MANAGEMENT BOARD **(Table EU OVA – continued)**

The Bank seeks to manage its business so as to avoid excessive losses and depletion of capital in the normal course of business and accepts risk in a conscious and controlled manner.

The Bank maintains a capital buffer in excess of the minimum capital adequacy requirement, ensuring Bank operations under possible unfavourable business scenarios and shocks. The risk appetite for capital is determined by considering the internal capital adequacy assessment process. At the end of 2022, the CET1 capital ratio was 26.86% for Group and 25.11 at Bank level; the total capital adequacy ratio was 26.86% for Group and 25.11% at Bank level Capital ratios are considerably higher than both regulatory requirements and target capital risk appetite level. A capital leverage ratio of 10.09% for both Group and Bank indicates a solid buffer versus the minimum leverage ratio requirement of 3%.

The Bank aims to have a high-quality credit portfolio by implementing a credit risk culture based on long-term customer relationships, focusing on knowing the customer, understanding the economic feasibility of the financing transaction and the customer's ability to meet its obligations as well as the utilization of credit risk mitigants (national and supranational guarantees, insurance, pledging of customer's collaterals).

The liquidity risk appetite of the Bank is formed in such a way that the Bank is able to fulfil its obligations to customers and legal obligations to partners under both normal and disrupted financial market conditions. Risk appetite is limited by the regulatory Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

The Bank maintains a high-quality liquidity buffer to ensure that the Bank can operate and continue its core business in the face of unexpected shocks. Maintaining a liquidity buffer, together with funding planning and risk identification, are key tools to ensure that liquidity risk does not exceed the liquidity risk appetite and supports the Bank's strategic objectives. In 2022, the Bank's liquidity position was strong, and all key regulatory ratios remained above the required levels.

Credit risk accounts for 89.94 % for Group and 90.65% for Bank of risk exposure amount (RWA), i.e., the most significant risk exposure. The Bank's loan portfolio is of medium risk to high risk due to the Bank's position of SME financing in the market. The portfolio is well diversified in terms of products (loans, factoring, and leasing) as well as by sector. Stage 3 portfolio represents 1.35% (Group) or 5.80% (Bank) of the total value of the portfolio. The customer base of the portfolio consists mainly of SMEs and private individuals (primarily farmers) operating in Lithuania and Latvia.

Market risk represents 0% of the total risk exposure amount (RWA). The Bank is not engaged in the trading book business.

Operational risk represents 10.06% (Group) and 9.35% (Bank) of the total risk exposure amount (RWA).

In the interest rate banking book, risk appetite is expressed as the negative impact on economic value and net interest income from adverse interest rate risk scenarios as reported to the supervisory authority.

Concentration risk appetite is expressed as the largest exposure to a single customer as reported to the supervisory authority. Additionally, the Bank has set internal concentration risk appetite levels for exposures toward the real estate and construction sectors.

During 2022, the Bank strengthened its operational risk management by employing the Operational Risk Officer as the 2nd line and improving registration of operational risk incidents as well as following up on the improvement of controls to mitigate future potential incidents.

At the end of 2022, the Bank employed a dedicated ESG Risk Manager who will spearhead the Bank's ESG risk management policy as well as other ESG related projects and deliverables in 2023, including but not limited to designing and implementing the ESG risk measurement approach towards customers, portfolio risk measurement, and Bank-wide ESG materiality assessment performance.

3.4 STATEMENT ON THE ADEQUACY OF RISK MANAGEMENT ARRANGEMENTS APPROVED BY THE MANAGEMENT BOARD **(Table EU OVA – continued)**

Risks arising from the Bank’s activities are managed through appropriate risk mitigation measures, considering the Bank’s business strategy, client type, market positioning, and competition. The improvement of risk management measures is an ongoing process performed in line with the requirements of the European Union and supervisory authorities. Establishing an appropriate risk management system, continuously improving it, and applying its measures in day-to-day operations are some of the most important prerequisites for the Bank’s success in the long term.

The Bank, operating in an environment of economic uncertainty arising from the russian-Ukrainian war and monetary tightening measures made by the European Central Bank (ECB) in light of high inflation in the euro area, carefully monitors the portfolio quality and assesses the potential impact of potential risks on the Bank’s operations and takes preventive actions to manage the risks if it deems necessary.

3.5 LIQUIDITY RISK **(Table EU LIQA)**

One of the Bank’s priority objectives is to maintain acceptable liquidity adequacy. Liquidity adequacy ensures that the Bank meets its payment obligations at all times, under both normal and stressed conditions. The main strategy for managing liquidity risk is to maintain a conservative liquidity risk profile and an adequate liquidity buffer ensuring an adequate survival horizon.

The internal liquidity adequacy assessment process (ILAAP) is an integral part of the overall liquidity risk management system ensuring that the Bank has an adequate liquidity buffer.

The Bank collects stable retail deposits through an online deposits collection platform – Raisin GmbH. This source of funding is the main source of liquidity for the Bank. In addition, the Bank in 2022 had corporate term deposits also accounting as part of its deposits base. The Bank has the potential to finance itself also by raising subordinated loans or issuing debt securities which may additionally contribute to the Bank's own funds.

The Risk Management Department is responsible for ILAAP and the design and effective functioning of the liquidity risk management system at the Bank. The Supervisory Board approves the liquidity risk appetite set out in the Enterprise Risk Management Policy. The Bank’s Supervisory Board is responsible for approving the ILAAP report. The Management Board is responsible for approving the stress testing procedure which elaborates on how stress testing is performed for liquidity risk.

The liquidity risk monitoring system within the Bank ensures that liquidity-relevant factors are monitored by the Asset and Liability Committee and the Management Board along with the Supervisory Board. Liquidity-relevant factors are considered when making decisions relevant to liquidity management.

Liquidity risk management is based on:

- monitoring and controlling liquidity risk using liquidity adequacy ratios;
- projecting cash inflows and outflows;
- ensuring compliance with liquidity risk limits;
- stress testing.

The Bank uses a system of liquidity indicators to assess liquidity risk. Indicators are defined in terms of target (green), warning (yellow), and danger (red) zones. The limits of the limit zones are set within the Enterprise Risk Management Policy, approved by the Supervisory Board. A clearly regulated system for setting and monitoring limits and other restrictions ensures that liquidity risk is appropriately managed in line with the level of liquidity risk borne by the Bank and taking into account current and expected future activities.

The Chief Risk Officer is responsible for the timely reporting of ILAAP results to supervisory authorities in accordance with the regulator's procedures.

Liquidity risk management includes contingency liquidity measures (i.e., the Liquidity Contingency Plan) that can be taken. The Liquidity Contingency Plan defines the liquidity early warning indicators which trigger the decision-making activity of whether the plan should be activated or not.

3.6 CREDIT RISK **(Table EU CRA)**

Credit risk is defined as the risk for the Bank to incur losses due to the Bank's customers' failure to meet their financial obligations towards the Bank. Credit risk primarily arises in financing activities and it is the most significant risk in the Bank. There is also credit risk in investing in government bonds and holding those bonds to maturity, holding cash in other banks, placing deposits in other institutions as well as in the off-balance sheet loan and leasing commitments.

The Bank regularly reviews its credit risk management policies and credit risk mitigation measures which are approved by the Bank's Management Board. Credit risk appetite limits are defined in the Bank's Enterprise Risk Management Policy, approved by the Supervisory Board. The Bank also regularly reviews and considers the effectiveness of internal controls and internal audit analysis related to credit risk management.

3.7 MARKET RISK **(Table EU MRA)**

Market risk is the risk of loss due to changes in market prices. This covers risk factors such as interest rates and foreign exchange. The Bank does not operate a trading book.

Foreign Exchange (FX) Risk is not present at the Bank as the Bank collects deposits and offers financing only in Euro denominated currency.

Interest Rate Risk in the Banking Book (IRRBB) is the risk of a realised or unrealised loss as a consequence of adverse changes in interest rates. The Bank does not use hedging instruments related to timing differences in the repricing of its assets, liabilities, and off-balance sheet position. IRRBB can impact the economic value of the Bank's equity and can impact the Bank's earnings under different rate movements. The Supervisory Board of the Bank has set the NII level defining as the risk appetite within the Enterprise Risk Management Policy.

3.8 OPERATIONAL RISK **(Table EU ORA)**

Operational risk is the risk of loss, whether direct or indirect, to which the Bank is exposed due to inadequate or failed internal processes or systems, human error, or external events. Operational risk encompasses the following sub-categories:

- AML/CTF;
- Process;
- ICT;
- Legal and compliance;
- External;
- Personnel.

The management of operational risk is an important part of the risk management framework of the Bank. The Bank relies on its people, processes, systems, and supplier relationships to deliver the Bank's business objectives. The Bank has operational risk policies and procedures covering the identification, management, and reporting of the risks associated with the identified sub-categories of operational risk.

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4. CAPITAL REQUIREMENTS

The Bank's goals are to ensure the Bank's ability to comply with capital adequacy requirements, the ability to maintain an optimal level of capital in terms of growth in the loan portfolio, and protect itself from possible risks.

The table below provides an overview of the Bank's capital adequacy and key indicators and requirements.

Table 2. (EU KM1) Key Metrics

Thousands of euros 2022-12-31

	Group					Bank				
	a	b	c	d	e	a	b	c	d	e
	T	T-1	T-2	T-3	T-4	T	T-1	T-2	T-3	T-4
Available own funds (amounts)										
Common Equity Tier 1 (CET1) capital	28,381	31,576	31,975	32,433	33,187	28,364	31,992	32,496	32,928	33,682
Tier 1 capital	28,381	31,576	31,975	32,433	33,187	28,364	31,992	32,496	32,928	33,682
Total capital	28,381	31,576	31,975	32,433	33,187	28,364	31,992	32,496	32,928	33,682
Risk-weighted exposure amounts										
Total risk exposure amount	105,667	108,113	122,532	124,096	106,695	112,970	114,139	126,942	129,094	109,947
Capital ratios (as a percentage of risk-weighted exposure amount)										
Common Equity Tier 1 ratio (%)	26.86%	29.21%	26.10%	26.14%	31.10%	25.11%	28.03%	25.60%	25.51%	30.63%
Tier 1 ratio (%)	26.86%	29.21%	26.10%	26.14%	31.10%	25.11%	28.03%	25.60%	25.51%	30.63%
Total capital ratio (%)	26.86%	29.21%	26.10%	26.14%	31.10%	25.11%	28.03%	25.60%	25.51%	30.63%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)										
Additional own funds requirements to address risks other than the risk of excessive leverage (%)	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
of which: to be made up of CET1 capital (percentage points)	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
of which: to be made up of Tier 1 capital (percentage points)	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
Total SREP own funds requirements (%)	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)										
Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Institution specific countercyclical capital buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Systemic risk buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Combined buffer requirement (%)	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Overall capital requirements (%)	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%
CET1 available after meeting the total SREP own funds	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Leverage ratio										
Total exposure measure	281,170	308,396	323,859	279,950	262,877	281,027	310,600	321,562	277,606	262,951
Leverage ratio (%)	10.09%	10.24%	9.87%	11.59%	12.62%	10.09%	10.30%	10.11%	11.86%	12.81%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)										
Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)										
Leverage ratio buffer requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Liquidity Coverage Ratio										
Total high-quality liquid assets (HQLA) (Weighted value -average)	63,919	109,934	61,469	45,977	48,536	63,919	109,934	61,469	45,977	48,536
Cash outflows - Total weighted value	15,186	31,636	6,762	9,563	5,368	15,168	33,607	6,762	9,430	5,368
Cash inflows - Total weighted value	11,504	6,210	5,262	15,288	6,995	11,237	4,136	3,716	13,092	6,427
Total net cash outflows (adjusted value)	3,796	25,426	1,690	2,391	1,342	3,931	29,471	3,046	2,357	1,342
Liquidity coverage ratio (%)	1683.85%	432.37%	3637.22%	1922.92%	3616.69%	1626.02%	373.02%	2018.02%	1950.66%	3616.69%
Net Stable Funding Ratio										
Total available stable funding	239,718	264,758	211,863	181,529	149,959	239,700	265,174	212,384	181,997	149,896
Total required stable funding	151,090	145,673	137,686	114,554	94,844	154,098	145,163	137,422	114,792	97,194
NSFR ratio (%)	158.66%	181.75%	153.87%	158.47%	158.11%	155.55%	182.67%	154.55%	158.55%	154.22%

The table below provides an overview of all risk-weighted assets (RWA).

Table 3. (EU OV1) Overview of total risk exposure amounts

Thousands of euros 2022-12-31

	Group			Bank		
	Total risk exposure amounts (TREA)		Total own funds requirements	Total risk exposure amounts (TREA)		Total own funds requirements
	a	b	c	a	b	c
	T	T-1	T	T	T-1	T
Credit risk (excluding CCR)	95,042	99,038	8,000	102,832	105,601	8,000
Of which the standardised approach	95,042	99,038	8,000	102,832	105,601	8,000
Of which the Foundation IRB (F-IRB) approach						
Of which slotting approach						
Of which equities under the simple riskweighted approach						
Of which the Advanced IRB (A-IRB) approach						
Counterparty credit risk - CCR	0	0	-	0	0	-
Of which the standardised approach						
Of which internal model method (IMM)						
Of which exposures to a CCP						
Of which credit valuation adjustment - CVA						
Of which other CCR						
Not applicable						
Not applicable						
Not applicable						
Not applicable						
Not applicable						
Settlement risk						
Securitisation exposures in the non-trading book (after the	0	0	-	0	0	-
Of which SEC-IRBA approach						
Of which SEC-ERBA (including IAA)						
Of which SEC-SA approach						
Of which 1250% / deduction						
Position, foreign exchange and commodities risks (Market risk)	0	0	-	0	0	-
Of which the standardised approach						
Of which IMA						
Large exposures						
Operational risk	10,625	9,075	1,000	10,138	8,538	1,000
Of which basic indicator approach	10,625	9,075	1,000	10,138	8,538	1,000
Of which standardised approach						
Of which advanced measurement approach						
Amounts below the thresholds for deduction (subject to 250% risk weight)	1,320	1,000	-	1,320	1,000	-
Not applicable						
Not applicable						
Not applicable						
Not applicable						
Total	**105,667**	**108,113**	**9,000**	**112,970**	**114,139**	**9,000**

The accounting values reported in the financial statement and in accordance with the regulatory framework are devoid of differences, with the exception of deductions from the capital in accordance with the regulatory framework.

5. REMUNERATION POLICY

5.1 REMUNERATION POLICY (REMA)

The Supervisory Board of the Bank approves and directly supervises the Remuneration Rules for Target Employees (hereinafter – Rules). In 2022 there were 18 meetings of the Supervisory Board. The Management Board of the Bank is responsible for the implementation of the Rules and is checking, at least once a year, whether the provisions of the Rules are in line with the Bank's situation, business strategy and goals, and long-term continuing business interests.

The Rules are applied to all Bank Group employees who are members of the management and supervisory bodies and senior management; employees with managerial responsibility over the Bank's control functions (risk management, compliance, and internal audit); employees who perform the professional activities within material business units and staff whose professional activities have an impact on the Bank's risk profile.

The Remuneration system applied by the Bank is aimed to ensure that the cases of the determination and payment principles of the Variable Remuneration meet the long-term interests of the Bank's activities, business strategy, goals, and values, promotes sound and effective risk management, helps to avoid conflicts of interests and that the Target Employees are not induced to take excessive risk.

The Fixed Remuneration of an employee accounts for a sufficiently large portion of the remuneration. Target Employees are not dependent on the award of the Variable Remuneration. The employees' performance is assessed and the Variable Remuneration pool is formed upon the evaluation of the Bank's performance, with regard to the existing and future risk, capital, and liquidity levels. In awarding the Variable Remuneration, the quantitative and qualitative criteria, financial and non-financial results are assigned equal weight.

The Supervisory Board reviews the Rules each year. During the last review, the Target employees' list has been updated including additional employees who are responsible for credit granting in the organization in such a way ensuring full coverage of employees making an impact on the Bank's risk profile.

The decision on Variable pay and remuneration payable to Chief Compliance Officer, the Chief Risk Officer, and the Internal Audit Manager is adopted by the Supervisory Board.

The Variable Remuneration is never guaranteed. Severance payments are considered Variable Remuneration and may not exceed 100 percent of Annual Fixed Remuneration.

50 percent of the Variable Remuneration awarded to the Target Employees is paid in Equity Linked Derivatives. The remaining portion of the Variable Remuneration shall be paid in cash. The portion of Variable Remuneration that is awarded in Equity linked Derivatives, is deferred for a period of 3 years, meaning that the payment/ vesting of such deferred portion of the Variable Remuneration should only start 1 year after the relevant performance measurement of the Target Employee, and then the payment shall be made pro rata during the entire deferral period.

Each year during the deferral period the Equity Linked Derivatives awarded to the relevant Target Employee shall be automatically exercised and settled in cash as follows:

- reference amount to be converted into cash that specific year shall be one-third of the total value of the Equity Linked Derivatives awarded to the relevant Target Employee on the reference year (so that the full value of Equity Linked Derivatives awarded on the reference year is converted into cash within the 3 year deferral period);

- the reference amount shall be adjusted based on the extra performance in terms of Net Income versus the yearly Net Income objectives set by the Bank's CEO. The Net Income of the entire business of the Bank and the change in the value of the Equity Linked Derivative will be based on the following rules:
  a) in the event the performance of the Net Income of the Bank's relevant business line is equal to that stated in the objectives, the value of the Equity Linked Derivative will keep 100% of its reference value;
  b) in the event the performance of the Net Income of the Bank's relevant business line is less or more than that stated in the objectives, the value of the Equity Linked Derivative decreases or increases proportionally to the reference value.

In the event the relevant Net Income would decrease more than 10% versus the objective, the value reduction will not be more than 10%;

In the event the relevant Net Income would increase more than 20% versus the objective, the value increase will not be more than 20%.

The Variable Remuneration may not exceed 100 percent of the Annual Fixed Remuneration. The General Meeting of Shareholders of the Bank may increase this ratio to 200 percent, immediately notifying the supervisory authority about the submitted recommendation.

The performance of the employees shall be measured on an annual basis. However, the calculation of the Variable Remuneration shall be based on the results of the employee's performance measurement for at least three years or, when the duration of the employee's employment relations is less than three years, on the basis of the available results of the employee's performance measurement. The Variable Remuneration may be paid only if the respective employee still works in the Bank (with the exception of the severance payments, if any), acted fairly, no infringements of legal acts were found in his/her activities, and his/her performance measurement has been positive during the past three years (or the whole period of employment with the Bank if it is shorter than three years).

The Variable Remuneration, including the deferred part, shall be awarded and/or paid to the Bank's employees only when the Bank has a sustainable financial situation and when its award and/or payment will not limit the Bank's ability to strengthen the capital base, and when it is related with the performance of the Bank, its relevant structural division, and the employee while ensuring the reliable risk management of the Bank and requirements set for long-term growth and taking into account the existing and future risk of all types.

The Variable Remuneration may not be vested, and payment of the awarded Variable Remuneration shall be withheld, if:

- it is incompatible with the Bank's performance for the respective period and the employee's performance measurement;
- it would pose threats to and would not be compatible with the reliable and effective management of the Bank's risk;
- the payment/vesting of the Variable Remuneration would induce excessive risk-taking;
- it would not be in line with the Bank's business strategy, objectives, values, and long-term interests.

5.2 REMUNERATION DISCLOSURE TABLES

Table 4. (REM1) Remuneration awarded for the financial year

		MB Supervisory function	MB Management function	Other senior management	Other identified staff
Fixed remuneration	Number of identified staff	4	4	15	
	Total fixed remuneration	122,239	658,490	896,810	
	Of which: cash-based	122,239	658,490	896,810	
	(Not applicable in the EU)				
	Of which: shares or equivalent ownership interests				
	Of which: share-linked instruments or equivalent non-cash instruments				
	Of which: other instruments				
	(Not applicable in the EU)				
	Of which: other forms				
	(Not applicable in the EU)				
Variable remuneration	Number of identified staff			2	
	Total variable remuneration (incl. Severance)	-	-	77,730	
	Of which: cash-based			77,730	
	Of which: deferred				
	Of which: shares or equivalent ownership interests				
	Of which: deferred				
	Of which: share-linked instruments or equivalent non-cash instruments				
	Of which: deferred				
	Of which: other instruments				
	Of which: deferred				
	Of which: other forms				
	Of which: deferred				
Total remuneration (2 + 10)		122,239	658,490	974,540	

MB for "Management Body"

Table 5. (REM2) Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

	MB Supervisory function	MB Management function	Other senior management	Other identified staff
Guaranteed variable remuneration awards				
Guaranteed variable remuneration awards - Number of identified staff	0	0		
Guaranteed variable remuneration awards -Total amount	0	0		
Of which paid during the financial year, that are not taken into account in the bonus cap				
Severance payments awarded in previous periods, that have been paid out during the financial year				
Number of identified staff				
Total amount				
Severance payments awarded during the financial year				
Number of identified staff			2	
Total amount			77,730	
Of which paid during the financial year			77,730	
Of which deferred				
Of which not taken into account in the bonus cap				
Of which highest payment that has been awarded to a single person				

Table 6. (REM3) Deferred remuneration

Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
MB Supervisory function	0							
Cash-based								
Shares or equivalent ownership interests								
Share-linked instruments or equivalent non-cash instruments								
Other instruments								
Other forms								
MB Management function	96,586	32,195	64,391	- 3,220		n/a	n/a	n/a
Cash-based	96,586	32,195	64,391	- 3,220				
Shares or equivalent ownership interests								
Share-linked instruments or equivalent non-cash instruments								
Other instruments								
Other forms								
Other senior management								
Cash-based								
Shares or equivalent ownership interests								
Share-linked instruments or equivalent non-cash instruments								
Other instruments								
Other forms								
Other identified staff								
Cash-based								
Shares or equivalent ownership interests								
Share-linked instruments or equivalent non-cash instruments								
Other instruments								
Other forms								
Total amount	96,586	32,195	64,391	- 3,220		n/a	n/a	n/a

Table 7. (REM5) Information on the remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

	Management body remuneration			Business areas						
	MB Supervisory function	**MB Management function**	**Total MB**	**Investment banking**	**Retail banking**	**Asset management**	**Corporate functions**	**Independent internal control functions**	**All other**	**Total**
Total number of identified staff										**23**
Of which: members of the MB	4	4	8							
Of which: other senior management							10	5		
Of which: other identified staff										
Total remuneration of identified staff	122,239	658,490	780,729				757,320	217,220		
Of which: variable remuneration (incl. Severan	-	-	-				77,730	-		
Of which: fixed remuneration	122,239	658,490	780,729				679,590	217,220		