annual risk report 2023

kompasbank

Introduction

This Risk Report is presented for kompasbank A/S (referred to as the Bank), aiming to enhance information and transparency for investors, customers, public authorities, and other key stakeholders.

The presented report has been prepared and structured in accordance with the Pillar III regulation (EU Commission's implementing regulation (EU) 2021/637) with subsequent amending regulations and EU Commission's implementing regulation (EU) 2021/763) with subsequent amending regulations. The regulations specify in detail the Pillar III disclosure requirements in Articles 431 to 455 of the CRR Regulation, as well as the associated technical standards and guidelines from the EBA. The rules in the executive order on risk exposure, capital base and solvency requirements (BEK no. 2155/2020) are also covered by the reporting.

Pillar III of the regulation contains a comprehensive set of information forms and tables which specify the specific disclosure requirements. A distinction is made between:

- Templates (quantitative requirements – numerical information)
- Tables (qualitative requirements – verbal descriptions)

The Risk Report consist of two documents:

- This document contains descriptions for the tables (qualitative requirements), where the individual section is directly attributable to the individual row in the tables.
- The Excel file "Risk information Pillar III 2023", where all forms are filled in with data (quantitative requirements) in each separate sheet. In addition, the file contains the "Index" sheet, which is an overview of all forms and tables.

This report contains the Pillar 3 disclosures of the Bank and describes the various risks to which the Bank is exposed and the associated risk capital requirements. This report also details the composition of the Bank's capital base and the material risk and capital management methodologies employed by the Bank. The report has been made in accordance with the rules of the Danish Financial Supervisory Authority (Danish FSA) and the Capital Requirements Regulation (CRR), article 431-455.

Further information about the risks and the risk management can be found in our Annual Report.

The Risk Report is published on an annual basis and at the same time as the Annual Report. It is made available on kompasbank's website www.kompasbank.dk. The report is based on financials as per December 31st 2023 and last updated and approved in April 2024.

The disclosures are not audited.

Vedbæk, 10 April 2024

Annual Risk Report Pillar 3 Disclosures

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1. Key metrics and overview of risk-weighted exposure amounts

1.1. TABLE EU OVC – ICAAP INFORMATION

Legal Risk	Row Number	Free format
Article 438(a) CRR	(a)	Approach to assessing the adequacy of the internal capital
Article 438(c) CRR	(b)	Upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process

1.1.1 Tabel EU-OVC række a (CRR article 438, litra a)

The Bank's approach to assess the adequacy of its internal capital to support current and future activities follows the Bank's Internal Capital Adequacy Assessment Process (ICAAP).

The ICAAP is the process by which the Bank ensures that it operates with an appropriate level of capital. The ICAAP report is produced at least annually, for the purpose of detailing the processes and procedures by which the Bank assesses and maintains adequate capital resources in relation to the risks it is or will be subject to. The ICAAP seeks to bring together information about risk and capital management activities in a form that supports the Executive Management and Board of Directors in managing risks and making informed decisions regarding the future strategy and development of the Bank.

In compliance with the Capital Requirements Directive (CRD) IV article 73, the Bank aims to have in place sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that is considered adequate to cover the risks to which the Bank is or might be exposed.

The Chief Financial Officer (CFO) is responsible for the management of capital and the Bank's capital adequacy assessment. It is the responsibility of the Finance department to perform the ongoing internal capital adequacy assessment process, which includes the Bank's growth expectations, calculation of the Bank's own funds, capital ratio and total capital requirement. Additionally, it is the responsibility of the Finance department to produce the ICAAP report annually.

The Executive Management is responsible for reviewing the capital adequacy assessment, setting targets for the capital planning and risk limits, including risk limits for the capital coverage ratio, in the Recovery Plan.

The Risk Management department is responsible for reviewing and challenging the management of capital. The Risk Management function performs a review of the quarterly capital adequacy assessment and an independent annual review of the capital management process and applied methodology.

The Board of Directors is responsible for approving the Bank's quarterly capital adequacy assessments and the ICAAP report, including the determination of own funds and the calculation of total capital requirements. Additionally, the Board of Directors is responsible for approving the Recovery Plan, including the capital plan and risk limits, at least annually.

The assessment of the capital requirement thereby assumes that ordinary risks to the Bank are covered by the 8% requirement, while the additional capital requirements under Pillar II reflect the result of an assessment of extraordinary risks facing the Bank which are not covered by the 8% under Pillar I.

The Pillar I capital requirement for credit and market risk is calculated by applying the standard approach in the CRR regulation, and operational risk is calculated by applying the Basic Indicator Approach as set out in CRR Article 315.

Quarterly capital adequacy assessments are performed for the following 12-month period, while the ICAAP report is performed based on the following 3-year period.

By December 2023, the Bank's own funds amounted to DKK 225.8 million and the total capital ratio was 29.9%. The individual capital requirement at the end of the year was 15.5%, corresponding to a total capital coverage of 14.4%. The table below contains the distribution of the solvency requirement by risk areas.

Capital requirements (pillar i & ii) ('000)			
Pillar i capital requirement	**Risk exposure amount**	**Capital requirement**	**Capital required**
Credit risk	716,145	8%	57,292
Market risk	40	8%	3
Operational risk	40,024	8%	3,202
Pillar I capital requirement	756,209	8%	60,497

Pillar ii capital requirement	**Capital requirement**	**Capital required**
Base earnings	1.6%	12,396
Lending growth	0.0%	0
Credit risk	1.4%	10,950
Market risk	1.9%	14,664
Liquidity risk	0.2%	1,523
Operational risk	2.2%	16,827
Gearing risk	0.0%	0
Other risk	0.0%	0
Pillar II capital add-on	7.5%	56,360
Individual capital requirement before regulatory buffers	15.5%	116,857
Own funds		225,790
Total capital ratio	29.9%	
Capital coverage excluding regulatory capital buffers	14.4%	

In the Bank's view, the risk factors included and assessed in the Bank's capital adequacy assessment cover all risk areas that the legislation requires the Bank's management to take into account when determining the solvency requirement, as well as the risks that the management considers the Bank is or will be subject to in the future.

In addition, the Board of Directors and Executive Management must assess whether the capital base is sufficient to support future activities. In the Bank, this assessment is part of the general determination of the solvency requirement.

A description of each capital add-on included in the Bank's solvency requirement is provided below.

Credit risks: Capital is allocated to cover credit risks, defined as the risk of losses resulting from debtors or counterparties defaulting on contractual payment obligations, beyond what is covered in pillar I, including large customers in financial distress, concentration risk on individual exposures and industries, and other credit risks. Other credit risks cover the credit risk on the portion of the portfolio that is below 2% of the capital base.

For larger customers in financial distress, an individual assessment of prudent estimated loss on each exposure is made.

Larger exposures are defined as exposures that represent more than 2% of the capital base, while 'customers in financial distress' include the following:
- Customers with an objective indication of credit impairment (credit rating category 1)
- Customers with significant weaknesses, but without objective indication of credit impairment (credit rating category 2C)

In addition, exposures are reviewed to assess whether there is an increased risk of loss from these customers due to economic downturns.

The prudent estimated loss is the 'net loss' that the Bank risks incurring, based on a cautious and forward-looking assessment, if the larger customers in financial distress have to be liquidated due to default.

Market risks: Capital is allocated to cover market risks, defined as the risk of losses resulting from potential changes in interest rates, credit spreads and exchange rates.

The Bank's liquid assets in the form of bonds are held in the regulatory banking book and held to maturity for the purpose of liquidity management. The Bank does not operate with a trading book and the capital allocated under Pillar I only covers risks arising from changes in exchange rates.

Capital allocated under Pillar I for FX risk arises from EUR exposures and is calculated as 2.25% of the risk exposure in compliance with CRR article 354 regarding closely related currencies.

For capital allocated to cover interest rate risks under Pillar II, guidelines and benchmarks provided by the Danish FSA are applied to calculate the size of the capital add-ons.

The Bank measures and assesses its risk to the economic value of equity (EVE) from the interest rate risk arising from different repricing risk profiles on its portfolio of fixed-rate assets and liabilities. Modified durations are used as a measure for interest rate sensitivity, and stress scenarios are calculated for different interest rate scenarios, applying the maturity buckets provided by the Danish FSA and The European Banking Authority (EBA).

The Bank measures and assesses the risk to its net interest income (NII) as a result of changes in interest rate levels. The purpose of measuring the NII sensitivity is to capture the risk to expected future net interest income (NII) and profitability (Earnings-at-Risk) within a given time horizon,

given different interest rate movements and scenarios. The Earnings-at-Risk measure considers exposures on all Banking Book activities across currencies, which are subject to currency specific interest rate curves with relevant underlying economic characteristics.

The Bank allocates capital for interest rate risks based on the largest stress outcome from the EVE and Earnings-at-Risk scenarios, which determines the size of the capital add-on.

Additionally, the Bank assesses the credit spread risk on the bond portfolio, defined as the risk of changes in the market's perception of the price of credit risk, liquidity premia and potentially other components of instruments with credit risk and the fluctuation of these, which cannot be explained by the interest rate risk or expected default risk.

The Bank measures the exposure to credit spread risk from its bond portfolio measured by the option-adjusted spread (OAS) and option-adjusted spread duration (OASD). Additionally, stress scenarios are applied to evaluate and potential impact on P/L and thereby capital position from changes in credit spread risk.

As the Bank's bond portfolio consists of extremely high quality and highly liquid government bonds and non-callable Danish AAA-rated covered mortgage bonds, the credit spread risk assumed by the Bank is assessed to be minor and no additional capital has been allocated to cover this risk.

Additionally, the Bank measures and assesses the issuer concentration risks within its bond portfolio. Counterparty risk limits are set for credit institutions to ensure that counterparty- and concentration risks are kept at acceptable risk levels.

As the bond portfolio consists of extremely high liquidity Danish government bonds and AAA-rated mortgage bonds from Danish credit institutions and given the size of the Bank's bond portfolio compared to the total Danish market for government and mortgage bonds, it has been assessed that no additional capital allocation is required to reflect the concentration risks in the bond portfolio.

Operational risks: Capital is allocated to cover operational risks, defined as the risk of losses resulting from inappropriate or inadequate internal procedures, human errors, system failures, and external events, including legal risks, beyond what is covered under Pillar I.

The Bank allocates additional capital to reflect operational risks and risks related to information and communication technology. The determination of the capital add-on is based on an assessment of occurred risk events as well as an assessment of the most severe operational risk scenarios given the Bank's business- and operating model.

Additionally, the Bank allocates capital to cover operational risks related to the Bank's business activities which results in credit exposures in Spain.

Earnings risk: The Bank is not currently generating profits which could act to absorb future losses and therefore additional capital is allocated to reflect future risks that the Bank is subject to.

The Bank has not operated long enough to accurately predict the future variability of its earnings. Nonetheless, it is acknowledged that earnings projections may be prone to uncertainty and fluctuation.

In accordance with the regulatory guidance from the Danish FSA, the capital add-on is calcula-tIn accordance with the regulatory guidance from the FSA, the capital add-on is calculated as 1% of the loans and guarantees as long as the base earnings are negative.

Lending growth risks: The Bank has assessed the expected future lending growth and related risks to determine whether this requires an additional capital allocation.

While the Bank expects to grow without widened credit acceptance criterias, the Bank's growth expectation is conditioned on the supply of additional capital. Hence, the assessment includes only growth within the capacity of the current capital base.

Additional growth beyond the current capacity will only be possible if adequate capital is supplied before realising such additional growth. On this basis and by excluding growth contingent on the supply of additional capital, no additional capital has been allocated to cover risks related to growth in the loan portfolio.

Liquidity risk: The Bank's level of liquidity and funding, as well as the risk management hereof, is assessed in the Bank's Internal Liquidity Adequacy Assessment report (ILAAP). In addition to the ILAAP, the Bank assesses liquidity risks defined as the risk of increased funding costs arising in scenarios where liquidity becomes harder to obtain.

Guidance from the Danish FSA states that allocation of capital for liquidity risks is particularly relevant for banks with a significant deposit-to-loans deficit and for banks that have a significant reliance on short-term unsecured funding. For the Bank, while not having any reliance on wholesale funding, it is deemed relevant to assess liquidity risks given that the Bank's funding source depends on deposits from price-sensitive customers.

The Bank allocates capital to cover liquidity risks by applying a stressed interest rate to customer deposits which requires refinancing, reflecting the expected additional interest rate required to retain deposit funding.

Leverage risk: The Bank measures and assesses its leverage ratio as part of its capital adequacy assessment. By December 2023, the Bank's leverage ratio was 12.0% and thereby in compliance with regulatory requirements. The leverage ratio is forecast to stay above 10% in the ICAAP and the risk of excessive leverage is assessed to be low. As a consequence, the Bank does not allocate additional capital to cover the risk of excessive leverage.

Statutory requirements: Post the ordinary inspection by the Danish FSA during 2023, the Bank allocates additional capital to cover operational risks related to processes for the Danish and Spanish business activities.

Capital requirement and adequacy

The Bank's capital requirement and capital coverage as of December 2023 is shown in the table below.

Capital adequacy assessment ('000)	
Own funds	225,790
Capital requirement, excl. regulatory capital buffers	158,619
Total capital ratio	29.9%
Individual capital requirement	15.5%
Capital coverage ratio, excl. regulatory capital buffers	**14.4%**
Minimum required eligible liabilities (MREL)	0.6%
Capital conservation buffer (CCB)	2.5%
Countercyclical capital buffer (CCyB)	2.4%
Total combined capital requirement	21.0%
Capital coverage ratio, incl. regulatory capital buffers	**8.9%**

The Bank has calculated the capital surplus in relation to the solvency requirement at 14.4% points based on the individual solvency requirement of 15.5% and an actual capital percentage of 29.9%. If the buffer requirements are added, the excess coverage can be calculated at 8.9% points. The Bank continuously prioritises raising additional capital to support future growth, primarily in the form of common equity and supplemented by Tier 2 capital or subordinated debt. The Bank's management assesses that the Bank has adequate capital to support planned business activities and cover the totality of risks that the Bank is or might be exposed to, given the planned capital injections.

The Bank does not hold any Additional Tier 1 or Tier 2 capital items and does not apply any deductions to its own funds. The CET1 capital instruments only consist of paid in capital and share premiums.

1.1.2 Tabel EU-OVC row b (CRR artikel 438, litra a)

If the Danish FSA sets a higher requirement for the capital base, the result of the institute's processes for assessing the internal capital, including the composition of the requirements for additional capital base, which is based on the supervisory control process is shown.

The Danish FSA has not set a higher requirement for the capital base for the Bank, which is why the point is not elaborated further.

2. Risk management objectives and policies

2.1 TABLE EU OVA – INSTITUTION RISK MANAGEMENT APPROACH

Legal Risk	Row Number	Free format
Point (f) of Article 435(1) CRR	(a)	Disclosure of concise risk statement approved by the management body
Point (b) of Article 435(1) CRR	(b)	Information on the risk governance structure for each type of risk
Point (e) of Article 435(1) CRR	(c)	Declaration approved by the management body on the adequacy of the risk management arrangements
Point (c) of Article 435(1) CRR	(d)	Disclosure on the scope and nature of risk disclosure and/or measurement systems.
Point (c) of Article 435(1) CRR	(e)	Disclose information on the main features of risk disclosure and measurement systems.
Point (a) of Article 435(1) CRR	(f)	Strategies and processes to manage risks for each separate category of risk.
Point (a) and (d) of Article 435(1) CRR	(g)	Information on the strategies and processes to manage, hedge and mitigate risks, as well as on the monitoring of the effectiveness of hedges and mitigants.

2.1.1 Table EU-OVA row a and c (CRR article 435(1), point e and f)

The Board of Directors of kompasbank A/S approved the Risk Report for 2023 on 10 April 2024.

The Board of Directors finds that the Bank's risk management procedures are adequate and provide assurance that the risk management systems in place are adequate in relation to the Bank's risk profile and strategy.

The risk tolerance defined by the Board of Directors is managed via applicable policies and limits.

A review of the business model and policies shows that the overall requirements set out in the model for specific risk areas are fully reflected in the specific limits of the individual policies.

The Board of Directors' instructions to Executive Management delegates powers and provides guidance on relevant areas which are implemented in the Policies and underlying procedures. The Board of Directors' assessment is that there is consistency between the business model, policies, the guidelines in the Instructions to the Executive Management and the risks the Bank is exposed to. The assessment is conducted based on the material and reporting provided to the Board of Directors from the Bank's Executive Management, the Chief Risk Officer (CRO), the Compliance Responsible as well as the Bank's external auditor.

The risks the Bank is exposed to are continually identified and documented as well as monitored as part of the Bank's Risk Landscape and defined Risk Appetite, the Risk Policies and the implementation hereof. The risks are furthermore reported as part of the ongoing reporting on each risk area as well as through the reporting from the CRO.

Business model

The Bank is a SME lending bank, which is funded through fixed term deposits and notice accounts as well as with core equity from investors. The business model is simple and executed based on employing new technology and a fast turnaround time on credit decisions. All this at a low cost infrastructure.

The Bank is in the market to facilitate SME lending funded by retail depositors through fixed term deposit and notice accounts as well as with core equity. The overall objective when managing risk at the Bank is to enable the best decision making, in order for the Bank to achieve the overall objective of helping SMEs reach their full potential.

Liquidity and solvency

The Bank strives to have a robust liquidity risk management framework, sound liquidity contingency plans and processes and a robust capital coverage to support the business model.

Prudent internal limits are set conservatively to ensure sound risk management, with minimum limits of 150% for both the liquidity coverage ratio and the 12-month forecast liquidity coverage ratio, respectively. The funding structure must meet the regulatory Net Stable Funding Ratio (NSFR) requirement for which an internal limit of 110% is set.

The Bank has a capital surplus objective expressed as a requirement to hold sufficient capital to cover losses during a 3-year period of severe stress. This effectively translates into having an internal minimum limit for the capital coverage ratio of minimum 5% in excess of the capital requirement, minimum requirement for own funds and eligible liabilities (MREL) add-on and regulatory capital buffers in a base case scenario.

Supervisory Diamond (Tilsynsdiamanten)

In addition to the risk appetite limits, the Board of Directors monitors the limits as set in the Supervisory Diamond as defined by the Danish FSA.

As of December 2023, the bank complies with 3 of the 4 thresholds in the Supervisory Diamond. The benchmark for lending growth is breached since the lending book is in the build-up phase.

Supervisory diamond 31/12/2023		
Benchmark	**kompasbank**	**Limit**
Sum of Large Exposures	154%	< 175%
Lending Growth	31%	< 20%
Property Exposure	12%	< 25%
Liquidity Requirement Ratio	2096%	> 100%

Risk Management function

The Board of Directors has appointed a CRO with responsibility for monitoring and reporting on the risk management processes of the Group. The CRO is a member of the Executive Management and attends the Credit Committee. The Executive Board has established a Risk Management function with responsibility for identifying, analysing and monitoring all risks. The CRO is annually or when deemed necessary, reporting to the Board of Directors. The CRO is furthermore developing a plan for the Risk Management Function, which is based on the Bank's Risk Landscape and includes the focus areas of the function.

Compliance

The Bank has established a compliance function with a compliance officer who reports to the Executive Board and reports to the Board of Directors at least ones a year. The Head of Compliance is conducting a compliance risk assessment on which the compliance plan is developed. Based on the compliance plan the Head of Compliance is responsible for conducting independent assessments of the Bank's compliance towards regulative requirements as well as compliance with regards to internal procedures.

General Data Protection Regulation (GDPR)

The responsibility for the Bank's compliance with the General Data Protection Regulation (GDPR) rests with the Head of Compliance who is also appointed Data Protection Responsible. The Data Protection Responsible must ensure that the Bank has reliable guidelines for the processing of personal data and must also ensure compliance with the general principles for processing personal data as well as prepare, maintain and ensure compliance with guidelines in the personal data area. The Data Protection Responsible is also responsible for handling data protection legal issues. Reporting to the Board of Directors takes place at least once a year.

Money laundering and terrorist financing

The bank has established an anti-money laundering function with an Anti-Money Laundering officer with reference to the Executive Management. The task of the person responsible for money laundering is to ensure that the bank meets the requirements of the Money Laundering Act and regulations issued pursuant thereto, and that these regulations are anchored throughout the organisation. The Bank's Business Support Function is conducting the daily operation of the requirements as set in the policy as well as underlying procedures with support from the Anti-money Laundry Responsible. The Bank's Compliance Function oversees and when required provides constructive challenges to make sure Financial Crime Risks are managed appropriately.

The Board of Directors have issued the Anti Money Laundering and Counter Terrorist Financing Policy, which together with the Bank's Sound Company Culture Policy including the Conflicts of Interest Procedure, set the requirements for the appropriate management of Financial Crime Risk.

The Bank performs a Business Wide Money Laundering and Terrorist Financing Risk Assessment, which is based on the Bank's business model including the products offered and customer types as well as the sales channels in place. The Bank is committed to maintaining a stringent risk profile in the realm of financial crimes, explicitly excluding any involvement in money laundering, funding of terrorism, or other forms of financial illegalities. The Bank is resolute in not engaging with customers who fail to meet its anti-money laundering criteria or with whom business relations are not permitted under current laws and regulations. It is imperative for the Bank to always have a thorough understanding of its customer base, ensuring the identity of both the customers and their beneficial owners is known and verified.

At the Bank, there's a concerted effort to cultivate an awareness of financial regulatory compliance among its staff and leadership, particularly concerning economic crimes, money laundering, and the financing of terrorism. The bank is actively involved in enhancing and refining its strategies and actions to combat money laundering and terrorist financing. A key focus is on the improvement of data quality, with ongoing efforts to upgrade customer data quality.

Every employee at the Bank bears the responsibility to help mitigate risks by following established guidelines and procedures, with a special emphasis on being alert to, and reporting, any unusual or suspicious activities or transactions they encounter in their day-to-day work.

The Bank's Financial Crime risks are reported to the Executive Management on a regular basis, and to the Board of Directors on an annual basis. The Board of Directors also receive reporting regarding identified risk events four times a year and for the most severe ones the Board of Directors is notified without undue delay.

Credit risk

Credit risk is the risk of customers (borrowers) or counterparties failing to meet their payment obligations, resulting in impairments or write-offes to the Bank's assets.

The Bank offers credit products to corporate/SME customers in Denmark and Spain only and does not offer financing to private individuals. The credit product offerings in Denmark include term loans and overdraft facilities and lending is mainly provided against collateral put forward by the customer or the Danish State. Relationships with Danish customers are based on personal visits by the Bank's account managers to the customers' business site. Furthermore, the Bank offers short term factoring and promissory notes financing through a local partner to Spanish corporate customers. The chosen customer base is small and medium sized business enterprises who have a proven business model, prudent management and healthy financial figures with sufficient cash-flow generating ability.

The Bank uses an internal scoremodel to classify customers according to perceived credit risk. The model is back-tested once a year and in general follows the Bank's rules on model risk governance. The credit policy outlines which customers the Bank is allowed to onboard based on customer classification and other data points.

Management of credit risk constitutes a significant area of the Bank's risk management, as loans and overdraft facilities constitute by far the largest part of the bank's assets. The Bank manages credit risk through the requirements as set in the Bank's Credit Policy as well as set in the Instructions to Executive Management. Both documents are approved by the Bank's Board of Directors and reviewed and updated on an annual basis or more frequently, if deemed necessary.

The foundation of the Bank's credit policy is that credit is granted according to business-calculated risk, where all lending commitments must be based on a financially sound basis in combination with collaterals to mitigate credit risk. Credit decisions are based on the robustness of the customer's current and expected future earnings, liquidity and capital ratio. Credit is granted to customers where it is likely that the customer can repay the credit with liquidity earned as part of the running business.

The interest rate on a loan shall reflect the level of expected loss. As the bank is currently building a loan book, emphasis is on the credit quality of the customers and the underlying collaterals. To minimise concentration risk towards industries with an inherent higher credit risk, industry limits are in place and the portfolio is monitored closely by the credit department.

During the build-up of the Bank's credit portfolio, the lending growth will exceed the limit as set in the Supervisory Diamond. The lending growth is closely monitored and deviations with regards to requirements for credit quality are not accepted.

The Bank accepts larger exposures relative to the capital. This is only allowed, when the customer classification is good, collateral is appropriate and expected loss on an exposure is acceptable.

The Bank's counterparty risk consists of the cash kept at other credit institutions as well as the Bank's bond portfolio kept on the banking book. The Board of Directors must approve the credit institutions as well as the size of the exposure towards them. The bond portfolio must consist of liquid and high-quality government or mortgage bonds denominated in DKK or EUR and issued by high-rating issuers.

The Board of Directors has delegated a lending authority to the Executive Management and the Executive Management has made a further delegation of the lending authority to the Bank's credit committee. The credit committee consists of the Executive Management, the Head of Credit, two senior members of the credit department and the Head of Business Support. The

committee shall meet twice a week or more frequently if required. The committee presently meets four times a week to discuss general topics related to overall credit risk, as well as individual cases.

The day-to-day management of credit risks is conducted by the Bank's credit department supported by the Bank's Business Support Function. The credit department is responsible for adherence to the relevant policies, standard operating procedures, requirements and limits as stated in the Bank's credit policy. The Bank's second line risk management function oversees and, when deemed necessary, challenges the credit process to make sure the risks are managed within the set risk appetite.

Credit risk is reported monthly to the Executive Management and quarterly to the Board of Directors. The credit department's ongoing and periodic reporting to the Executive Management and Board of Directors includes the bank's total credit risks broken down at case, customer, segment and industry level. In addition, developments in overdrafts, arrears, impairments and non-performing exposures are reported on an ongoing basis.

The main element in assessing the creditworthiness of business customers is their ability to service the debt with liquidity created through ordinary operations and satisfactory consolidation of the equity. At the same time, circumstances with the individual customer or in the industry, in which the customer operates, are quantified when assessing the customer's creditworthiness. For business customers, the creditworthiness is also determined by the customer's business model, the robustness to external conditions and a assessment of risks arising from the customer's environmental, social and governance conditions.

For the management of the Bank's credit portfolio, a credit score is used, determined on the basis of financial information for the individual customer. It is generally a requirement that the customer puts forward some collateral for the exposure. However, lending cannot be based solely on the collateral provided.

The value of collateral provided is calculated on the basis of formal assessment principles for every kind and type of collateral. This also includes marketability, market changes and deterioration due to age.

Impairments are made for expected credit losses on all credits, loans and guarantees. Impairments are made according to IFRS 9-compatible impairment rules.

The impairment model is based on a calculation of expected losses, where all exposures are divided into the following stages, depending on the individual loan's credit deterioration compared to initial recognition:

- Stage 1: Lending with absence of significant increase in the credit risk
- Stage 2: Lending with a significant in the credit risk
- Stage 2-weak: Lending, placed in the Danish FSA's credit rating category 2C, and lending to customers with significant financial difficulties, but where losses are not expected in the most likely scenario.
- Stage 3: Loans that are credit impaired.

For loans in stage 1, impairments are made for expected losses in the coming 12 months. For loans in stages 2 and 3, impairments are made for expected losses in the total remaining term of the loans.

On first recognition, the individual loans are placed in the Danish FSA's creditworthiness category 3, 2A and 2B in stage 1, whereby a write-down is made for 12 months' expected loss on first recognition.

The placement in stages and calculation of the expected loss is based on the Bank's scoring model, the model is developed and maintained in accordance with the credit policy and underlying standard operating procedures.

To assess objective indication of credit impairment has occurred, all exposures are assessed individually, on the basis of actual events that have already occurred. If such an objective indication is found, and this results in an impact on the size of the expected future cash flows, an impairment is made.

The loan is impaired, if applicable, with the difference between the accounting value before the impairments and the present value of the expected future payments.

For a more detailed description of the principles behind the bank's impairments according to IFRS 9, please refer to the Bank's annual report, where these are described in the accounting policies.

Liquidity risk

Liquidity risk is the risk that the Bank does not have the ability to fulfil all payment obligations as and when they fall due. Funding risk is the risk that the Bank's cost of funding rises to disproportionate levels or that a lack of funding prevents the Bank from continuing its business activities.

The Bank is funded through savings products such as fixed-term and notice deposits, offered primarily to retail customers in Denmark and Germany. The vast majority of the Bank's deposits are covered by the Deposit Guarantee Scheme.

The Bank's management of liquidity and funding risks is governed through the Instructions to Executive Management and the Bank's Liquidity Policy.

The Bank invests excess liquidity in high quality liquid assets for the sole purpose of liquidity risk management. Internal and regulatory liquidity risk metrics, including the Liquidity Coverage Ratio (LCR) and the NSFR, are calculated and applied in the Bank's liquidity and funding risk management.

The Bank identifies and assesses the liquidity and funding risks as part of the ILAAP. As part of the ILAAP, the Bank maintains a Liquidity Contingency Plan (LCP), which enables the Bank to react promptly in case of a liquidity stress scenario.

The day-to-day management of liquidity and funding risks is conducted by Treasury in the Finance function, which is also responsible for adherence to the relevant regulatory requirements, instructions and limits as well as for conducting the reporting to Executive Management and the Board of Directors. The Bank's second line risk management function oversees and challenges the process when required, to ensure risks are managed within the set risk appetite.

Market risk

Market risk is defined as the risk of losses stemming from on- and off-balance sheet positions arising from adverse movements in financial market prices.

The Bank manages market risk through the Instructions to Executive Management as well as through the Bank's Market Risk Policy. Both documents are approved by the Bank's Board of Directors and reviewed and updated on an annual basis or more frequently, if deemed necessary.

The market risk to which the Bank is exposed arises solely from business activities (deposits and lending) and the resulting balance sheet mismatches, and the Bank does not engage in speculative trading activities. Excess liquidity is placed in short term government and mortgage bonds within the regulatory banking book and market risks are limited to interest rate risk and currency risk.

Positions in the banking book are held for liquidity management purposes and are only allowed to be traded in that respect. The liquidity buffer is composed of liquid instruments and measured at fair value in the profit loss statement. The credit spread risk is assessed on a monthly basis and is, due to the government and covered mortgage bond exposure, limited.

Interest rate risk can arise from changes in the Bank's fixed rate assets and liabilities as a result of significant changes in the general level of interest rates. The interest rate risk is calculated in accordance with the guidance given by the Danish FSA.

The Board of Directors has set limits for the interest rate risk in the banking book whereas no interest rate risk in the regulatory trading book is allowed. The limit measures the interest rate risk on both total banking book and the bond portfolio and is set in relation to the Bank's capital.

Currency risk can arise from changes in currency exchange rates by affecting the value of the Bank's currency positions. Currency risk is calculated as the largest sum of respective positions in currencies where the Bank has a net receivable and currencies in which the Bank has a net debt. The Bank's currency risk is limited to Euro exposure, which is managed through a Euro funding strategy and with limits based on the Bank's capital.

The Bank does not currently apply risk mitigation techniques or hedging strategies in the area of market risk. This will be implemented when the market risk exposure is material.

The day-to-day management of market risks is conducted by Treasury in the Finance Function, however the trading mandate is only delegated from the Bank's Executive Management for reducing currency risk. For interest rate risk an approval must be obtained prior to entering into positions. The Bank's second line risk management function oversees and when required challenges the process to make sure the risks are managed within the set risk appetite.

The calculation of market risks and the monitoring of these is conducted on an ongoing basis, with monthly reporting to the Executive Management and reporting to the Board of Directors on a quarterly basis.

Operational Risk

Operational Risk is defined as the risk of losses stemming from processes, people, models, products, outsourcing and legal risks.

The Board of Directors have issued the Operational Risk Policy to ensure that operational risks are properly and effectively managed at all times. It includes the requirement for ongoing identification, registration and classification of risks, the implementation of mitigating actions and controls, as well as the requirements regarding the reporting of the operational risk. The

Bank's Operational Risk Policy covers requirements for the broader management of non-financial risks and thus includes the scope of information security & cyber risk, strategic risks as well as regulatory compliance rIsks.

The Bank's operational risks are managed on a day-to-day basis by the functional leads based on requirements set by the Bank's Chief Operating Officer (COO). The Bank's second line functions oversee and when required provides constructive challenge to make sure the risks are identified, assessed and managed.

The Operational Risk owners are allocated across the first line of defence and they are typically the Bank's functional leads. They are responsible for participating in the Bank's Risk and Control Self Assessment process on an ongoing basis and at least annually. A Process which is facilitated by the Head of Operational Risk.

All employees of the Bank are aware of how to identify and report risk events. The Bank pays high focus to the ongoing communication and awareness and there the monetary threshold for reporting risk events is low. This enables the organisation to learn and develop based on the issues experienced and it supports emphasising an appropriate risk culture.

The Bank is fully cloud-based and has outsourced a part of its platform to external providers. The Bank only chooses to outsource to technology providers, who have the same high standards for information security. This is being thoroughly assessed prior to contracting and monitored on an ongoing basis. The Bank furthermore maintains an ability to change providers within a maximum of 12 months and the performance of the services provided by third parties, is monitored frequently to determine if an exit plan should be invoked.

The Bank has included its Insurance Policy as part of its Operational Risk Policy. The Bank chooses to consider possible insurance coverages as potential risk mitigations to the extent the insurance coverage is proportionate with its cost. The Board of Directors is reviewing the insurance program on an annual basis or ad-hoc when deemed necessary.

The Bank's largest operational risks, as well as the operational risks where a significant change in the risk level has been identified, are reported to the Executive Management on a regular basis and to the Board of Directors on an annual basis. The Board of Directors also receive reporting regarding identified risk events four times a year and for the most severe ones the Board of Directors is notified without undue delay.

Information Security & Cyber Risk

Information Security & Cyber risk is defined as the risk stemming from tech systems, tech infrastructure, information handling as well as physical security.

The Board of Directors have issued the Information Security Policy and the Information Security Standard, which together with the Bank's Operational Risk Policy, set the requirements for the appropriate management of Information Security & Cyber Risk.

The daily management of Information Security & Cyber Risks are managed by the Bank's Chief Technology Officer (CTO) supported by the Head of Tech Governance. The Bank has established the Security Forum, which meets on a monthly basis to discuss recent risk events as well as the threat outlook. The Bank's second line risk function oversees and when required challenges the process to make sure the risks are managed within the set risk appetite.

Being a fully cloud based bank, the Bank does not keep own data centres. The cloud data is replicated in geographically separated availability zones within a AWS regional site. Backup are copied to a different AWS regional site within the European Union. The Bank furthermore keeps a Disaster Recovery Plan as part of the overall Business Continuity Plan, which is being tested on an annual basis.

A number of the Bank's systems are outsourced to external providers. The outsourcing is subject to a vendor assessment as well as subject to ongoing monitoring. The technical infrastructure is furthermore architected in such a way that critical systems are physically separated and are not part of the same IT network.

The Bank's largest Information Security & Cyber risks, as well as the Information Security & Cyber risks where a significant change in the risk level has been identified, are reported to the Executive Management on a regular basis and to the Board of Directors on an annual basis. The Board of Directors also receive reporting four times a year regarding identified risk events (incidents) and for the most severe ones the Board of Directors will be notified without undue delay.

2.1.2 Table EU-OVA row a and c (CRR article 435(1) point e and f)

The Board of Directors set out the Bank's strategy and policies and make sure that the Bank understands and meets our obligations to customers, colleagues and shareholders in a way t hat promotes the long-term interests of the Bank. The Board of Directors also has the overall responsibility for the Bank's governance, risk management and internal control systems.

The organisational structure of the Bank's risk management is designed in accordance with its actual size and the intricacy of risks in various areas. Moreover, this risk management framework within the Bank is established on a three-tier defense system, known as the '3-line-of-defense' model. As the Bank currently does not have an internal audit function, the third line constitutes the Bank's external auditor.

First Line of Defence contains the Bank's risk taking units and it is within those units the risk ownership is delegated. Risk Owners are responsible for identifying, measuring, managing and controlling the risks within their respective areas. They are furthermore responsible for ensuring adherence to relevant regulation within their respective area, which is supported by the Legal Function. Within the first line of defence, the Bank has appointed a Complaints Responsible, an Anti-money Laundry Responsible, a Information Security Responsible and an Outsourcing Responsible.

The Second Line of Defence contains the Risk Management Function as well as the Compliance Function. The second line functions are responsible for developing the Bank's Enterprise Risk Management Framework as well as the Compliance Framework. They are furthermore responsible for providing constructive challenge and oversight with regards to First Line of Defence and for enabling the Board of Directors in overseeing the Bank's adherence to the risk appetite.

Segregation of duties

Segregation of duties is in place to secure a robust control environment. Full segregation of duties is in some cases impossible or impractical to achieve, due to the size of the Bank. However it is implemented where it serves as a mitigant for the Bank's material risks.

Board of Directors

The Board of Directors have issued Instructions to Executive Management. Those instructions contain the overall limits and instructions of which some limits are further delegated within the organisation.

The Board of Directors have furthermore issued the following policies which sets the foundation for managing the Bank's risks within the specific areas:

- Credit Policy
- Liquidity Policy
- Market Risk Policy
- Operational Risk Policy
- Information Security Policy
- Vendor and Outsourcing Policy
- Policy for Measures against Money Laundering and Financing of Terrorism
- Sound Company Culture Policy

The policies include relevant risk limits, requirements for mitigants as well as reporting requirements and thus serves as the Board of Directors' instructions with regards to the specific area. The policies are reviewed, updated and approved by the Board of Directors on an annual basis or when required, for example as a result of a change in regulation or a change in the business model.

The policies are further implemented through the Bank's procedures. These are approved by the Bank's Executive Management and owned by the Function Responsible, who is also responsible for ensuring its implementation and compliance with the set requirements.

To foster a good risk culture, all employees within the Bank are participating in the Bank's awareness program. The program contains optionary as well as mandatory awareness sessions. The latter includes follow-up testing of skills. Awareness training covers among topics, the following:

- Anti-Money Laundering and Counter-Terrorist Financing
- Anti-Bribery and Anti-Corruption
- Information Security
- Data Protection
- Risk Event Management and Reporting

The Bank is continuously working to develop and improve its risk management framework.

The Risk Management

The Bank has implemented an enterprise risk management approach based on the Bank's Risk Landscape. The Risk Landscape is a hierarchical categorisation of the risks the Bank is exposed to. The Risk Landscape is divided into financial and non-financial risks and it includes risk definitions enabling a common understanding and guidance at all levels of the organisation. It consists of the following overall risk areas as well as 28 sub-risks .

- Credit Risk
- Liquidity & Funding Risk
- Market Risk
- Operational Risk
- Financial Crime Risk
- Information Security & Cyber Risk
- Strategic Risk
- Regulatory Compliance Risk

The Bank's Risk Appetite framework is built on the level one risks of the Risk Landscape. The Risk Appetite framework contains Risk Appetite Statements as well as Risk Appetite Triggers and Limits. The proposals for the limits are aligned to the financial planning of the Bank as well as to relevant stress testing scenarios. This is done to ensure the Risk Appetite is set within the risk capacity of the bank.

All risks within the Risk Landscape are furthermore governed by approved and implemented policies and procedures.

The Board of Directors review the Risk Landscape and Risk Appetite Framework on an annual basis or when deemed necessary.

The Risk Landscape as well as the Risk Appetite Framework is communicated within the Bank to enforce an appropriate risk culture. The Bank's Risk Owners will specifically have a responsibility, within their respective areas, in ensuring the Bank operates within the approved appetite. The Risk Landscape furthermore serves the purpose of ensuring completeness when conducting risk assessments for example as part of material changes.

2.1.3 Tabel EU-OVA row c (CRR article 435(1) point e)

The management statement on the bank's Pillar III information appears on the sheet "Declaration" in the Excel file "Risk information Pillar III 2023".

2.1.4 Table EU-OVA row d (CRR article 435(1) point c)

Significant resources are used to continuously ensure adequate risk reporting, including follow-up on legislative and managerial risk frameworks.

Reporting to the Bank's management and other relevant stakeholders is carried out according to fixed guidelines. The board receives ongoing reporting on all significant riskareas as well as reporting from the CRO and the Head of Compliance manager at least once a year.

2.1.5 Table EU-OVA row e (CRR article 435(1) point c)

The Board of Directors continuously and at least once a year assesses the Bank's individual and overall risks and, in this connection, decides whether the risks are acceptable

The bank has a number of tools for identification and management of risks. The board of directors receives continuous reporting on developments in risks and utilisation of assigned risk frameworks, as well as the effectiveness of the bank's risk management and control of the individual risk areas from the CRO.

2.1.6 Table EU-OVA row f (CRR article 435(1) point a)

The Bank uses stress tests as part of its risk management in a number of different risk areas, including the areas of capital management, liquidity risk management and the area of excessive leverage. Refer to the tables for risk management of the individual risk areas for detailed information on the Bank's use of stress tests for risk management purposes.

2.1.7 Table EU-OVA row g (CRR article 435(1) point a and d)

The Bank is exposed to a number of different risk types. Based on the business model and strategic objectives, the Board of Directors determines relevant risk policies and principles for risk and capital management. The purpose of the Bank's policies for risk management is to minimise losses that may arise as a result of unpredictable developments in the financial markets. Reference is made to the tables for risk management of the individual risk areas for detailed information on the bank's policies on the individual risk areas.

2.2 TABLE EU OVB – DISCLOSURE ON GOVERNANCE ARRANGEMENTS

Legal Risk	Row Number	Free format
Point (a) of Article 435(2) CRR	(a)	The number of directorships held by members of the management body.
Point (b) of Article 435(2) CRR	(b)	Information regarding the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise.
Point (c) of Article 435(2) CRR	(c)	Information on the diversity policy with regard of the members of the management body.
Point (d) of Article 435(2) CRR	(d)	Information whether or not the institution has set up a separate risk committee and the frequency of the meetings.
Point (e) Article 435(2) CRR	(e)	Description on the information flow on risk to the management body.

2.2.1 Table EU_OVB row a (CRR article 435(2) point a)

The Board of Directors consist of 5 members and the Executive Management of 2 members. The Directorships held by members of the Board of Directors and Executive Management are listed in the annual report.

2.2.2 Table EU_OVB row b (CRR article 435(2) point b)

The Bank follows the competence requirements for the board of directors and management, which follow from the financial legislation. The Bank has a focus on the selection of members of the management body and their knowledge, skills and expertise. The Board of Directors conducts a yearly self assessment to make sure there's an appropriate balance of skills and expertise. The Bank uses the yearly self assessment of the Board of Directors to review the skills and expertise needed for both existing and any new board members. The self assessment is structured to assess the skill of the Board on the basis of the current business model and any risk related hereto.

2.2.3 Table EU_OVB row c (CRR article 435(2) point c)

The Bank has pursuant to the Danish Financial Business Act section 70, subsection 1, no. 4, adopted a Diversity Policy that also includes the diversity in the Board. The Board of Directors believes that a diverse corporate culture will have a positive effect on the Bank's ability to attract and retain current and prospect employees. It is furthermore the belief that diverse teams make better decisions which again leads to better financial results and prudent risk management.

2.2.4 Table EU_OVB row d (CRR article 435(2) point d)

The Bank has not established subordinated Board committees.

2.2.5 Table EU_OVB row e (CRR article 435(2) point e)

The Board of Directors receives risk reporting within credit risk, market risk and liquidity risk on a quarterly basis to ensure the necessary information flow. The Board of Directors receives a quarterly overview of risk events as well as yearly reporting on the most severe non-financial risks or ad-hoc if deemed necessary.

Annual reports on specific areas e.g. are planned in the annual plan for the Board of Directors and specific reporting is provided where needed. The CRO and the Head of Compliance reports to the Board of Directors on an annual basis or ad-hoc when deemed necessary. The two functions can also raise any concern outside of the arranged meetings, if circumstances require it.

Significant resources are used to continuously ensure adequate risk reporting, including follow-up on legislative and managerial risk frameworks.

3. Scope of application

This Pillar 3 disclosure has been prepared by kompasbank a/s to meet the rules of the Danish FSA and the regulatory disclosure requirements as outlined in Part Eight (Articles 431 to 455) of the Capital Requirements Regulation (CRR).

The name of the institution is kompasbank a/s. No consolidation for accounting or prudential purposes is done. kompasbank has no subsidiaries or parent undertakings.

3.1 TABLE EU LIA – EXPLANATIONS OF DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY EXPOSURE AMOUNTS

Not relevant for the Bank, as the table is only relevant for banks that are subject to group reporting. The Bank has no subsidiaries.

3.2 TABLE EU LIB – OTHER QUALITATIVE INFORMATION ON THE SCOPE OF APPLICATION

Not relevant for the Bank, as the table is only relevant for banks that are subject to group reporting. The Bank has no subsidiaries.

4. Own funds

4.1. TABLE EU CCA – MAIN FEATURES OF REGULATORY OWN FUNDS INSTRUMENTS AND ELIGIBLE LIABILITIES INSTRUMENTS

The Bank's own funds consist solely of Common Equity Tier 1 (CET1) capital. Deductions from the own funds consists of software assets not yet in use and prudent valuation of assets measured at fair value.

Regulatory capital | own funds ('000)	
Common equity tier 1 capital (CET1)	
Paid in capital instruments	54,555
Share premium	437,575
Common Equity Tier 1 capital instruments	492,130
Retained earnings from previous years	-150,329
Qualified earnings for the year	-111,518
Warrants	646
Retained earnings	-261,200
Deductions from CET1 items	-5,141
Common equity tier 1 capital (CET1)	225,790
Additional tier 1 capital (AT1)	
Additional Tier 1 Capital (AT1)	-
Tier 1 / core capital (CET1 + AT1)	-
Tier 2 capital	
Total combined capital requirement	21.0%
Capital coverage ratio, incl. regulatory capital buffers	8.9%

5. Countercyclical capital buffer

The countercyclical capital buffer (CCyB) is designed to counter cyclicality in the financial system. The CCyB is calculated by applying the rates set in the countries where credit exposures are undertaken, weighted with the share of credit exposures in each country.

In Denmark, the CCyB is set by the Systemic Risk Council and the Minister for Industry, Business and Financial Affairs and was 2.5% by December 2023, which has been applied throughout the capital forecast period.

In Spain, the CCyB is set by Banco de España, which has decided to hold the countercyclical capital buffer rate applicable to banks for their credit exposures in Spain at 0% in the first quarter of 2024 and with no announcement of future expected increases.

By December 2023, the applicable CCyB buffer was 2.4% for the Bank.

6. Leverage ratio

6.1 TABLE EU LRA: DISCLOSURE OF LR QUALITATIVE INFORMATION

Row		a
(a)	Description of the processes used to manage the risk of excessive leverage	
(b)	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	

6.1.1 Table EU-LRA row a

The leverage ratio is a risk neutral metric measuring the size of the balance sheet leverage. It is a regulatory requirement that the leverage ratio is not less than 3%. The Bank calculates the leverage ratio by comparing the core capital to the total exposure amount.

Managing and monitoring the Bank's risk of excessive leverage and the leverage ratio is part of the Bank's ongoing risk management and is reported to the Executive Management and to the Board of Directors.

The Bank's current business model effectively minimises the risk of excessive leverage of the balance sheet, as all risk exposures are on-balance sheet exposures and require capital. The risk of excessive balance sheet leverage is deemed to be low and the Board of Directors assesses on an annual basis, whether it is required to strengthen the process for managing the risk of excessive leverage further.

The Bank complies with the regulatory requirement with a leverage ratio of 12.0% by December 2023.

6.1.2 Table EU-LRA row b

The Bank's leverage risk is measured by the leverage ratio as defined in CRR article 429 and calculated as the Bank's CET1 capital divided by the total exposure measure. The total exposure measure is the sum of the exposure value of all assets and contingent obligations that have not been deducted in the calculation of the CET1 capital.

The main sources of leverage risk for the Bank arise from risk exposures from the loan portfolio, the Bank's excess liquidity as well as the Bank's level of own funds.

During 2023, the Bank's leverage ratio increased from 10% to 12%, primarily due to a lower level of excess liquidity relative to the level of own funds.

7. Indicators of global systemic importance

The Bank is not a Global Systemically Important Financial Institution (G-SIFI) and hence the disclosure requirements are not applicable.

8. Liquidity requirements

8.1 TABLE EU LIQA – LIQUIDITY RISK MANAGEMENT

Row Number	Qualitative information – Free format
(a)	Strategies and processes in the management of the liquidity risk, including policies on diversification in the sources and tenor of planned funding.
(b)	Structure and organisation of the liquidity risk management function (authority, statute, other arrangements).
(c)	A description of the degree of centralisation of liquidity management and interaction between the group's units.
(d)	Scope and nature of liquidity risk reporting and measurement systems.
(e)	Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants
(f)	.An outline of the bank's contingency funding plans.
(g)	An explanation of how stress testing is used.
(h)	A declaration approved by the management body on the adequacy of liquidity risk management arrangements of the institution providing assurance that the liquidity risk management systems put in place are adequate with regard to the institution's profile and strategy. A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy. This statement shall include key ratios and figures (other than those already covered in the EU LIQ1 template under this ITS) providing external stakeholders with a comprehensive view of the institution's management of liquidity risk, including how the liquidity risk profile of the institution interacts with the risk tolerance set by the management body. These ratios may include: • Concentration limits on collateral pools and sources of funding (both products and counterparties) • Customised measurement tools or metrics that assess the structure of the bank's balance sheet or that project cash flows and future liquidity positions, taking into account off-balance sheet risks which are specific to that bank
(i)	A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy. This statement shall include key ratios and figures (other than those already covered in the EU LIQ1 template under this ITS) providing external stakeholders with a comprehensive view of the institution's management of liquidity risk, including how the liquidity risk profile of the institution interacts with the risk tolerance set by the management body. These ratios may include: • Concentration limits on collateral pools and sources of funding (both products and counterparties) • Customised measurement tools or metrics that assess the structure of the bank's balance sheet or that project cash flows and future liquidity positions, taking into account off-balance sheet risks which are specific to that bank • Liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of liquidity • Balance sheet and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps.

8.1.1 Table EU-LIQA row a (CRR article 435(1) point a)

The Bank's Liquidity Policy outlines the Bank's overarching risk profile and allocates organisational responsibilities, aiming to effectively bolster the Bank's business model. Liquidity risk encompasses the danger of the bank facing excessively high costs for securing liquidity, the threat of insufficient financing impeding the bank's ability to sustain its current business model, and the risk of the bank being unable to meet its payment obligations due to a shortage of financing or funding.

The Bank's fundamental goal concerning liquidity risk is to maintain stable and reasonable costs for acquiring liquidity and to prevent a shortage of funding from hindering the bank's ability to uphold its chosen business model. The ultimate aim is to guarantee that the Bank is consistently capable of fulfilling its payment commitments.

Within the liquidity policy, various forms of liquidity risk are pinpointed, and precise limits are established for the level of risk the Bank is willing to assume. The Bank has a moderate risk appetite to liquidity and funding risk and the following limits have been established to ensure that the Bank has sufficient time to initiate and implement recovery initiatives to ensure the risk is managed within the set appetite:

- The LCR must at any time exceed the regulatory LCR requirement with 50%-points, equal to a 150% coverageFor any significant currency. LCR must at any time exceed 100%
- The LCR in a 12 month forecast scenario must at any time exceed the LCR requirement with 50 pct points, equal to a 150% coverage
- The LCR ratio as defined in the Supervisory Diamond must at all times be minimum 100%
- The NSFR must at any time exceed the regulatory NSFR requirement with 10 pct points, equal to a NSFR ratio of minimum 110%

The Bank wishes that the provision of liquidity is distributed among several different sources, types and terms and that the bank will at all times be independent of other financial companies in the area of liquidity. The bank's primary source of funding is deposits from the bank's customers and the Bank therefore also strives for a balance between the Bank's deposits and lending. The Bank strives to be independent of larger contractual deposits from depositors who are not otherwise customers of the bank.

8.1.2 Table EU-LIQA row b (CRR article 435(1), point b)

The overarching framework for managing the Bank's liquidity risk is outlined in the liquidity policy, complemented by an organisational allocation of responsibilities in the liquidity domain and detailed guidelines for handling liquidity risk.

Based on the policies and limits set by the Board of Directors, the Executive Management is authorised to manage the liquidity on behalf of the Bank. The CFO is responsible for maintaining daily liquidity assessments and continuous monitoring of the Bank's liquidity status, ensuring stability in both short and long-term scenarios.

8.1.3 Table EU-LIQA row c (CRR article 435(1), point B)

The CFO and the Finance department is responsible for managing the liquidity risk, including implementing, updating and maintaining the liquidity framework in accordance with the policy outlined.

The liquidity management is done by the Treasury Function in the Finance department – both the daily, short term liquidity management as well as the disposal of the liquidity reserve and monitoring of the liquidity position incl. LCR and NSFR figures.

The setting of interest rates is an important tool in the liquidity management process and the Treasury Function is responsible for continuously monitoring the market situation and analysing the consequences for the Bank. Any changes in the rates of the Bank's products will be discussed upon initiative from the Finance department and decided by the Executive Management.

The Treasury department within the Finance department is responsible for managing the liquidity risk of the Bank, incl. complying with the limits in the liquidity risk policy, while the Finance & Accounting team also within the Finance department is responsible for reporting and controlling of the liquidity risk.

The Risk Management department is responsible for monitoring the reporting of adherence to the limits set out in the liquidity policy – and performing independent control of the risk taking activities.

Risk Management provides review and challenge to the risk owners and thereby serving as management oversight function and second line over the first line.

Risk Management will on a regular basis control that the allocation of the liquidity reserve is done according to the guidelines in the liquidity policy and that limits are met.

8.1.4 Table EU-LIQA row d (CRR article 435(1), point c)

The Board of Directors receives a quarterly report containing a full comparison of all limits outlined in the policy and the actual exposures under the limits. Liquidity risks are reported monthly to the Executive Management. The Finance department is responsible for the reporting.

The reporting shall as minimum include:
- An overview of the actual deposit composition, average duration and pricing
- An overview of the development in the daily proxy LCR and the end-of-month accurate LCR ratio
- A stress test covering a 12 months period

In case a risk appetite limit is breached the Executive Management must within the day after the breach is observed inform the Board of Directors. The notification must include relevant actions reducing the risk below the limit. The breach will also be reported in the above stated ordinary reporting to the Board of Directors.

In case a risk trigger level is breached, the Executive Management and the CRO is to be notified (by the CFO or Finance department) with no more than one day delay and the Executive Management must initiate the required steps to ensure the risk is managed as well as notify the Board of Directors at the next possible occasion.

In case a risk trigger level is breached, the initial notification from the Finance department to the Executive Management and the CRO must include description, appropriate analysis and suggested relevant actions to reduce the risk below the limits.

If the total LCR ratio drops below 100 % (minimum requirement according to CRR) or is expected to drop below that limit, the Executive Management and the Board of Directors must be notified immediately. Then the Danish FSA must be notified immediately thereafter and the notification must be followed by a plan on how to reestablish the LCR ratio as required by the CRR.

8.1.5 Table EU-LIQA row e (CRR article 435(1), point d)

The Board of Directors mandates that the Bank's liquidity be robust and careful, aligning with its business strategy. This includes a minimum excess liquidity of 50 percentage points over legal mandates for LCR, and 10 percentage points above NSFR norms. Additionally, the Bank aims to primarily use customer deposits for financing loans, reducing reliance on external funding.

8.1.6 Table EU-LIQA row f (CRR article 435(1), point d)

The Bank has formulated a liquidity contingency plan in accordance with the requirements of the Executive Order on governance and regulation of financial institutions etc. This plan is included in the annual ILLAP and encompasses various strategic measures aimed at enhancing the Bank's liquidity during crisis scenarios. Each measure's anticipated impact and duration are elaborately outlined in the plan.

The plan undergoes annual testing and will be activated if the bank struggles to adhere to the boundaries established in its liquidity policy, particularly in the face of substantially higher financing costs.

8.1.7 Table EU-LIQA row g (CRR article 435(1), point d)

The bank has an increased liquidity complexity, complemented by a very large liquidity surplus. The Bank employs a stress testing framework that aligns with the level of complexity and risks associated with liquidity. The bank's liquidity stress test focuses on various components within the LCR and NSFR frameworks. In the annual ILAAP various stress scenarios for both idiosyncratic and marked wide scenarios are completed and assessed in terms of likelihood, mitigation and impact. Furthermore, a 12 month forecast of LCR incl. stress scenarios for refinancing are carried out and reported daily.

Throughout 2023, the stress tests conducted have consistently achieved the Bank's internal objectives.

8.1.8 Table EU-LIQA row h (CRR article 435(1), point e)

The business strategy endorsed by the Board of Directors involves certain liquidity risks. The Board of Directors has ratified a declaration detailing the process for measuring, supervising, and managing the Bank's liquidity risks. This is done through proactive liquidity management, which guarantees that the Bank maintains adequate liquidity to fulfil its payment duties. In line with the liquidity policy set by the Board of Directors, the Bank's liquidity risks are consistently monitored and controlled on a daily basis.

The annual ILAAP approved by the Board of Directors, also assesses that the bank's liquidity position is adequate to prudently manage its operations.

8.1.9 Table EU-LIQA row i (CRR article 435(1), point f)

The Board of Directors refers to the supervisory diamond's liquidity benchmark as well as the Bank's LCR and key figures for NSFR.

As of the end 2023 the Bank's LCR was 3470% and the NSFR was 165%.

8.2 TABLE EU LIQB ON QUALITATIVE INFORMATION ON LCR, WHICH COMPLEMENTS TEMPLATE EU LIQ1

In accordance with Article 451a, subsection 2, in the CRR.

Row Number	Qualitative information – Free format
(a)	Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time.
(b)	Explanations on the changes in the LCR over time.
(c)	Explanations on the actual concentration of funding sources.
(d)	High-level description of the composition of the institution's liquidity buffer.
(e)	Derivative exposures and potential collateral calls.
(f)	Currency mismatch in the LCR.
(g)	Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile.

8.2.1 Table EU-LIQB row a

The key figure is calculated by comparing the Bank's liquidity reserves and easily convertible assets to the bank's payment obligations over the next 30 days, determined according to more specifically defined rules.

The most significant factors behind the development of the Bank's Liquidity Coverage Ratio (LCR) are predominantly due to changes in the Bank's deposit and loan balance. The development of the bank's LCR has remained at a high level and significantly above the legal requirement of 100%, and the Bank's internally set minimum requirement of 150%.

8.2.2 Table EU-LIQB row b

The Bank has not changed the underlying principles for the calculation of LCR in the past year.

8.2.3 Table EU-LIQB row c

The Bank funds its loans through notice and term deposits from its own customers, making it less reliant on large individual deposits or funding from professional financiers. As of the end of 2023, the Bank had a notable excess in deposits, amounting to a Deposit/Loan ratio of 146% and excess deposits of DKK 514 million.

8.2.4 Table EU-LIQB row d

Level 1 assets represent the majority of the Bank's liquid assets, comprising 100% of the total. Within the Bank, Level 1A assets make up 80% of all liquid assets, exceeding the legal requirement by 50%-points, which is set at 30%.

8.2.5 Table EU-LIQB row e

The Bank have no derivative transactions

8.2.6 Table EU-LIQB row f

The Bank manages two currencies as part of the liquidity profile, and aims to match fund lending activities in EUR with funding in EUR. The LCR in EUR exceeds 100% by far.

8.2.7 Table EU-LIQB row g

The bank does not have other items in the LCR calculation that are not captured in the LCR disclosure template, which the bank considers relevant for its liquidity profile.

9. Exposures to credit risk, dilution risk and credit quality

9. 1 TABLE EU CRA: GENERAL QUALITATIVE INFORMATION ABOUT CREDIT RISK

Institutions shall describe their risk management objectives and policies for credit risk by providing the following information:

Row Number	Qualitative information – Free format
(a)	In the concise risk statement in accordance with point (f) of Article 435(1) CRR, how the business model translates into the components of the institution's credit risk profile.
(b)	When discussing their strategies and processes to manage credit risk and the policies for hedging and mitigating that risk in accordance with points (a) and (d) of Article 435(1) CRR, the criteria and approach used for defining the credit risk management policy and for setting credit risk limits.
(c)	When informing on the structure and organisation of the risk management function in accordance with point (b) of Article 435(1) CRR, the structure and organisation of the credit risk management and control function.
(d)	When informing on the authority, status and other arrangements for the risk management function in accordance with point (b) of Article 435(1) CRR, the relationships between credit risk management, risk control, compliance and internal audit functions.

9.1.1 Table EU-CRA row a (CRR article 453(1) point f)

The Bank's approach to credit risk management is encapsulated in its Credit Policy. This policy encompasses all forms of credit risk throughout the bank and its business operations, setting the bank's risk tolerance in consideration of its business model, size, the expertise of the board, management and employees.

The aim of the credit policy is to keep risk within an acceptable range, aligning with the Bank's risk tolerance, capital base, and the volume of business, in light of the overall trends in the Danish and Spanish economy. Regular monitoring and reporting of credit risk ensure that the Bank consistently aligns with its established risk appetite levels.

9.1.2 Table EU-CRA row b (CRR article 453(1) point a and d)

The most significant risk in the Bank is credit risk, defined as losses due to a debtor's default on payment obligations to the bank. The Bank has a moderate risk appetite towards the credit risks which constitute lending to SMEs.

The Bank wants to maintain an overall loan portfolio of good quality supported by collateral. The Bank accepts increased concentration risks during the build-up of the portfolio.

Key elements from the credit policy include:

- The legal lending limit for the reduced credit exposure is set at 25 % of the Bank's capital base, as defined in article 395 ie. with respect to the credit exposure after taking into account credit risk mitigation.
- To ensure a prudent build up of the credit portfolio the bank must keep the large exposure ratio, as defined in the Supervisory Diamond, below 175 %.
- The maximum reduced credit exposure to any customer and/or group of connected customers is limited to less than 15 % of the bank's latest reported capital base.

- The maximum credit exposure to any customer and/or group of connected customers is limited to DKK 30 million. However, in respect of Spanish customers the above limit is reduced to 1 mEUR.
- The bank strives to maintain a balanced approach between the cost of a credit and the associated risk for each customer, considering factors like capital engagement, collateral, and revenue from activities other than lending.

Decisions to grant credit should not be driven solely by the prospect of high returns. The cornerstone of the bank's credit policy is grounded in lending based on calculated business risk, ensuring that all lending commitments are rooted in financially viable grounds. Credit decisions are based on a thorough evaluation of the customer's current and potential future financial stability, liquidity, and capital situation. Credits are extended only to those customers who demonstrate a credible ability to repay.

To oversee its credit portfolio, the bank employs a credit rating system that is established based on concrete financial data from each business customer. In situations where the credit risk is more than minimal, it is typically mandatory for the customer to offer complete or partial security against the exposure. Nonetheless, the decision to grant credit does not rely exclusively on the collateral offered. The valuation of the collateral is conducted following defined appraisal guidelines for every variety and type of security, taking into account aspects such as liquidity, market fluctuations, and depreciation due to ageing.

9.1.3 Table EU-CRA row c (CRR article 453(1) point b)

Within the established limits of the adopted business model, the Board of Directors has defined the key principles of the bank's lending practices in its credit policy. The Board of Directors is responsible for approving the largest loans and, in certain specific situations, delegated authority to the executive management within defined limits. Any matters that diverge from the established credit policy or delegated authority are required to be submitted to the Board of Directors for a final decision at all times.

9.1.4 Table EU-CRA row d (CRR article 453(1) point b)

Independent internal controls are conducted on all significant activities in the credit area, in accordance with the Executive Order on Management and Control of Financial Institutions, etc., Annex 1.

The execution is carried out by the following:
- 1st line control is performed in the credit department and by the Head of Credit Controlling,
- 2nd line control is carried out by the Risk Management Function as well as the Compliance Function,
- 3rd line control is conducted by the external audit team.

The 1st line controls are executed by a controller with extensive experience in the credit area, and who is not part of the credit assessment or credit granting process.

As a further compensatory measure, it is also a condition that any person conducting specific controls has not performed tasks or approvals related to the specific case or other specific tasks being audited. The rules regarding segregation of duties are observed.

The internal controls are carried out by continuous monitoring of a number of samples.

9.2 TABLE EU CRB: ADDITIONAL DISCLOSURE RELATED TO THE CREDIT QUALITY OF ASSETS

Row Number	Qualitative information – Free format
(a)	The scope and definitions of 'past-due' and 'impaired' exposures used for accounting purposes and the differences, if any, between the definitions of past due and default for accounting and regulatory purposes as specified by the EBA Guidelines on the application of the definition of default in accordance with Article 178 CRR.
(b)	The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.
(c)	Description of methods used for determining general and specific credit risk adjustments.
(d)	The institution's own definition of a restructured exposure used for the implementation of point (d) of Article 178(3) CRR specified by the EBA Guidelines on default in accordance with Article 178 CRR when different from the definition of forborne exposure defined in Annex V to Commission Implementing Regulation (EU) 680/2014.

9.2.1 Table EU-CRB row a

The Bank uses an approach where a financial asset that is in arrears for more than 30 days with an amount that is considered significant, is considered to be impaired or moved to another stage. Additionally, the bank uses an approach where exposures can be considered credit-impaired (stage 3) if one or more of the following objective indications of credit deterioration have occurred:

- The client is experiencing significant financial difficulty and the risk of incurring a credit loss is larger than not incurring a credit loss,
- The borrower has committed a breach of contract, such as failure to pay instalments and interest or repeated overdrafts, or
- The credit exposure has lenient repayment terms, which could include forbearance measures, which we, for reasons relating to the financial difficulty, would not otherwise have granted.

Financial assets where the customer is in significant financial difficulties are maintained in stage 2 weak, provided that no loss is expected in the most probable scenario.

A loan is in default if the client is subject to one of the following events:

- Bankruptcy or another in-court restructuring event has occurred.
- Arrears/past due for 90 days or more, unless the problem is short term and the amount concerned is limited in comparison to the client's financial situation, or if this is due to errors or technical problems.
- A loss is deemed inevitable.
- Foreclosure

The Bank uses an approach where all of the customers' exposures are non-performing in case one of the exposures are non-performing. The Bank defines non-performing as in regulation (EU) 2019/630 of 17 April 2019.

9.2.2 Table EU-CRB row b

The Bank uses an approach where exposures in arrears/overdraft for more than 90 days with an amount over 4000 DKK are considered to be both accounting-wise impaired (stage 3) and capital-wise defaulted. Therefore, all exposures in arrears/overdraft for more than 90 days and over 4000 DKK are classified as impaired, unless the situation is deemed to be of technical/insignificant nature or if the exposure is in arrears because of extraordinary events, or the customer has a financial robustness beyond question.

9.2.3 Table EU-CRB row c

All impairments on loans and provisions for losses on unused credit lines, loan commitments, and guarantees are considered specific credit risk adjustments, therefore the Bank does not use general credit risk adjustments.

Calculation of expected loss

The calculation of impairments on exposures in stage 1 and 2, except for customers with significant financial difficulties in stage 2-weak, is based on a portfolio model calculation, while impairments on the remaining part of the exposures are made through a manual, individual assessment, based on three scenarios (a base scenario with sale/settlement, a more positive scenario with full servicing, and a negative scenario with bankruptcy within a few days) with probability weights for the occurrence of the scenarios.

In the portfolio model calculation, the expected loss is determined as a function of the probability of default, EAD (exposure at default) and LGD (loss given default) on the basis of a model that is developed and maintained by the Bank's data scientists.

9.2.4 Table EU-CRB row d

The Bank employs an approach where initially no distinction is made between distressed restructuring and forbearancenitiatives. When assessing entry criteria, the Bank categorises exposures that have received forbearance initiatives, which would not have been granted, had the customer not been in financial difficulties, as being in default and non-performing.

In terms of the exit criteria, the Bank implements a grace period of at least one year from the time the exposure is granted forbearance . During this period, the exposure is maintained as defaulted and non-performing. However, the concept of 'forbearance initiatives' is still applied for up to two years after the exposure is no longer considered defaulted and non-performing.

10. Use of credit risk mitigation techniques

10.1 Table EU CRC – Qualitative disclosure requirements related to CRM techniques

Legal Risk	Row Number	Free format
Point (a) of Article 435(2) CRR	(a)	A description of the core features of the policies and processes for on- and off-balance sheet netting and an indication of the extent to which institutions make use of balance sheet netting;
Point (b) of Article 435(2) CRR	(b)	The core features of policies and processes for eligible collateral evaluation and management;
Point (c) of Article 435(2) CRR	(c)	A description of the main types of collateral taken by the institution to mitigate credit risk;
Point (d) of Article 435(2) CRR	(d)	For guarantees and credit derivatives used as credit protection, the main types of guarantor and credit derivative counterparty and their creditworthiness used for the purposes of reducing capital requirements, excluding those used as part of synthetic securitisation structures;
Point (e) Article 435(2) CRR	(e)	Information about market or credit risk concentrations within the credit mitigation taken;

10.1.1 Table EU-CRC row a (CRR article 453, point a)

Credit risk mitigation realised through on- and off-balance sheet netting is not used by the Bank.

10.1.2 Table EU-CRC row b (CRR article 453, point b)

It is the desire of the Bank to obtain a collateral position of either the assets that we finance or other relevant assets of our customer, in order to rank equal to other financial lenders and to minimise risk for losses during adverse market conditions.

As the Bank lends to clients with a proven business model and with sufficient ability to generate cash flow, the most important source of repayment of a loan exposure, will be the borrower's cash flow from the current and future operations.

From time to time the bank may accept certain assets as collateral without assigning any particular value to the collateral. This is done in order to improve the general risk position as a creditor and our ability to manage the credit exposure. Assets pledged to the Bank should, if relevant, be covered by insurance, according to market standard. Owners rights under the insurance policy must, if possible, be handed over to the Bank.

Relevant information about the management of collateral, including updating of information for valuation purposes, will be a requirement for the pledgor.

The following collateral types are accepted:
- Cash deposits
- Listed & non-listed securities
- Machines & fixtures
- Floating charges
- Vehicles
- Guarantees (as for own debt or from third/related parties) & Life insurance (owner)
- Governmental guarantees
- Real estate mortgage
- Declarations of negative pledge
- Intangible assets

The Bank's credit policy and business processes ensure ongoing monitoring of the collateral values, and that the valuation of the collateral is conducted considering their realisation values. The bank uses external valuation inspectors for appraising properties as well as an own-developed real estate value calculation tool.

The agreements with clients on collateral ensure that the Bank has the right to realise properties and securities if clients fail to meet their payment obligations towards the Bank.

Thus, the Bank has established procedures for managing and valuing the securities, which ensure that the Bank has adequate credit protection for its loans. These procedures are an integral part of the regular risk monitoring conducted in the Bank's credit department.

10.1.3 Table EU-CRC row c (CRR article 453, point c)

The Bank use the simple method for valuing financial collateral in our credit risk mitigation assessment. This means that the capital charge on a credit exposure can be reduced by means of collateralisation. The CRR specifies the financial collateral eligible for credit risk mitigation purposes. In accordance with the rules of the CRR, we use financial collateral and guarantees to hedge credit risk.

10.1.4 Table EU-CRC row d (CRR article 453, point d)

As of 31st December 2023, the Bank applied government guarantees (COVID-19, EIF, EIFO and EKF guarantees) as the only credit risk mitigation techniques to reduce risk exposures and the capital requirement, see also note 20 in the annual report.

10.1.5 Table EU-CRC row e (CRR article 453, point e)

Not relevant

11. Use of the standardised approach

11.1 TABLE EU CRD – QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO STANDARDISED APPROACH

Legal Risk	Row Number	Free format
Point (a) of Article 435(2) CRR	(a)	The names of the External Credit Assessment Institutions (ECAIs) and Export Credit Agencies (ECAs) designated by the institution and the reasons for any changes during the publication period.
Point (b) of Article 435(2) CRR	(b)	The exposure classes to which the individual ECAIs or ECAs are applied.
Point (c) of Article 435(2) CRR	(c)	A description of the procedure for transferring issuer and issue credit ratings to comparable asset items outside the trading book.
Point (d) of Article 435(2) CRR	(d)	the relationship between the external credit assessment of each of the designated ECAIs or ECAs (as mentioned in row a)) and the risk weights corresponding to the credit quality steps in Part Three, Title II, Chapter 2 of the CRR (except where the institution complies the standard reference published by the EBA).

11.1.1 Table EU-CRD row a (CRR article 444 point a)

The Bank applies credit ratings from External Credit Assessment Institutions (ECAI) obtained from publicly available information related to exposures to central governments and central banks and institutions.

11.1.2 Table EU-CRD row b (CRR article 444 point b)

For exposures to institutions for which a credit assessment by a nominated ECAI is not available, a risk weight is applied in accordance with the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned in accordance with CRR article 121.

By December 2023, the Bank only had exposures to central governments and central banks and institutions incorporated in jurisdictions where the central government was assigned a credit rating of AAA by a nominated ECAI.

For other exposure classes to which the Bank is exposed, the Bank does not apply ECAI ratings in the calculation of credit risk exposures under the standard approach and applies the risk weights provided in CRR article 111 - 134 for exposures where such a credit assessment is not available.

Exposure classes to which the Bank is exposed and applied risk weights are shown in the table below.

Credit risk exposure classes and applied risk weights	
	Risk weight
Central governments and central banks	0%
Institutions	20%
Corporates	100%
Retail exposures	75%
Covered bonds	10%
Equity exposures	100%

11.1.3 Table EU-CRD row c (CRR article 444 point c)

Transfer of issuer and issue credit ratings to comparable asset items outside the trading book is not relevant for the Bank.

11.1.4 Table EU-CRD row d (CRR article 444 point d)

The Bank applies the standard risk weights provided in the CRR for exposures where a credit assessment is not available.

12. Use of the IRB approach to credit risk

12.1 TABLE EU CRE – QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO IRB APPROACH

The Bank uses the Standardised Approach and is thus not subject to the disclosure requirement.

13. Exposures to counterparty credit risk

13.1 TABLE EU CCRA – QUALITATIVE DISCLOSURE RELATED TO CCR

Row Number	
(a)	Article 439 (a) CRR Description of the methodology used to assign internal capital and credit limits for counterparty credit exposures, including the methods to assign those limits to exposures to central counterparties.
(b)	Article 439 (b) CRR Description of policies related to guarantees and other credit risk mitigants, such as the policies for securing collateral and establishing credit reserves.
(c)	Article 439 (c) CRR Description of policies with respect to Wrong-Way risk as defined in Article 291 of the CRR.
(d)	Article 431 (3) and (4) CRR Any other risk management objectives and relevant policies related to CCR.
(e)	Article 439 (d) CRR The amount of collateral the institution would have to provide if its credit rating was downgraded.

13.1.1 Table EU-CCRA row a (CRR article 439(a))

Regarding the Bank's calculation of the adequate capital base and solvency needs, no additional capital has been allocated to cover counterparty risk, beyond what is contained in the capital base requirement of 8%, which is the minimum capital base according to the 8+ method that the Bank uses to calculate the adequate capital base and solvency needs.

13.1.2 Table EU-CCRA row b (CRR article 439(b))

The Bank does not not make use of derivatives and is thus not exposed to counterparty credit risk.

13.1.3 Table EU-CCRA row c (CRR article 439(b))

It is not considered to be relevant to the Bank, which does not use such collateral as the Bank is not exposed to counterparty credit risk.

13.1.4 Table EU-CCRA row d (CRR article 439(b))

Counterparty risk is the risk of loss as a result of a counterparty defaulting on its obligations, according to an entered into financial contract before the cash flows of the transaction have been finally settled.

The Bank does not not make use of derivatives and is thus not exposed to counterparty credit risk.

13.1.5 Table EU-CCRA row e (CRR article 439(b))

The bank, due to its size, does not have a rating from an international rating agency.

14. Exposures to securitisation positions

14.1 TABLE EU-SECA – QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO SECURITISATION EXPOSURES

The Bank does not use securitisations.

15. Use of the standardised approach and of the internal models for market risk

15.1 TABLE EU MRA: QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO MARKET RISK

(a)	Points (a) and (d) of Article 435 (1) CRR A description of the institution's strategies and processes to manage market risk, including: • An explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the institution's market risks • A description of their policies for hedging and mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges.
(b)	Point (b) of Article 435 (1) CRR A description of the structure and organisation of the market risk management function, including a description of the market risk governance structure established to implement the strategies and processes of the institution discussed in row (a) above, and that describes the relationships and the communication mechanisms between the different parties involved in market risk management.
(c)	Point (c) of Article 435 (1) CRR Scope and nature of risk reporting and measurement systems

15.1.1 Table EU-MRA row a (CRR article 435(1) point a and d)

The market risk policy sets limits and specific guidelines for the ongoing management of risks relating to changes in financial risk factors, and lays down clear and measurable limits on interest rate and foreign exchange risks.

- The Bank will only take on market risks which are related to the business model and the management of excess liquidity
  - Interest rate risks arising from deposits and the loan portfolio with different interest rates characteristics and from placement of excess liquidity in high liquid assets.
  - The target for the bank is to match-fund loans with deposits on a currency level. For EUR denominated loans and deposits, the target is to match the average duration on loans and deposits.
  - For DKK denominated business activities, the bank's business model is to provide lending with an average duration which is longer than the average duration on deposits used for funding, which can create interest rate risks when floating rate loans are funded by fixed-rate deposits.
- The Bank will not hold any on- or off-balance sheet positions in the trading book. Only positions in the banking book are allowed.

The bank places excess liquidity in government bonds and mortgage bonds. These positions are taken within the banking book and are therefore not only covered by the Market Risk Policy, but also by the credit and liquidity policies.

15.1.1 Table EU-MRA row b (CRR article 435(1) point b)

Market risk is the risk of loss following movements in the financial markets, including movements in interest rates, yield spreads and foreign exchange rates.

The Bank is exposed to market risks in the form of interest rate and currency risk. Capital is required for currency exposures under Pillar I while a capital add-on is allocated under Pillar II for interest rate risks.

The risk profile and the framework for market risk management are laid out in our market risk policy, which is set by the Board of Directors.

The market risk definitions are included in the Bank's Risk Landscape and the Risk Appetite is set out in the Risk Appetite Statement and Risk Appetite Limits. The Market Risk Policy is prepared in accordance with this.

The Treasury department within the Finance department is responsible for managing the market risk of the Bank, incl. complying with the limits in the Market Risk Policy, while the Finance & Accounting team also within the Finance department is responsible for reporting and controlling of the market risk.

The Risk Management department is responsible for monitoring and the reporting of adherence to the limits set out in the market risk policy – and for performing independent control of the risk taking activities.

15.1.1 Table EU-MRA row c (CRR article 435(1) point c)

The Bank's market risk is reported based on data from the Bank's core systems and the Bank's market risk exposures are measured against limits approved by both the Board of Directors and the Executive Management.

In case a risk appetite limit in the Market Risk Policy or Instructions to Executive Management is breached the Executive Management must within the day after the breach is observed inform the Board of Directors. The notification must include relevant actions reducing the risk below the limit. The breach will also be reported in the ordinary reporting to the Board of Directors.

The Treasury department is responsible for documenting the cause and for submitting a plan of action to resolve the breach. The Executive Board is informed immediately and the Board of Directors no later than at the next board meeting. If required, the relevant authorities are informed immediately.

16. Operational risk

16.1 TABLE EU ORA – QUALITATIVE INFORMATION ON OPERATIONAL RISK

Legal Risk	Row Number	Free format
Points (a), (b), (c) and(d) of Article 435(1) CRR	(a)	Disclosure of the risk management objectives and policies
Article 446 CRR	(b)	Disclosure of the approaches for the assessment of minimum own funds requirements
Article 446 CRR	(c)	Description of the AMA methodology approach used (if applicable)
Article 454 CRR	(d)	Disclose the use of insurance for risk mitigation in the Advanced Measurement Approach (if applicable)

16.1.1 Table EU-ORA row a (CRR article 435(1) point a-d)

Operational risk is the risk arising from breakdowns in internal procedures, human error or failure of systems. In this category, we also consider structural risks to our business model, sustainability risks and the risk of material damage to our reputation.

The Board of Directors have issued the Operational Risk Policy to ensure that operational risks are properly and effectively managed at all times. It includes the requirement for ongoing identification, registration and classification of risks, the implementation of mitigating actions and controls, as well as the requirements regarding the reporting of the operational risk. The Bank's Operational Risk Policy covers requirements for the identification and assessment of all of the Bank's non-financial risks and thus includes the scope of information security & cyber risk, strategic risks as well as regulatory compliance rIsks.

The Bank has a moderate appetite towards operational risks and acknowledges an increased level of operational risks during the first three years of operation. The Bank furthermore accepts a moderate level of risks associated with managing the outsourcing of a significant part of its platform and processes to third parties.

Operational risk is assessed on the basis of the probability of a given event occurring and the potential loss resulting from the event.

Given its nature and characteristics, operational risk is best mitigated and managed as part of day-to-day business conduct.

Responsibility for the day-to-day management of operational risk lies with the individual business areas. Operational risk management activities are coordinated by the Head of Operational Risk to ensure coherence, consistency and effectiveness across the Bank.

It is our policy to promote a culture where openness about and awareness of operational risk are natural elements of the day to-day work of all staff members, and to ensure that the Executive Board and the Board of Directors are briefed regularly on key risk areas.

As part of operational risk management, operational risk events are systematically recorded, categorised and reported.

16.1.2 Table EU-ORA row b (CRR article 446)

The Bank uses the basic indicator approach for calculating the capital requirement for operational risks. In 2023, the operational risk amounted to 40,0 million DKK, corresponding to 5,3% of the total risk-weighted exposure. The bank continuously assesses the capital requirement for operational risks. If the capital requirement is deemed to be higher than mentioned above, this will be taken into account in the Bank's calculation of its solvency needs.

16.1.3 Table EU-ORA row c (CRR article 446)

Not relevant

16.1.4 Table EU-ORA row d (CRR article 454)

Not relevant

17. Exposures to interest rate risk on positions not held in the trading book

17.1 TABLE EU IRRBBA – QUALITATIVE INFORMATION ON INTEREST RATE RISKS OF NON-TRADING BOOK ACTIVITIES

Row Number	Free format	Legal basis
(a)	A description of how the institution defines IRRBB for purposes of risk control and measurement	Article 448(1), point (e)
(b)	A description of the institution's overall IRRBB management and mitigation strategies	Article 448(1), point (f)
(c)	The periodicity of the calculation of the institution's IRRBB measures, and a description of the specific measures that the institution uses to gauge its sensitivity to IRRBB	Article 448(1), point (e) (i) and (v); Article 448(2)
(d)	A description of the interest rate shock and stress scenarios that the institution uses to estimate changes in the economic value and in net interest income (if applicable)	Article 448(1), point (e) (iii); Article 448(2)
(e)	A description of the key modelling and parametric assumptions different from those used for disclosure of template EU IRRBB1 (if applicable)	Article 448(1), point (e) (ii); Article 448(2)
(f)	A high-level description of how the Institution hedges its IRRBB, as well as the associated accounting treatment (if applicable)	Article 448(1), point (e) (iv); Article 448(2)
(g)	A description of key modelling and parametric assumptions used for the IRRBB measures in template EU IRRBB1 (if applicable)	Article 448(1), point (c); Article 448(2)
(h)	Explanation of the significance of the IRRBB measures and of their significant variations since previous disclosures	Article 448(1), point (d)
(i)	Any other relevant information regarding the IRRBB measures disclosed in template EU IRRBB1 (optional)	
(1) (2)	Disclosure of the average and longest repricing maturity assigned to non-maturitydeposits	Article 448(1), point (g)

17.1.1 Table EU IRRBBA row a (CRR article 448(1), point e)

Interest rate risk refers to the potential for losses resulting from fluctuations in market interest rates. The Bank calculates this risk for positions outside its trading book following the Danish FSA's guide for financial reporting applicable to credit institutions, investment firms, and similar entities. The interest rate risk for a position is considered positive if a rise in interest rates leads to a loss and a fall in rates results in a profit. On the other hand, the interest rate risk is deemed negative if a position profits from an increase in interest rates and suffers a loss with a decrease.

17.1.2 Table EU IRRBBA row b (CRR article 448(1), point f)

The Bank's market risk policy outlines and specifies various forms of market risks, including setting a defined threshold for the amount of interest rate risk the Bank is prepared to accept outside its trading book.

The principal sources of interest rate risk outside the trading book are linked to banking operations such as deposits and lending and bond investments.

This interest rate risk is evaluated and updated on a daily basis as part of the Bank's continuous risk management strategy. Additionally, the board receives a monthly update regarding the institution's market risk, focusing on the current utilisation of established limits and guidelines.

17.1.3 Table EU IRRBBA row c (CRR article 448(1), point e (i)(v) and article 448 (2))

The Bank measures and assesses its interest rate risk in the banking book by measuring and assessing the risk to the economic value of equity (EVE) and net interest income (NII).

The risk to the Bank's EVE arises from different repricing risk profiles on fixed-rate assets and liabilities as a result of changes in the level of interest rates and the yield curve. The calculation of interest rate risk is based on modified durations as a measure for interest rate sensitivity. The Bank measures the risk to the economic value from interest rate risk in the Banking Book on a daily basis.

The risk to the Bank's NII arises from changes in the level of interest rates and the yield curve. The earnings measure is assessed on two different horizons and is measured against various interest rate scenarios, by allocating all relevant interest rate sensitive instruments in the Banking Book into time buckets according to their repricing or maturity dates.

The Earnings-at-Risk measure considers exposures on all Banking Book activities across currencies, which are subject to currency specific interest rate curves with relevant underlying economic characteristics.

17.1.4 Table EU IRRBBA row d (CRR article 448(1), point e (iii) and article 448 (2))

For the measurement and management of NII interest rate risk, the Bank applies pre-defined regulatory stress scenarios from guidelines provided by EBA to assess its interest rate risk and risk to economic value outside the trading book. The purpose is to measure the NII sensitivity to capture the risk to expected future NII and profitability within a given time horizon, as a result of different interest rate movements.

For the measurement and management of EVE interest rate risk, the Bank has chosen to apply duration bands and stress scenarios provided by the Danish FSA and EBA, which are deemed relevant for the deposit, loan and bond portfolios and the interest rate structure of these.

The bank applies pre-defined regulatory stress scenarios in the guidelines from EBA to assess its interest rate risk and risk to economic value outside the trading book. The applied scenarios are the following:

- Parallel shift up/down: +/-200 bps
- Short rates up/down: +/-250 bps on short end but phases out to zero impact on long end
- Steepening of the curve: Rates on short end of the curve down but up on the long end
- Flattening of the curve: Rates on short end of the curve up but down on the long end

17.1.5 Table EU IRRBBA row e (CRR article 448(1), point e (ii) and article 448 (2))

Not relevant for the Bank.

17.1.6 T able EU IRRBBA row f (CRR article 448(1), point e (iv) and article 448 (2))

Not relevant for the Bank

17.1.7 Table EU IRRBBA row g (CRR article 448(1), point c and article 448 (2))

Not relevant for the Bank

17.1.8 Table EU IRRBBA row h (CRR article 448(1), point d)

In the process of assessing its solvency needs, the Bank adds an amount equivalent to the greatest negative effect on the capital base from the six scenarios outlined in the FSA's guidance on adequate capital base and solvency needs. Outside the trading book, this addition is calculated to be 14.7 million DKK.

Additionally, the interest rate risk on net interest income has been evaluated. It is assessed that there is no need to add to the solvency requirements due to this interest rate risk.

17.1.9 Table EU IRRBBA row i

Not relevant for the Bank

17.1.10 Table EU IRRBBA row 1 and 2 (CRR article 448(1), point g)

Not relevant for the Bank

18. Remuneration policy

18.1 TABLE EU REMA – REMUNERATION POLICY

Qualitative disclosures	
(a)	Information relating to the bodies that oversee remuneration. Disclosures shall include: • Name, composition and mandate of the main body (management body or remuneration committee as applicable) overseeing the remuneration policy and the number of meetings held by that main body during the financial year. • External consultants whose advice has been sought, the body by which they were commissioned, and in which areas of the remuneration framework. • A description of the scope of the institution's remuneration policy (eg by regions, business lines), including the extent to which it is applicable to subsidiaries and branches located in third countries. • A description of the staff or categories of staff whose professional activities have a material impact on institutions' risk profile.
(b)	Information relating to the design and structure of the remuneration system for identified staff. Disclosures shall include: • An overview of the key features and objectives of remuneration policy, and information about the decision-making process used for determining the remuneration policy and the role of the relevant stakeholders. • Information on the criteria used for performance measurement and ex ante and ex post risk adjustment. • Whether the management body or the remuneration committee where established reviewed the institution's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration. • Information of how the institution ensures that staff in internal control functions are remunerated independently of the businesses they oversee. • Policies and criteria applied for the award of guaranteed variable remuneration and severance payments.
(c)	Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures shall include an overview of the key risks, their measurement and how these measures affect remuneration.
(d)	The ratios between fixed and variable remuneration set in accordance with point (g) of Article 94(1) CRD

(e)	Description of the ways in which the institution seeks to link performance during a performance measurement period with levels of remuneration. Disclosures shall include • An overview of main performance criteria and metrics for institution, business lines and individuals. • An overview of how amounts of individual variable remuneration are linked to institution-wide and individual performance. • Information on the criteria used to determine the balance between different types of instruments awarded including shares, equivalent ownership interest, options and other instruments. • Information of the measures the institution will implement to adjust variable remuneration in the event that performance metrics are weak, including the institution's criteria for determining "weak" performance metrics.
(f)	Description of the ways in which the institution seeks to adjust remuneration to take account of longterm performance. Disclosures shall include: • An overview of the institution's policy on deferral, payout in instrument, retention periods and vesting of variable remuneration including where it is different among staff or categories of staff. • Information of the institution' criteria for ex post adjustments (malus during deferral and clawback after vesting, if permitted by national law). • Where applicable, shareholding requirements that may be imposed on identified staff
(g)	The description of the main parameters and rationale for any variable components scheme and any other non-cash benefit in accordance with point (f) of Article 450(1) CRR. Disclosures shall Include: • Information on the specific performance indicators used to determine the variable components of remuneration and the criteria used to determine the balance between different types of instruments awarded, including shares, equivalent ownership interests, share-linked instruments, equivalent non cash-instruments, options and other instruments.
(h)	Upon demand from the relevant Member State or competent authority, the total remuneration for each member of the management body or senior management
(i)	Information on whether the institution benefits from a derogation laid down in Article 94(3) CRD in accordance with point (k) of Article 450(1) CRR. • For the purposes of this point, institutions that benefit from such a derogation shall indicate whether this is on the basis of point (a) and/or point (b) of Article 94(3) CRD. They shall also indicate for which of the remuneration principles they apply the derogation(s), the number of staff members that benefit from the derogation(s) and their
(j)	Large institutions shall disclose the quantitative information on the remuneration of their collective management body, differentiating between executive and non-executive members in accordance with Article 450(2) CRR.

18.1.1 Table EU REMA row a-j (CRR article 450)

The Bank's Board of Directors has established a remuneration policy, receiving the general meeting's approval. This policy is designed to align salary allocation principles with sound, effective risk management practices. It avoids promoting excessive risk-taking and aligns with the Bank's strategic business objectives, core values, and long-term sustainable business goals, all while adhering to relevant legislation.

The performance framework is designed to discourage risk taking outside of the Bank's risk appetite. The specific remuneration is agreed individually with each of the Bank's employees, considering the role, competencies, experience and performance. The remuneration policy regarding the Board of Directors and Executive Management, is established such that compen-

sation is made by cash salary and warrants and without performance-dependent salary components. The remuneration for the Board of Directors is decided by the general meeting. The Board of Directors decides the remuneration for the Executive Management.

Salaries within the Bank serve as a strategic management tool, recognising and rewarding employees based on their job functions, professional and personal competencies, dedication, efforts, and overall contributions. We strive to ensure that our remuneration remains competitive and market-appropriate. Variable remuneration, which may include shares, warrants, cash, or other forms, is employed to incentivize and acknowledge contributions to the Bank's long-term and sustainable success.

Details of our remuneration guidelines are available in the Remuneration Policy, may be found on our website (https://kompasbank.dk/finansiel-information). It's important to note that no employees in the Bank receive remuneration exceeding 1 million EUR, and no severance payments were made during the year. For specific details regarding 2023's remunerations, please refer to our annual remuneration disclosure report for that year.

19. Encumbered and unencumbered assets

19.1 TABLE EU AE4 – ACCOMPANYING NARRATIVE INFORMATION

Row Number	Free format
(a)	General narrative information on asset encumbrance
(b)	Narrative information on the impact of the business model on assets encumbrance and the importance of encumbrance to the institution's business model, which provides users with the context of the disclosures required in Template EU AE1 and EU AE2.

19.1.1 Table EU-AE4 row a and b (CRR article 443)

The Bank only encumbers assets in relation to those pledged as collateral to other financial institutions for operations and leased assets. The practice of asset encumbrance can lead to a funding risk, especially if a bank's encumbered assets are substantial compared to its overall balance sheet. A significant level of asset encumbrance can adversely affect the cost of acquiring unsecured funding. This is because an increase in asset encumbrance weakens the position of such creditors in the event of a liquidation. The bank takes this factor into account in its dealings that involve encumbering assets.

In 2023, encumbered assets amounted to DKK 5.4 million.

20 MREL requirements

The MREL requirement, which mandates certain liabilities to be eligible for impairment, encompasses the solvency requirement plus a recapitalisation floor and allowance. Together, the recapitalisation floor and allowance constitute the MREL supplement. As of 31 December 2023, the Danish FSA has established the Bank's total MREL requirement at 16.1%. This requirement is reviewed and updated annually by the Danish FSA.

Heading into 2024 The Danish FSA has set the MREL requirement for the Bank as of January 1, 2029, at 24.1 percent of the total risk exposure and 4.5 percent of the Bank's total exposure measure (leverage ratio).

The Danish FSA establishes intermediate targets for the phased introduction of the requirement for impairment-eligible liabilities. These intermediate targets are designed to ensure a sufficient transition period for meeting the requirement for impairment-eligible liabilities by January 1, 2029.

As of January 1, 2024 the MREL requirement for the Bank is 19.1 percent of the total risk exposure and 4.5 percent of the Bank's total exposure measure.

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kompasbank a/s
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