Annual Risk Report 2022

Pillar 3 Disclosures

kompasbank

Table of contents

1. Introduction

This report contains the Pillar 3 disclosures of kompasbank. The report has been made in accordance with the rules of the Danish FSA and the Capital Requirements Regulation (CRR), article 431-455. It provides information regarding how we manage and mitigate risks as well as information on our capital resources.

The 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 2022 and last updated and approved in April 2023.

The disclosures are not audited.

Vedbæk, 27 April 2023

2. Risk Management Objectives and Policies

Article 435, 1, litra a-d

Kompasbank 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 kompasbank is to enable the best decision making, in order for the Bank to achieve the overall objective of helping SMEs reach their full potential.

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 27 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 last revision and approval was conducted in February 2023.

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.

General risk management
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 controlling 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.

Organisation

The Bank has adapted the three lines of defence 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, an 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.

The Bank has appointed the Chief Executive Officer as the Chief Risk Officer (CRO). The CRO is annually or when deemed necessary, reporting to the Board of Directors. The Chief Risk Officer 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.

The Head of Compliance is appointed Compliance Responsible and Data Protection Responsible. 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.

The Chief Risk Officer is participating in every Board meeting and members of the RIsk Management Function as well as the Head of Compliance are participating in the Board meetings on a regular basis and thus have the opportunity to raise concerns, which can have an impact on the operation of the Bank.

2.1. Credit Risk

Credit risk is the risk of losses to the Bank arising from customers (borrowers) or counterparties failing to meet their payment obligations.

Kompasbank 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.

Kompasbank offers credit products to corporate/SME customers in Denmark and Spain and does not offer financing to private individuals. The credit product offering in Denmark only includes term loans and the lending is preferably provided against collateral. The relationship with the Danish customers is based on personal visits by the Bank to the customers' business site. Through a local partner, the Bank furthermore offers short term factoring and promissory notes financing 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.

kompasbank uses an internal model to classify customers according to their risk. The model is back-tested once a year and in general follows the Bank's rules on model governance. The Credit Policy outlines which customers the Bank is allowed to onboard based on the customer classification.

The interest rate on a loan shall reflect the level of the expected loss. As the bank is building a loan book particular care is taken regarding the credit quality of the loans and the underlying collateralized assets. In order to minimise concentration risk towards industries with an inherent higher credit risk, limits are in place and the portfolio is monitored closely .

During the build-up of the Bank's credit portfolio, it is unavoidable that the lending growth exceeds 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 however solely allowed, when the customer classification is good and collateral is appropriate.

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 has approved the credit institutions as well as the size of the exposure. The bond portfolio consists 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 contains the Co-CEO, the Head of Credit, a senior member of the Credit Function, the Head of Business Support as well as the Banks Deputy CRO (as an observer). 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 credit risk, as well as individual cases.

The day-to-day management of credit risks is conducted by the Bank's Credit Function supported by the Bank's Business Support Function. The Credit Function is responsible for adherence to the relevant requirements and limits as stated in the Banks Credit Policy and underlying procedures. The Bank's second line risk management function oversees and when required 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.

2.2. Liquidity and Funding 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 lending business.

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 Danish 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 Net Stable Funding Ratio (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 Internal Liquidity Adequacy Assessment Process (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 the Finance function. The Finance function 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.

2.3. 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 quarterly 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 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 the Finance Function, however the trading mandate is not delegated from Bank's Executive Management, which means 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.

2.4. 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 risks, financial crime risks, 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. 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 risk management function and where the risk management function plays a challenger role.

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 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 a sound 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.

2.5. Financial Crime Risk

Financial Crime Risk is defined as the risk of being misused for money laundering and terror financing, sanction breaches, bribery and corruption as well as fraud.

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 has furthermore appointed an Anti-money Laundry Responsible, who is responsible for the implementation of the Anti Money Laundering and Counter Terrorist Financing Policy. 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 challenge to make sure Financial Crime Risks are managed appropriately.

To ensure the appropriate management of Financial Crime risks, the Bank has implemented a KYC procedure, which includes the performance of Enhanced Due Diligence for customers with increased risk, as well as the performance of sanction screening. Ongoing Due Diligences is performed on an ongoing basis with a risk based approach. The Bank has furthermore implemented a reporting process in case a suspicion is identified.

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 will be notified without undue delay.

2.6. 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 Digital Officer as well as the Information Security Responsible 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 data centres. The cloud data is replicated in geographically separated availability zones with different locations 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.

2.7. Management Declarations

The Board of Directors have at the Board Meeting 11 April 2023 approved the following declaration in accordance with CRR article 435, 1, litra e og f.

kompasbank 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.

It is the assessment of the Board of Directors that the Bank's Risk Management Framework including the Bank's Risk Policies as well as the Bank's governance structure provides an adequate framework for managing risks considering the Bank's business model and strategy.

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 Chief Risk Officer.

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, the Compliance Responsible as well as the Bank's external auditor.

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 NSFR ratio 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, MREL add-on and regulatory capital buffers in a base case scenario. The capital surplus objective is managed closely as the Bank's success in scaling its business requires efficient capital management.

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 31.12.2022, the bank complies with 3 of the 4 thresholds in the diamond. The benchmark for lending growth is breached since the lending book is in the build-up phase.

SUPERVISORY DIAMOND 31/12/2022		
Benchmark 31.12.2023	**kompasbank**	**Limit**
Sum of Large Exposures	156%	< 175%
Lending Growth	1,571%	< 20%
Property Exposure	7%	< 25%
Liquidity Requirement Ratio	11,926	> 100%

2.8. Management Governance

Article 435, 2, litra a-e

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.

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 that 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 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.

The Bank has 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.

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 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. The Bank has not established subordinated Board committees.

3. Scope of Application

Article 436

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 II).

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.

4. Own Funds

Article 437

The Bank's own funds consist of Common Equity Tier 1 (CET1) capital. The Bank does not hold any Additional Tier 1 or Tier 2 capital items and does not apply any deductions to the own funds. The CET1 capital instruments consist of paid in capital and share premiums.

No restrictions, prudential filters or deductions are applied in the calculation of the Bank's own funds and no capital ratios disclosed are calculated using elements of own funds determined on a basis other than those laid down in the CRR Regulation.

REGULATORY CAPITAL | OWN FUNDS	
COMMON EQUITY TIER 1 CAPITAL (CET1)	
Paid in capital instruments	48,391,370
Share premium	306,926,926
Common Equity Tier 1 capital instruments	355,318,296
Retained earnings from previous years	-81,338,845
Qualified earnings for the year	-73,996,030
Warrants	5,006,134
Retained earnings	-150,328,741
Intangible IT assets deductible from CET1 items	-16,511,669
COMMON EQUITY TIER 1 CAPITAL (CET1)	188,477,886
ADDITIONAL TIER 1 CAPITAL (AT1)	
Additional Tier 1 Capital (AT1)	-
TIER 1 / CORE CAPITAL (CET1 + AT1)	188,477,886
TIER 2 CAPITAL	
Tier 2 capital	-
OWN FUNDS (CET1 + AT1 + Tier 2)	188,477,886

5. Capital Requirements

Article 438

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 assesses the risks which the Bank is exposed to in order to determine the risk profile of the Bank and the adequacy of the Bank's governance and risk management framework and to which extent additional capital should be allocated to cover the identified risks.

The capital adequacy and solvency assessment is the Bank's assessment of the required capital which would be adequate to cover the risks to which the Bank is exposed. At least annually, the Board of Directors performs an assessment of the methodology, which the Bank applies to assess and calculate the Bank's individual capital requirements, including the identified risk areas and relevant benchmarks.

On a quarterly basis as a minimum, the Board of Directors assesses the capital requirement and adequacy. This is done on the basis of a recommendation from the Executive Management, which includes suggestions to the level of the required capital based on the approved methodology, identified risks and financial forecasts. The Board of Directors decides the capital requirement, which is deemed adequate to cover the risks to which the Bank is exposed.

The assessment of capital requirements applies the 8+ methodology as suggested by the Danish Financial Authority. This method implies that the minimum capital requirement of 8% of the total risk exposure amount is applied as a starting point under Pillar I, with capital requirement add-ons for risks and conditions that are not fully reflected in the calculation of the total risk exposure. 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 kompasbank, which are not covered by the 8% under Pillar I. In the area of credit risk, the assessment of large exposures applies the credit reservation method.

The Pillar I capital requirement for operational risk is calculated by applying the Basic Indicator Approach as set out in CRR Article 315. The capital coverage is calculated by comparing the estimated capital requirement with the forecasted capital resources.

CAPITAL REQUIREMENTS (PILLAR I & II) ('000)			
PILLAR I CAPITAL REQUIREMENT	RISK EXPOSURE AMOUNT	CAPITAL REQUIREMENT	CAPITAL REQUIRED
Credit risk	601,305	8%	48,104
Market risk	23,937	8%	1,915
Operational risk	44,472	8%	3,558
Pillar I capital requirement	669,714	8%	53,577
PILLAR II CAPITAL REQUIREMENT		CAPITAL REQUIREMENT	CAPITAL REQUIRED
Base earnings		1.2%	8,214
Lending growth		2.4%	16,099
Credit risk:		0.3%	*2,280*
Market risk:		4.1%	*27,745*
Liquidity risk		0.8%	5,314
Operational risk		1.2%	8,349
Gearing risk		0.0%	-
Other risk		0.0%	-
Pillar II capital add-on		10.2%	68,000
INDIVIDUAL CAPITAL REQUIREMENT BEFORE BUFFERS		18.2%	121,577

6. Exposure to Counterparty Credit Risk

CRR article 439

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

7. Countercyclical Capital Buffer

CRR article 440

The Bank allocates capital to the countercyclical capital buffer (CCyB), which is designed to counter procyclicality in the financial system. By December 2022, the Bank applied the rate for the CCyB set in Denmark to the total risk exposure amount, allocating DKKt 13,394 to the Bank's required capital.

By December 2022, 88% of credit exposures arose from business activities in Denmark and 12% from business activities in Spain. The risk exposure amount was DKKt 404,914 for credit exposures in Denmark and DKKt 59,726 for credit exposures in Spain.

8. Indicators of Global Systemic Importance

CRR article 441

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

9. Exposures to Credit Risk and Dilution Risk

CRR article 442

Regarding the definition, approaches and methods of calculating impairments in kompasbank the reader is referred to the chapter on "Loans and Impairments" in the Annual Report. Impairments as general risk adjustments are further discussed in note 11 and 20 of the annual report. Regarding specific credit risk adjustments the reader is referred to section 21 on Credit Risk Mitigation Techniques.

The Bank has during its first full year of operation experienced a large increase in loan volume. To provide a more representative picture of the Bank's exposure, the break-down below is therefore based on end-of-year numbers instead of averages.

PILLAR I | CREDIT RISK | EXPOSURE CLASSES		
RISK EXPOSURE ('000)	2022	2021
Government and central banks	122,251	6,229
Institutions	206,064	111,3047
Corporates	407,898	75
Retail	530,138	84,108
Covered bonds	580,478	60,713
Other items	22,088	5,141
TOTAL PILLAR I CREDIT RISK EXPOSURE	1,868,916	267,574

Kompasbank has by the end of 2022 not only granted loans in Denmark but also to few customers in Spain All credit exposures are provided to the SME segment and are categorised in exposure class retail if the exposure is below 1 mEUR and as Corporate if the exposure is above 1 mEUR. If the SME adjustment factor is applicable, it is assessed individually for each group of connected customers.

PILLAR I | CREDIT RISK | GEOGRAPHY		
Corporate & Retail RISK EXPOSURE ('000)	2022	2021
Denmark	858,672	84,183
Spain	79,364	0
PILLAR I CREDIT RISK EXPOSURE	938,036	84,143

Regarding the distribution of the exposures by industry as well as the residual maturity breakdown of all the exposures, the reader is referred to note 13 and 14 in the Annual Report where the significant types are shown in detail.

As of 31 December 2022 the Bank had one impaired and thus non-performing loan. Note 11 in the Annual Report provides an overview of the impairment charges for all loans, advances and receivables on the banking book.

10. Unencumbered Assets

CRR article 443

Template A - Disclosure on asset encumbrance				
Assets of the reporting institution DKK '000	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Total assets	0		1.756.427	
Loans on demand	0	0	206.064	206.064
Equity instruments	0	0	0	0
Debt securities	0	0	702.729	702.729
Loans and advances other than loans on demand	0	0	802.370	802.370
Other assets	0		45.264	

11. Use of ECAI'er

CRR article 444

The Bank applies the standardised approach for calculation of credit risk and has chosen to use Standard & Poor's as External Credit Assessment Institution (ECAI). The Bank applies credit ratings to the exposure classes shown in the table below. Credit ratings are assessed when assessing the capital adequacy.

Pillar I: Credit risk exposure classes for which ECAIs are applied			
DKK '000	Exposure	Risk weight	Exposure after credit risk reduction
Government bonds	122,251	0%	0
Covered bonds	580,478	10%	58,048
Credit institutions	181,715	20%	36,343

12. Exposure to Market Risk

CRR article 445

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.

Capital requirements for market risk	
DKK '000	
Currency risk (Pillar I)	1,915
Interest rate risk (Pillar II)	27,745

13. Operational Risk

CRR article 446

The Pillar I capital requirement for operational risk is calculated by applying the Basic Indicator Approach as set out in CRR Article 315. By applying this methodology and given that kompasbank has been in operation for less than three years, the own funds capital requirement for operational risk is calculated as 15 % of the average net interest and fee income for three years, applying historical data for the preceding two years and the forecast measure for 2023.

14. Key Metrics

CRR article 447

Key metrics		
DKK '000	2022	2021
Available own funds (amounts)		
Common Equity Tier 1 capital	188,478	176,684
Tier 1 capital	188,478	176,684
Total capital	188,478	176,684
Risk-weighted exposure amounts		
Total risk-weighted exposure amount	669,714	118,788
Capital ratios (as a percentage of risk-weighted exposure amount)		
Common Equity Tier 1 ratio (%)	28.1	148.7
Tier 1 ratio (%)	28.1	148.7
Total capital ratio (%)	28.1	148.7
Combined buffer requirements		
Capital conservation buffer (%)	2.5	2.5
Institution specific countercyclical capital buffer (%)	2.0	0.0
Combined buffer requirement (%)	4.5	2.5
Leverage ratio		
Leverage ratio total exposure measure	1,885,428	267,097
Leverage ratio (%)	10.0	66.2
Overall leverage ratio requirements (%)	3.0	3.0
Liquidity Coverage Ratio		
Total high-quality liquid assets (HQLA)	407,502	694,199
Total net cash outflows (adjusted value)	3,417	0.0
Liquidity coverage ratio (%)	11,926	na
Net Stable Funding Ratio		
Total available stable funding	1,662,651	224,412
Total required stable funding	849,914	100,067
NSFR ratio (%)	195.6	224.3

15. Exposure to Interest Rate Risk on positions not included in the Trading Book

CRR article 448

The capital add-on for interest rate risk arising from different repricing risk profiles on fixed-rate assets and liabilities is based on modified durations as a measure for interest rate sensitivity. A correlation factor is applied, given the high covariance between DKK and EUR.

The Bank calculates the interest rate risk based on the duration bands and six stress scenarios provided by the Danish FSA. By December 2022 a 200 bps parallel shift in the interest rate curve resulted in the largest interest rate risk and this scenario is applied in the calculation of interest rate risk and the capital requirement.

Interest rate risk in the banking book	
	DKK '000
Total interest rate risk	27,745

16. Exposure to Securitisation Positions

CRR article 449

The Bank does not apply or engage in securitisation activities and hence the disclosure requirements are not relevant.

17. Remuneration Policy

CRR article 450

The Remuneration Policy lays down guidelines in terms of remuneration which are consistent with and promote a Gender neutral remuneration, a sound and efficient risk culture, and which does not encourage excessive risk taking.

The remuneration policy is defined in line with the bank's business model, goals, values and long-term interests. The policy furthermore complies with current legislation in general, and legislation concerning the protection of the bank's customers and investors in particular. Considering the size of the Bank a remuneration committee has not been established. The Board of Directors oversees the remuneration policy.

The remuneration 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. Variable remuneration shall be used to encourage and award contributions to the long-term and sustainable performance of the Bank, whether awarded in the form of shares, warrants, cash or others.

No employees in the Bank receive remuneration of more than 1 MEUR. No severance payments have been made during the year.

The details of the remunerations for 2022 can be found in the Annual Report 2022 and in the Disclosure of Remuneration of Management in kompasbank for 2022 published on kompasbank's website. Further information about the Bank's remuneration practices can be found in the Remuneration Policy, which is also published on kompasbank's website.

18. Leverage

CRR article 451, litra a-e

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. No deductions are made to the core capital.

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 10.0% by 31st December 2022.

19. Liquidity requirements

CRR article 451a

Key metrics				
DKK '000	31/Mar/2022	30/Jun/2022	30/Sep/2022	31/Dec/2022
Liquidity Coverage Ratio				
Total high-quality liquid assets (HQLA)	33,058	98,966	160,332	407,502
Total net cash outflows (adjusted value)	1,075	1,341	5,949	3,417
Liquidity coverage ratio (%)	3,075.1	7,378.4	2,695.2	11,926.0
Net Stable Funding Ratio				
Total available stable funding	345,931	603,816	787,288	1,662,651
Total required stable funding	176,230	443,907	566,146	849,914
NSFR ratio (%)	196.3	136.0	139.1	195.6

The Bank's strategies as well as arrangements, systems and processes in place to identify, manage and monitor liquidity risk is described in section 2.2.

20. IRB Approach to Credit Risk

CRR article 452

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

21. Credit Risk Mitigation Techniques

CRR article 453

The Bank applies the standardised approach for calculation of credit risk. As of 31st December 2022, the Bank applied government guarantees (COVID-19 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.

22. Advanced Measurement Approaches to Operational Risk

CRR article 454

The Bank does not use advanced measurement approaches to operational risks and hence the disclosure requirements are not relevant.

23. Internal Market Risk Models

CRR article 455

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