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Pilar III - Information Disclosure year 2016

Risk Management

Risk management is one of the Bank's strategic tasks. For the purposes of the Bank's risk management, the Risk Management Strategy has been developed for the management of the following risks:

Credit Risk and Residual Risk

The overdue loan – the loan, the repayment of which is not performed by the Customer, observing the term and procedure, stipulated and agreed between the Bank and the Customer in the mutually concluded contract(-s)

Losses incurred due to the decrease in value in the result of the quality deterioration:

The objective evidences, proving that the losses have been incurred due to the decrease in value of the loans or loan groups in the result of the quality deterioration, include such verifiable information, which comes into the Bank's field of vision regarding such cases of losses:

- the significant financial difficulties of the debtor
- the non-compliance with the provisions of the agreement, that is, the delay of payment of the loan's principal sum or delay of interest payment
- the concession, granted to the borrower, due to such economic or legal reasons, which pertain to the borrower's financial difficulties, but in another case, such concession wouldn't be granted by the Bank (that is, the Bank has made the loan restructuring)
- there exists a relatively high probability that the borrower will start a bankruptcy procedure or another type of financial reorganization
- the loss of an active market due to the financial difficulties of the corresponding issuer of the financial assets
- the use of the granted loan funds for the purposes, not stipulated by the credit agreement
- the non-occurrence of the preconditions, necessary for the credited project's implementation
- the non-fulfillment of the person's, related with the borrower, obligations, which influence the borrower's ability to meet his/her debt obligations against the Bank
- the decrease in value of the collateral security in cases, when the loan repayment directly depends on the value of the collateral security. (SGS 39.60).

Credit risk is a risk of losses in case the borrower (loan taker, debtor) or business partner of the Bank is unable or refuses to fulfill his/her obligations towards the Bank under the agreement provisions. Credit risk is related to the Bank's operations which create claims of the Bank against other parties and which are reflected in the Bank's balance and off-balance sheets.

The residual risk is a risk that the credit risk mitigation methods used by the Bank might turn out to be less efficient than planned.

The Bank's principles with respect to assessment, monitoring and accepting of credit risk have been described and approved within the Credit Policy, Business Partner Policy and Investment Policy.

The Bank categorizes and controls its credit risk by determining limits of different types and amounts: limits for the acceptable risk for each debtor, related debtors' groups, geographic regions, business sectors, types and amounts of guarantees, currencies, terms and ratings granted by international agencies.

Credit risk is also regularly monitored individually for each debtor evaluating the debtor's ability to repay the principal amount and interest, as well as changing the limits set, if necessary.

The Bank's exposure to credit risk is also monitored and minimized by ensuring adequate collaterals and registering the guarantees on behalf of the Bank. The real value of these guarantees and collaterals is regularly reviewed.

The collateral is a property or rights which can serve as the alternative source of the loan repayment in a case, if the Customer does not meet his/her debt obligations.

As collateral, the Bank accepts assets that meet the following criteria:

- has the market value of assets as determined in the pledge assessment by independent expert and its changes are predictable within the loan agreement term. Both the market value of assets and value in case of urgent, forced sale are considered
- assets are liquid, i.e. they may be realised in a comparatively short term for a price which is close to the urgent, forced sale value (or market value)
- there is a legal and actual opportunity to control these assets in order to prevent their misuse by the debtor or asset owner
- the Bank's rights to these assets have a legal priority against other creditors of the owner's assets (or against those creditors' rights which are in a more privileged position against the Bank's rights in the total amount, which makes up an insignificant amount in comparison with the collateral value), as the exception admitting the legal priority of the Bank's Parent bank.

Only certain types of assets are accepted as collateral, and each type of collateral has defined limits with respect to the maximum loan amount against such collateral. Most frequently accepted types of collaterals:

- time deposits in the Bank
- real estate
- industrial production facilities
- land (depending on its geographical location, possibilities of its use, communications, cadastral value, etc.)
- unused motor (passenger) cars
- unused lorries, tractors
- used (second-hand) motor (passenger) cars, which are not older than 7 years, and the lorries, which are not older than 9 years, the tractors, which are not older than 5 years
- other motor cars/lorries and tractors
- ships/vessels
- stocks (goods in the customs warehouses or otherwise controlled goods in the warehouse of their owner)
- technological equipment and machinery
- other fixed assets of the company
- debtors' debts (as community of goods)
- securities, capital shares, bills of exchange
- guarantees.

The value of the real estate shall be determined based on the opinion of the independent experts and this evaluation shall be corrected, based on the Bank's experience and normative documents.

The market value of the stocks (the goods in the customs warehouses or otherwise controlled goods) and the market value of the stocks (the goods in the warehouse of its owner) shall be determined, based on the publicly available prices, the pricing mechanism of which is understandable and acceptable for the Bank.

The market value of the technological equipments and machineries shall be determined, according to the balance sheet residual value of the equipments, if the fixed assets accounting methods, applied by the Customer, correspond to the generally accepted practice, and if possible, it is also recommended to receive the experts' opinion. If the residual value of the fixed asset is big, then the documents, confirming the purchase value of this fixed asset, shall be checked.

The collateral security – movable or immovable objects, which are evaluated by the appraisal companies, appointed by the Bank, except for the cases, when the Bank's Board has authorized a competent employee to make an appraisal.

Any collateral, except land, securities, debtor debts and other nonmaterial assets, must be secured on behalf of the Bank for the loan agreement's term.

In order to efficiently manage credit risk and assess performance of the Bank's activity, the Bank carries out regular evaluation and classification of assets (incl. loans) and off-balance sheet liabilities. The classification is the evaluation of the loans, according to which the loans are classified as standard, under supervision, sub-standard, doubtful and lost. The main evaluation criteria are the Customer's (borrower's) discounted future cash flow and creditworthiness – ability and willingness to fulfill the obligations under the loan agreement terms and conditions.

If a loan's default risk has significantly increased in comparison with the risk that had been accepted at the time of granting the loan, it is considered to be a problematic loan. The following is considered to be the characteristics of problematic loans:

- significant (20 working days and more) delay of payment
- breech of other terms and conditions of the loan agreement
- worsening of a customer's financial condition as reflected in his reports or other information
- other creditor has filed a claim in court against the customer, or the State Revenue Service's request has been received on writing off funds from the current account
- the value of the loan's collateral has significantly decreased.

The extent of the overdue risk transactions and the extent of the savings made for the unstable debts broken down into the essential branches, thous. EUR

	31.12.2015		31.12.2016		The average extent in 2016	
Risk transactions by branches	The residue of the credit	The special savings for the principal amount	The residue of the credit	Risk transactions by branches	The residue of the credit	The special savings for the principal amount
Forestry, agriculture	1 825	518	5 555	45	3 690	282
Production, processing industry	9 515	564	9 208	662	9 362	613
Trade	30 558	10 301	29 146	10 756	29 852	10 529
Transport	17 563	3 806	38 455	1 987	28 009	2 897
Financial services	5 297	2 684	4 343	3 168	4 820	2 926
Real estate operations	23 478	7 615	24 150	8 403	23 814	8 009
Construction	6 584	4 470	6 547	4 595	6 566	4 533
Accommodation and food services	1 595	1 595	3 259	1 387	2 427	1 491
Other services	2 364	0	709	0	1 537	0
Physical persons	3 617	3 020	12 230	3 054	7 924	3 037
The total amount of the risk transactions	102 396	34 573	133 598	34 052	117 997	34 313

	31.12.2015		31.12.2016		The average extent in 2016	
Overdue (>90 days) risk transactions by branches	The residue of the credit	The special savings for the principal amount	The residue of the credit	Overdue (>90 days) risk transactions by branches	The residue of the credit	The special savings for the principal amount
Forestry, agriculture	1 050	518			525	259
Production, processing industry	1 567	564	1 434	662	1 501	613
Trade	2 793	2 774	1 963	1 964	2 378	2 369
Transport	7 100	2 141	3 343	1 987	5 222	2 064
Financial services	0	0	0	0	0	0
Real estate operations	12 175	5 677	11 133	6 159	11 654	5 918

Construction	5 338	4 470	5 476	4 595	5 407	4 533
Accommodation and food services	1 595	1 595	1 386	1 387	1 491	1 491
Physical persons, overdrafts	1 942	1 942	1 939	1 940	1 941	1 941
The total amount of the risk transactions	33 559	19 681	26 674	18 690	30 117	19 186

The extent of the overdue risk transactions and the extent of the savings made for the unstable debts broken down into the essential geographical regions, taking into account the risk transfer, thous. EUR

	31.12.2015		31.12.2016		The average extent in 2016	
Risk transactions by the most important geographical regions*, EUR	The residue of the credit	The special savings for the principal amount	The residue of the credit	The special savings for the principal amount	Risk transactions by the most important geographical regions*, EUR	The residue of the credit
BG Bulgaria	753	27			377	14
CN China	122	0	205	0	164	0
DE (Germany)	542	372	373	373	458	373
GE Georgia	0	0	0	0	0	0
LV (Latvia)	62 122	13 497	59 957	16 095	61 040	14 796
MC Monaco	0	0	24	0	12	0
RU Russia	6	0	38 537	0	19 272	0
UA (Ukraine)	38 203	20 676	33 203	17 585	35 703	19 131
US USA	648	0	765		707	0
Hong Kong			535			
Turkmenistan			2			
Israel			2			
Other countries	0	0	1		1	0
Total amount of risks transactions	102 396	34 573	133 598	34 052	117 997	34 313

	31.12.2015		31.12.2016		The average extent in 2016	
Risk transactions by the most important geographical regions*, EUR	The residue of the credit	The special savings for the principal amount	The residue of the credit	The special savings for the principal amount	Risk transactions by the most important geographical regions*, EUR	The residue of the credit
Germany	372	372	372	372	372	372
Latvia	22 917	11 403	21 098	13651	22 008	12 527
Ukraine	10 270	7 905	5 204	4667	7 737	6 286
The total amount of the risk transactions	33 559	19 681	26 674	18 690	30 117	19 186

Operational Risk

Operational risk is a risk to incur losses due to inadequate or failing internal processes of the Bank, activity of people and system, or due to effect of external conditions. The operational risk means that the Bank's income may decrease/additional expenditure may occur to the Bank (and, as a result, the equity capital might decrease) due to errors in transaction with customers/business partners, information processing, making of inefficient decisions, insufficient human resources, or insufficient planning of external conditions effects.

For the evaluation of the operational risk, self-evaluation process of the operational risk is used during which the Bank assesses performed operations against the types of the operational risk; the Bank's strong and weak sides regarding the management of the operational risk are identified.

The Bank has developed and maintains the Operation Risk Events and Losses Data Base in which the internal data on operational risk events and related losses is collected, summarized and classified.

The basic elements of the operational risk management:

- operational risk monitoring
- operational risk control and minimisation
- development of internal normative documents which exclude/minimise the possibility of operational events
- compliance with the principle of division of duties
- control of execution of internal limits
- compliance with the defined procedure when using IT and other Bank's resources
- appropriate training of employees
- regular checks of transactions and account documents
- ensuring the continuity of operation
- stress testing.

Market Risk

The Bank's activity is exposed to market risk through the Bank's investments in the interest rates and currency product positions. All these products are exposed to systematic and specific market fluctuations.

The Bank controls market risks by diversifying its financial instruments portfolio, setting restrictions for different types of financial instruments and carrying out sensitivity analysis which reflects the effect of the respective risks on the Bank's assets and equity capital.

Position Risk

Position risk – possibility to incur losses due to revaluation of position of debt securities or capital securities, when the price of the respective securities changes. The position risk can be categorised as specific and systematic risk:

- specific risk – possibility to incur losses if the debt securities' or capital securities' price will change due to factors related to the securities issuer
- systematic risk – possibility to incur losses if the securities' price will change due to factors related to interest rate changes (in case of debt securities) or with significant changes in the capital market (in case of capital securities), which are not related to the specific securities issuer.

Basic elements of position risk management:

- evaluation and analysis of securities' portfolio
- analysis and monitoring of issuers' financial position
- setting of internal limits on exposures/diversification (stop-loss; issuers, countries, regions, terms, credit rating groups etc.)
- control of execution of the internal limits.

Interest Rate Risk

The interest rate risk is characterized by the influence of the market rate changes on the Bank's financial results. The Bank's everyday activity depends on the interest rate risk, which is influenced by the terms of repayment of assets and liabilities related to the interest income and expenditures or interest rate review dates. This risk is controlled by the Bank's Assets and Liabilities Committee by defining the limits of the interest rate coordination and evaluating the interest rate risk undertaken by the Bank.

For the evaluation of interest rate risk, the effect of interest rate changes on the Bank's economic value is assessed, incl. the evaluation of interest rate risk from the perspective of income and the evaluation of interest rate risk from the perspective of economic value. The evaluation of the interest rate risk is carried out once per month. Furthermore, at least 2 times per year, the stress tests of the interest rate risk are applied.

For monthly evaluation of the interest rate risk, for all balance sheet positions interest rate changes of +/-100 basis points are applied; for stress testing of interest rate risk – +/-200 basis points. Division of assets, liabilities and off-balance positions by term in the groups of term structures is carried out on the basis of:

- shortest term from the outstanding repayment/settlement/clearance term – for financial instruments with fixed interest rate
- term until the next interest rate changes date or interest rate re-evaluation term – for financial instruments with a floating interest rate.

Basic elements of interest rate risk management:

- sensitivity analysis of interest rate risk
- setting of internal limits (limit for decrease in economic value and for duration of securities' portfolio)
- control of compliance to the internal limits
- carrying out of interest rate stress tests and analysis of their results
- carrying out of hedging operations, if necessary.

Currency Risk

The Bank's activity is exposed to the risk of exchange of the main currencies involved in it, which influences both the Bank's financial result and cash flow. The Bank controls the foreign currency assets and liabilities in order to avoid inadequate currency risk. The Board determines the limits for the open positions of foreign currencies, and these limits are being supervised every day. The legislation of Latvia states that no individual foreign currency open position of the credit institution shall exceed 10% of the equity capital of the credit institution, and the total foreign currency open position shall not exceed 20% of the equity capital. During 2012, the Bank did not exceed these limits.

The Bank's foreign currency risk evaluation is based on the following basic principles:

- evaluation with respect to how the Bank's assets, liabilities and off-balance sheet items value changes due to changes in currency rates
- how the Bank's income/expenditure changes due to changes in currency rates
- the currency risk stress testing is performed.

Basic elements of currency risk management:

- evaluation of currency risk
- setting of limits and restrictions
- control of execution of these limits
- currency risk stress testing and analysis of the results
- carrying out of hedging operations, if necessary.

Liquidity Risk

The Bank is subject to the daily risk that it might need to use the available funds and short-term liquid assets for the fulfillment of its short-term liabilities. The term relation of assets and liabilities, as well as off-balance items, is related to liquidity risk and reflects to what extent funds would be necessary to fulfill the existing liabilities.

Terms and capabilities of the assets and liabilities to replace the liabilities, which inflict interest and have a due payout term, at acceptable costs are significant factors for determination of the Bank's liquidity and its exposure to the changes in the interest rates and currency rates.

Such coordination of assets and liabilities, and control of this coordination is one of the Bank's most important daily management tasks.

The Bank is using the following methods for the measurement of liquidity risk:

- evaluation of existing and planned assets, liabilities, and off-balance sheet liabilities term-structure broken down by financial instruments, various term intervals in all currencies together and individually, in which the Bank performs a significant amount of transactions (i.e. currency the proportion of which in the Bank's assets/liabilities exceeds 5%) or which has a non-liquid market

- determining liquidity indicators used for liquidity risk analysis and control

- determining internal limits:

  - assets and liabilities term structure net liquidity positions in euro and all foreign currencies in which the Bank performs a significant amount of transactions (i.e., currency the proportion of which in the Bank's assets/liabilities exceeds 5%) or which has a non-liquid market
  - for deposit concentration
  - for other liquidity indicators which the Bank has specified for the liquidity risk control
  - stress testing.

By specifying the calculation procedure of liquidity indicators and by its determining limits, the Bank takes into account its operational targets and the acceptable risk level.

The Bank determines and regularly analyses the early warning indicator system which may help to identify the vulnerability of the Bank's liquidity position and the necessity to attract additional financing.

On the basis of data of the early warning indicator system, the Bank identifies the negative tendencies which affect liquidity, analyses them and evaluates the necessity to carry out measures reducing the liquidity risks.

The liquidity risk management methods (basic elements) are as follows:

- fulfillment of liquidity indicator limits
- determining of net liquidity position limits
- determining restriction on deposit concentration
- control of compliance with the defined limits
- liquidity stress testing and analysis of the results
- proposals for solving liquidity problems
- setting and monitoring of a set of indicators for liquidity evaluation
- maintenance of an adequate liquidity buffer which covers the positive difference between the planned outgoing and incoming cash flows within the term interval of up to 7 days and 30 days.

In accordance with FCMC's requirements, the Bank maintains sufficient liquid assets for the fulfillment of its liabilities.

Transaction Concentration Risk

Transaction concentration risk is a risk that occurs from transaction concentration. In order to restrict the transaction concentration risk, the Bank determines limits for investments in various assets, instruments, markets etc. One of the most significant transaction concentration risks i<u>s the concentration of geographic regions (country risk)</u>.

Country Risk

Country risk – country partner risk – the possibility to incur losses if the Bank's assets are invested in a country whose changing economic and political factors may create problems for the Bank to retrieve its assets in the planned time and extent. A partner's and issuer's default occurs mainly due to currency devaluation, unfavorable changes in legislation, creation of new restrictions and barriers and other conditions, including *force majeure* factors.

For the country risk analysis, information of the international rating agencies (incl. credit ratings, their dynamics), economic indicators of countries and other related information is used.

Fundamental elements of risk control:

- setting of internal limits by regions, countries and transaction types in individual countries
- control of execution of the internal limits
- country risk analysis and monitoring
- review of internal limits.

Assets, liabilities and off-balance sheet country risk is attributable to a country which may be considered the customer's main country of entrepreneurship. If the loan is granted to a resident of another country against a pledge, and this pledge is physically located in another country which is not the legal person's country of residence, the country risk is transferred to the country where the loan's pledge is actually located.

Capital Adequacy

Capital adequacy reflects the Bank's capital resources necessary to secure itself against risks related to assets and off-balance sheet items.

The Bank has the Capital Adequacy Assessment Process Policy, the aim of which is to ensure that the amount, elements and proportion of the Bank's equity capital are adequate to cover the substantial risks inherent to the Bank's current and planned operation.

For the risks for which the minimum regulatory capital requirements have been defined in accordance with the Regulations for the Calculation of the Minimum Capital Requirements, the capital requirement is calculated using the following approaches or methods:

- the credit risk requirement is calculated in accordance with a standardised approach
- for the credit risk mitigation, simple method is used for financial collateral
- the foreign currency risk capital requirements, debt securities' and capital securities' position risk, the payment/settlement risk capital requirements are calculated by using the standardised approach
- debt securities' systematic risk capital requirement is determined by using the term method
- the operational risk minimum capital requirement is calculated in accordance with the basic indicator approach.

For the calculation of the minimum capital requirements for the purpose of determining the transaction risk degree, the Bank applies the FCMC's recognized ECRA (rating agency) evaluations/ratings. ECRA are nominated for each risk transaction category, into which the Bank's risk transactions are divided into. If the Bank has no transactions, which can be included into any of the risk transaction categories, then, for this category, ECRA is nominated, when the actual risk transaction(-s) of this category appears.

The following ECRA are nominated for the risk transaction categories

Risk transaction category	***Nominated ECRA***
Claims against the central governments and central banks (CG and CB)	FitchRatings Standard&Poor's Ratings Services Moody's Investors Service
Claims against the institutions with the exception of such institutions, for which the short-term rating is available	FitchRatings Standard&Poor's Ratings Services Moody's Investors Service
Claims against the commercial companies with the exception of such institutions, for which the short-term rating is available	FitchRatings Standard&Poor's Ratings Services Moody's Investors Service
The overdue risk transactions	FitchRatings Standard&Poor's Ratings Services Moody's Investors Service
Claims against the institutions and commercial companies with the short-term ratings	FitchRatings Standard&Poor's Ratings Services Moody's Investors Service
Other claims	FitchRatings Standard&Poor's Ratings Services Moody's Investors Service

Bank examines whether the fulfillment of the minimum capital requirements ensures, that the Bank's capital is adequate to cover all potential losses related with the risks mentioned above.

Other substantial Bank's risks for which the regulatory minimum capital requirements have not been defined, but for which the Bank assesses the necessity to calculate the capital requirement, are the following:

- interest rate risk
- liquidity risk
- concentration risk
- money laundering and terrorist financing risk
- other risks (incl. activity compliance risk, strategy risk, reputation risk).

In addition to the determination of capital necessary to cover the risks, the Bank sets a capital reserve in order to ensure that the Bank's capital is adequate in case of possible adverse events, as well as to ensure that the Bank's capital is adequate throughout the whole economic cycle, i.e. during an economic upturn the Bank forms a capital reserve to cover loses which may occur during an economic downturn. The capital reserve is set to be at least 10% of the sum of minimum regulatory capital requirements.

Methods for ensuring the total amount of necessary capital:

- fulfillment of the capital adequacy norms
- analysis of the fulfillment of the capital adequacy norms
- maintaining of the capital adequacy objectives' level
- determining and planning of the necessary total capital amount to cover the substantial risks inherent to the Bank's current and planned operation
- assessment and analysis of all substantial risks
- development of stress test scenarios, performing stress tests and analyzing the results
- development of capital crisis management plan.

On 31 December 2016, the Bank's calculated capital adequacy ratio was 30.51% (on 31 December 2015, it was 23.26%) which exceeds the minimum and the sum of capital conservation buffer minimum (10.5%) laid down in the European Parliament and Council Regulation (EU) No 575/2013 that own funds ratio against the risk weighted assets and off-balance sheet items must be at least 8% and the capital conservation buffer must be at least 2.5%. In the end of 2016, the Financial and Capital Market Commission recalculated the Bank's individual capital adequacy ratio and set it at 13.7%. The Bank observes and meets this individual capital adequacy requirement.

Capital adequacy evaluation results as on 31.12.2016

The capital necessary to cover risks, thous. EUR

	Minimum regulatory capital requirements	**Bank's evaluation of the necessary capital**
Credit Risk	12 865	12 865
Market Risks	1 246	1 246
Currency Risk	200	200
Tradable Debt Instruments, securities	1 046	1 046
Operational Risk	2 238	2 238
Other significant risks for which the minimum regulatory capital requirements have not been defined		10 040
Capital Reserve		1 635
Total	**16 349**	**29 895***

*Taking into account the FCMC's individual capital requirements and the Second pillar requirements

Capital at the Bank's disposal, thous. EUR

Own Capital	**Definition of the Bank's capital**
62 361	62 361
Capital deficit/surplus in accordance with the Bank's evaluation	32 466

In the following table, the risk transaction category values before and after the credit risk mitigation are presented, as well as the total amount of the risk transactions, which have been concluded with the adequate collateral (thous. EUR)

Credit risk: the risk transaction categories	**The risk transactions before the credit risk mitigations**	**Collateral (simple method)**	**The risk transactions after the credit risk mitigations**	**The risk weighted assets of the risk transactions**
Claims against the central governments or central banks	**147 837**	**0**	**147 837**	**0**
0% risk degree	147 837	0	147 837	0
Claims against the institutions	**66 986**	**0**	**66 986**	**14 520**
20% risk degree	63 248	0	63 248	12 650
50% risk degree	3 739	0	3 739	1 870
Claims against the commercial societies	**140 347**	**27 142**	**140 200**	**99 350**
0% risk degree	0	0	26 992	0
20% risk degree	0	0	3	0
100% risk degree	111 994	4 951	107 043	92 214
150% risk degree	28 353	22 191	6 162	7 136
High risk transactions	**11 046**	**2 800**	**11 046**	**11 352**
0% risk degree	**0**	0	2 800	0
100% risk degree	**0**	0	0	0
150% risk degree	11 046	2 800	8 246	11 352
Overdue risk transactions	**9105**	**0**	**9 004**	**9 132**
0% risk degree	0	0	0	0
100% risk degree	8 850	0	8 749	8 749
150% risk degree	255	0	255	383
Other claims	**27 953**	**0**	**27 953**	**26 273**
0% risk degree	1 640	0	1 640	0
20% risk degree	50	0	50	10
100% risk degree	26 263	0	26 263	26 263
Capital securities	**189**	**0**	**189**	**189**
100% risk degree	**189**	**0**	**189**	**189**
Total	**403 463**	**29 942**	**403 215**	**160 816**

The average net amount of the risk transactions within the reporting period, broken down into different risk transaction categories after the credit risk mitigation application (thous. EUR)

Credit risk: the risk transaction categories	The risk weighted assets of the risk transactions in 2016	Average risk weighted assets of the risk transactions in 2016	The risk weighted assets of the risk transactions in 2015	Average risk weighted assets of the risk transactions in 2015
Claims against the central governments or central banks	**0**	**0**	**0**	**0**
0% risk degree	0	0	0	0
Claims against the institutions	**14 520**	**13 967**	**19 334**	**33 938**
20% risk degree	12 650	11 708	17 941	29 778
50% risk degree	1 870	2 259	0	0
100% risk degree	0	0	1 393	4 160
Claims against the commercial societies	**99 350**	**90 565**	**74 069**	**92 192**
0% risk degree	0	0	0	0
20% risk degree	0	1	2	2
100% risk degree	92 214	80 379	65 148	80 873
150% risk degree	7 136	10 185	8 919	11 317
Speculative risk transactions	**11 352**	**12 050**	**13 668**	**15 946**
0% risk degree	0	0	0	0
150% risk degree	11 352	12 050	13 668	15 946
Overdue risk transactions	**9 132**	**8 295**	**10 161**	**8 698**
100% risk degree	8 749	6 817	4 129	2 829
150% risk degree	383	1 478	6 032	5 869
Capital securities	**189**	**372**	**920**	**230**
100% risk degree	189	372	920	230
Other claims	**26 273**	**23 581**	**19 137**	**19 576**
0% risk degree	0	0	0	0
20% risk degree	10	78	0	28
100% risk degree	26 263	23 503	19 137	19 548
Total	**160 816**	**148 830**	**137 288**	**170 350**

Leverage ratio

Leverage ratio calculation as on 31.12.2016:	**EUR, thousand**
Securities financing transactions (SFT) exposure according to Article 220 of the CRR	
SFT exposure according to Article 222 of the CRR	
Derivatives: market value	483
Derivatives: add-on mark-to-market method	1 048
Derivatives: original exposure method	0
Undrawn credit facilities, which may be cancelled unconditionally at any time without notice	0
Medium/ low risk trade related off-balance sheet items	0
Medium risk trade related off-balance sheet items and officially supported export finance related off-balance sheet items	0
Other off-balance sheet items	10 044
Other assets	500 941
Tier 1 capital – fully phased-in definition	35 429
Tier 1 capital – transitional definition	35 429
Amount to be added according to second subparagraph of Article 429 (4) of the CRR	0

Amount to be added according to second subparagraph of Article 429 (4) of the CRR – transitional definition	0
Regulatory adjustments — Tier 1 capital — fully passed-in definition; of which	0
Regulatory adjustments regarding own credit risk	0
Regulatory adjustments — Tier 1 capital — transitional definition	-525*
Leverage ratio using the fully phased-in definition of Tier 1 capital, %	6.92%
Leverage ratio using the transitional definition of Tier 1 capital, %	6.92%

*** non-material assets**

In order to manage the leverage risk, the Bank has revised and supplemented the Capital Adequacy Assessment Process Policy, and the strategic planning process is being implemented taking into account the leverage ratio requirements.

As compared to 2015, in 2016, the Bank's deposit portfolio has decreased by 27% and amounted to EUR 428.5 million at the end of the year, whereas the amount of assets decreased by 21% and amounted to EUR 501.8 million on 31 December 2016.

The Bank's credit portfolio was 134.5 million EUR as on 31 December 2016. In the review period, the clients settled their obligations in the amount of EUR 22.24 million; at the same time, the Bank issued new credits in the amount of EUR 51.60 million and signed agreements regarding the issue of new credits in the amount of EUR 8.68 million.

As compared to 2015, the amount of own funds increased, and, in the end of 2016, it amounted to EUR 62.4 million (on December 31, 2015 – EUR 45.7 million.).

Geographical breakdown of the Bank's credit risk exposures for transactions that are essential for the calculation of the Bank's countercyclical capital buffers (EUR, thousand)

Countries	Original exposure value pre-conversion factors	Specific credit risk adjustments (for provisions)	Exposure value	Risk weighted amount
Armenia	1	0	1	1
Belgium	20	0	20	20
Bulgaria	1 153	0	233	233
Switzerland	33 347	0	33 347	6 670
China	7 643	0	4 655	1 602
Czech Republic	2	0	2	0
Germany	7 504	585	2 919	3 103
Denmark	3 578	0	3 578	716
Dominika	454	0	454	0
Great Britain	1 762	0	1 759	1 748
Georgia	7 761	0	7 761	7 761
Hong Kong	1	0	1	1
Israel	8	0	5	5
Japan	923	0	923	185
Latvia	266 336	16 830	242 343	67 958
Monaco	240	0	132	132
Russia	45 209	0	45 142	45 511
Turkey	1 378	0	1 378	1 378
Ukraine	60 214	17 786	40 519	22 796
USA	960	0	960	960
Poland	171	0	171	34
Total	**438 665**	**35 201**	**386 303**	**160 814**

REMUNERATION POLICY

The objective of the Remuneration Policy is to define the key principles of remuneration of the Bank's employees pursuant to the Bank's strategy, business direction and risk profile.
The policy of remuneration of the Bank aims at attracting and retaining best employees. The Remuneration Policy is binding to all employees of the Bank as well as employees of representative offices of the Bank in Ukraine to the extent it does not contradict the legislative requirements.
The Bank's Council develops and approves the basic principles of the Remuneration Policy, is responsible for the Policy's implementation and monitoring of compliance therewith, whereas the Bank's Board is responsible for ensuring compliance with the basic principles of the Remuneration Policy.
As concerns the risk profile positions, the objective of the Remuneration Policy is to establish the system of remuneration, which would:

– not cause undertaking risks above the level established in the Bank's Risk Strategy
– not limit the Bank's ability to consolidate its equity
– correspond to the standards of ethics as well as encourage prudent and effective risk strategy
– not infringe the principles of customers' and investors' interest protection.

The remuneration structure consists of 2 parts: fixed salary or invariable part of the Remuneration and benefits. The invariable part of Remuneration is established separately for each employee on the basis of evaluation of their competence and experience as well as within the range of the principal salary established for the respective position. The Board of the Bank is entitled to establish, in which cases the invariable part of the employee's Remuneration may exceed the maximum limit of the range established for the respective position. The set of benefits is formed in such a manner, which would motivate employees to perform their duties at a high quality and encourage long-term cooperation.

The tables specify the amounts of the remuneration paid by the Bank, excluding the employer's obligatory state social security payments or other payments resulting from taxation system of other countries. In 2016, remuneration was not paid for launching employment relations.

Table 1 **Information on employees' remuneration in 2016 (EUR)**

	Council	**Board**	**Investment services**	**Providing services to private persons or small and medium companies**	**Asset management**	**Corporate support function**	**Internal control function**	**Other types of activity**
The number of employees at the end of the year	5	5	1	9		155	6	13
Total remuneration EUR	184 481	432 059		184 118		2 771 380	187 150	124 732
Including: variable part of remuneration								

Table 2 **Information on employees influencing the Bank's risk profiles (EUR)**

		Council	Board	Investment services	Providing services to private persons or small and medium companies	Asset management	Corporative support function	Internal control function	Other types of activity
	The number of employees influencing the institution's risk profile	5	5					3	
	Including the number of employees influencing the risk profile in the highest management positions							3	
Remuneration invariable part	**Total invariable part**	184 481	432 059					122 850	
	Including money and other means of payment	184 481	432 059					122 850	
	Including shares and the related instruments								
	Including other instruments								
Remuneration variable part	**Total remuneration variable part**								
	Including money and other means of payment								
	Including shares and the related instruments								
	Including other instruments								
The related variable part of remuneration	**Total variable part of remuneration deferred at the end of the reporting year**								
	Including the deferred amount in the form of money and other means of payment								
	Including the deferred amount in the form of shares and related instruments								
	Including the deferred amount in the form of other instruments								
	Total unpaid part of the deferred remuneration allocated before the reporting year								

	Including the part, to which the irrevocable parts are obtained								
	Including the part, to which the irrevocable parts are not obtained								
	Total part of the deferred remuneration paid at the end of the reporting year								
Adjustment of variable part of remuneration	*Adjustment of the variable part of remuneration during the reporting year that concerns the variable part of remuneration allocated in the previous years*								
Variable part of guaranteed remuneration	*Number of persons receiving the guaranteed variable part of remuneration (sign-on payments)*								
	The amount of the variable part of guaranteed remuneration (sign-on)								
Remuneration for termination of employment relations	*Number of employees that received a compensation for termination of legal employment relations*								
	Amount of compensation for termination of legal employment relations paid in the reporting year								
	Amount of the largest compensation for a single person for termination of legal employment relations								
Benefits related to retirement	*Number of employees that receive benefits related to retirement*								
	Amount of benefits related to retirement								

Observing principles of data protection of natural persons, the information on employee's remuneration in the area of investment services may not be published.