

**Balance sheet**

AS "Reģionālā investīciju banka"

**March 31, 2019**

(last day of the reporting period)

No	Position	31.03.2019 Bank unaudited	31.03.2019 Group unaudited	31.12.2018 Bank audited	31.12.2018 Group audited
1.	Cash and balances due from central banks	92 119 170	92 119 170	95 088 745	95 088 745
2.	Balances due from credit institutions	21 959 644	21 959 644	44 132 371	44 132 371
3.	Financial assets designated at fair value through profit or loss	34 010 104	34 010 104	25 249 486	25 249 486
4.	Financial assets at fair value through other comprehensive income	284 083	284 083	284 083	284 083
5.	Financial assets at amortised cost	92 899 006	90 114 710	88 260 454	85 498 479
6.	Derivatives – Hedge accounting	0	0	0	0
7.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0
8.	Investments in subsidiaries, joint ventures and associates	6 100 000	0	6 100 000	0
9.	Tangible assets	13 482 956	13 482 956	13 460 695	13 460 695
10.	Intangible assets	491 545	491 545	502 886	502 886
11.	Tax assets	157 672	157 672	221 050	221 050
12.	Other assets	10 768 885	20 004 371	9 446 944	18 651 048
13.	Non-current assets and disposal groups classified as held for sale	0	0	0	0
14.	<b>Total assets (1.+.....+13.)</b>	<b>272 273 065</b>	<b>272 624 255</b>	<b>282 746 714</b>	<b>283 088 843</b>
15.	Balances due to central banks	0	0	0	0
16.	Balances due to credit institutions	0	0	0	0
17.	Financial liabilities designated at fair value through profit or loss	0	0	0	0
18.	Financial liabilities measured at amortised cost	237 508 056	237 504 976	246 603 793	246 596 610
19.	Derivatives – Hedge accounting	0	0	0	0
20.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	0
21.	Provisions	653 366	653 350	878 001	878 000
22.	Tax liabilities				
23.	Other liabilities	382 504	414 699	2 962 891	2 987 488
24.	Liabilities included in disposal groups classified as held for sale	0	0	0	0
25.	<b>Total liabilities (15.+...+24.)</b>	<b>238 543 926</b>	<b>238 573 025</b>	<b>250 444 685</b>	<b>250 462 098</b>
26.	Equity and reserves	33 729 139	34 051 230	32 302 029	32 626 745
27.	<b>Total equity and reserves, and liabilities (25.+26.)</b>	<b>272 273 065</b>	<b>272 624 255</b>	<b>282 746 714</b>	<b>283 088 843</b>
28.	Off-balance sheet items				
29.	Contingent liabilities	6 022 976	6 022 976	6 934 513	6 934 513
28.	Commitments	15 961 939	15 908 525	11 552 260	11 547 703

## Profit and Loss Account

March 31, 2019

(last day of the reporting period)

No	Position	3 months 2019 Bank unaudited	3 months 2019 Group unaudited	3 months 2018 Bank unaudited	3 months 2018 Group unaudited
1.	Interest income	1 908 831	1 881 161	2 329 322	2 304 322
2.	Interest expense (-)	-583 690	- 583 690	-782 108	-782 108
3.	Income from dividends	747	747	561	561
4.	Commission income	1 175 099	1 175 071	1 635 971	1 635 904
5.	Commission expense (-)	-113 496	-113 523	-218 525	-218 525
6.	Net gains or (-) losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss (+/-)	0	0	0	0
7.	Net gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss (+/-)	255 361	255 361	1 222 141	1 222 141
8.	Net gains or (-) losses from hedge accounting (+/-)	0		0	0
9.	Exchange differences [gain or (-) loss], net (+/-)	71 734	71 734	- 491 900	- 491 900
10.	Net gains or (-) losses on derecognition of non financial assets (+/-)	27 322	27 322	-387 003	-387 003
11.	Other operating income	50 995	89 511	78 502	110 662
12.	Other operating Expenses (-)	-19 449	-19 449	-20 052	-21 063
13.	Administrative expense (-)	-1 722 259	-1 736 597	-2 024 182	-2 045 084
14.	Depreciation (-)	-132 930	-132 930	-138 538	-138 538
15.	Profit / Loss recognized as a result of changes in contractual cash flows of a financial asset (+/-)	0	0	0	0
16.	Provisions or (-) reversal of provisions (-/+)	-16 768	-16 768	4 929	4 929
17.	Impairment or (-) reversal of impairment (-/+)	559 228	560 150	1 415 657	1 415 657
18.	Negative goodwill recognised in profit or loss	0	0	0	0
19.	Profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method (+/-)	0	0	0	0
20.	Profit or (-) loss from non-current assets and disposal groups classified as held for sale (+/-)	0	0	0	0
21.	<b>Profit/loss before corporate income tax calculation (+/-)</b>	<b>1 460 725</b>	<b>1 458 100</b>	<b>2 624 775</b>	<b>2 609 955</b>
22.	Corporate income tax	-33 615	-33 615	-185 473	-185 473
23.	<b>Profit/losses for the period (+/-)</b>	<b>1 427 110</b>	<b>1 424 485</b>	<b>2 439 302</b>	<b>2 424 482</b>
24.	Other comprehensive income for the period (+/-)	95 111	95 111	45 970	45 970

## Key ratios of the Consolidated group and the Bank

March 31, 2019

(last day of the reporting period)

Position	Bank 31.03.2019	Consolidated group 31.03.2019	Bank 31.03.2018	Consolidated group 31.03.2018
Return on Equity (ROE) (%)	17.09	16.90	27.41	27.48
Return on Assets (ROA) (%)	2.12	2.11	2.75	2.73

## Group Consolidation

March 31, 2019

(last day of the reporting period)

No.	Subsidiaries	Country of domicile, registration Address	Business profile*	Share (%)	Voting power (%)	Status2**
1	GRUNEWALD RESIDENCE, SIA	LV, 2 J.Alunana St., Riga, LV-1010, Riga, Latvia	PLS	92.42%	92.42%	MS

\* PLS-supporting company

\*\* MS-subsidiary company

## I. Summary Report on Equity Capital and Capital Adequacy Ratio Calculations

March 31, 2019

(last day of the reporting period)

No.	Position	COREP position	Bank unaudited data in the reporting period	Consolidation group unaudited data in the reporting period
1.	<b>Own funds</b> (1.1.+1.2.)	C 01.00 1	<b>48 183 663</b>	<b>48 514 479</b>
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	C 01.00 1.1.	36 728 160	37 058 976
1.1.1.	Common equity Tier 1 capital	C 01.00 1.1.1.	36 728 160	37 058 976
1.1.2.	Additional Tier 1 capital	C 01.00 1.1.2.	0	0
1.2.	Tier 2 capital	C 01.00 1.2.	11 455 503	11 455 503
2.	<b>Total Risk Exposure Amount</b> (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	C 02.00 1.	<b>176 408 502</b>	<b>179 354 516</b>
2.1.	Risk Weighted Exposure Amounts for Credit, Counterparty Credit and Dilution Risks and Free Deliveries	C 02.00 1.1.	145 305 176	148 221 265
2.2.	Total Risk Exposure Amount for Settlement/Delivery	C 02.00 1.2.	0	0
2.3.	Total Risk Exposure Amount for Position, Foreign Exchange and Commodities Risks	C 02.00 1.3.	2 401 663	2 401 663
2.4.	Total Risk Exposure Amount for Operational Risk	C 02.00 1.4.	28 701 663	28 731 588
2.5.	Total Risk Exposure Amount for Credit Valuation Adjustment	C 02.00 1.6.	0	0
2.6.	Total Risk Exposure Amount Related to Large Exposures in the Trading Book	C 02.00 1.7.	0	0
2.7.	Other Risk Exposure Amounts	C 02.00 1.8.	0	0
3.	<b>Capital adequacy ratios and capital levels</b>			
3.1.	Common equity Tier 1 capital ratio (1.1.1./2.*100)	C 03.00 1.	20.82	20.66
3.2.	Surplus(+)/Deficit(-) of Common equity Tier 1 capital (1.1.1.-2.*4,5%)	C 03.00 2.	28 789 777	28 988 023
3.3.	Tier 1 capital ratio (1.1./2.*100)	C 03.00 3.	20.82	20.66
3.4.	Surplus(+)/Deficit(-) of Tier 1 capital (1.1.-2.*6%)	C 03.00 4.	26 143 650	26 297 705
3.5.	Total capital ratio (1./2.*100)	C 03.00 5.	27.31	27.05
3.6.	Surplus(+)/Deficit(-) of Total capital (1.-2.*8%)	C 03.00 6.	34 070 983	34 166 118
4.	<b>Combined buffer requirements</b> (4.1.+4.2.+4.3.+4.4.+4.5.)	C 04.00 27.	<b>4 421 483</b>	<b>4 494 935</b>
4.1.	Capital conservation buffer		4 410 213	4 483 863
4.2.	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State		0	0
4.3.	Institution specific countercyclical capital buffer		11 270	11 072
4.4.	Systemic risk buffer		0	0

4.5.	Other Systemically Important Institution buffer		0	0
5.	<b>Capital adequacy ratios, including adjustments</b>			
5.1.	Adjustments to asset value due to prudential filters	C 04.00 28.	0	0
5.2.	Tier 1 common capital ratio with adjustment specified in row 5.1	C 03.00 7	20.82	20.66
5.3.	Tier 1 capital ratio with adjustment specified in row 5.1	C 03.00 9.	20.82	20.66
5.4.	Total capital ratio with adjustment specified in row 5.1	C 03.00 11.	27.31	27.05

## II. Information on Equity Capital and Capital Adequacy Ratios, where a Credit Institution Applies Transition Period to Reduce IFRS 9 Effect on Equity Capital March 31, 2019

(last day of the reporting period)

No	Position	Bank unaudited data in the reporting period	Consolidation group unaudited data in the reporting period
1.A	Own funds, if IFRS 9 transition arrangements were not applied	43 225 562	43 556 378
1.1.A	Tier 1 capital, if IFRS 9 transition arrangements were not applied	31 770 059	32 100 875
1.1.1.A	Common equity Tier 1 capital, if IFRS 9 transitional arrangements were not applied	31 770 059	32 100 875
2.A	Total risk exposure amount, if IFRS 9 transitional arrangements were not applied	171 417 762	174 365 944
3.1.A	Common equity Tier 1 capital ratio, if IFRS 9 transitional arrangements were not applied	18.53	18.41
3.3.A	Tier 1 capital ratio, if IFRS 9 transitional arrangements were not applied	18.53	18.41
3.5.A	Total capital ratio, if IFRS 9 transitional arrangements were not applied	25.22	24.98

## Liquidity Coverage Ratio Calculation

March 31, 2019

(last day of the reporting period)

No	Position	Bank unaudited data in the reporting period	Consolidation group unaudited data in the reporting period
1.	Liquidity Buffer	123 033 197	123 033 197
2.	Net Liquidity Outflow	62 340 619	62 372 197
3.	Liquidity coverage ratio (%)	197.36	197.26

## Expected Losses Split by Stages According to IFRS 9 "Financial Instruments"

March 31, 2019

(last day of the reporting period)

Position	Bank unaudited data in the reporting period			Consolidation group unaudited data in the reporting period		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
of which for financial assets	899 600	4 415 318	15 387 608	897 998	4 415 318	15 387 608
of which for standby credit facilities	48 576	117 430	0	48 560	117 430	0
of which for guarantees	17 686	0	0	17 686	0	0

## The Council and Board of the Bank

### The Council

Position	Name
Chairman of the Council	Yuriy Rodin
Deputy Chairman of the Council	Mark Bekker
Council member	Alla Vanetsyants
Council member	Dmitrij Bekker
Council member	Irina Buts

## Board

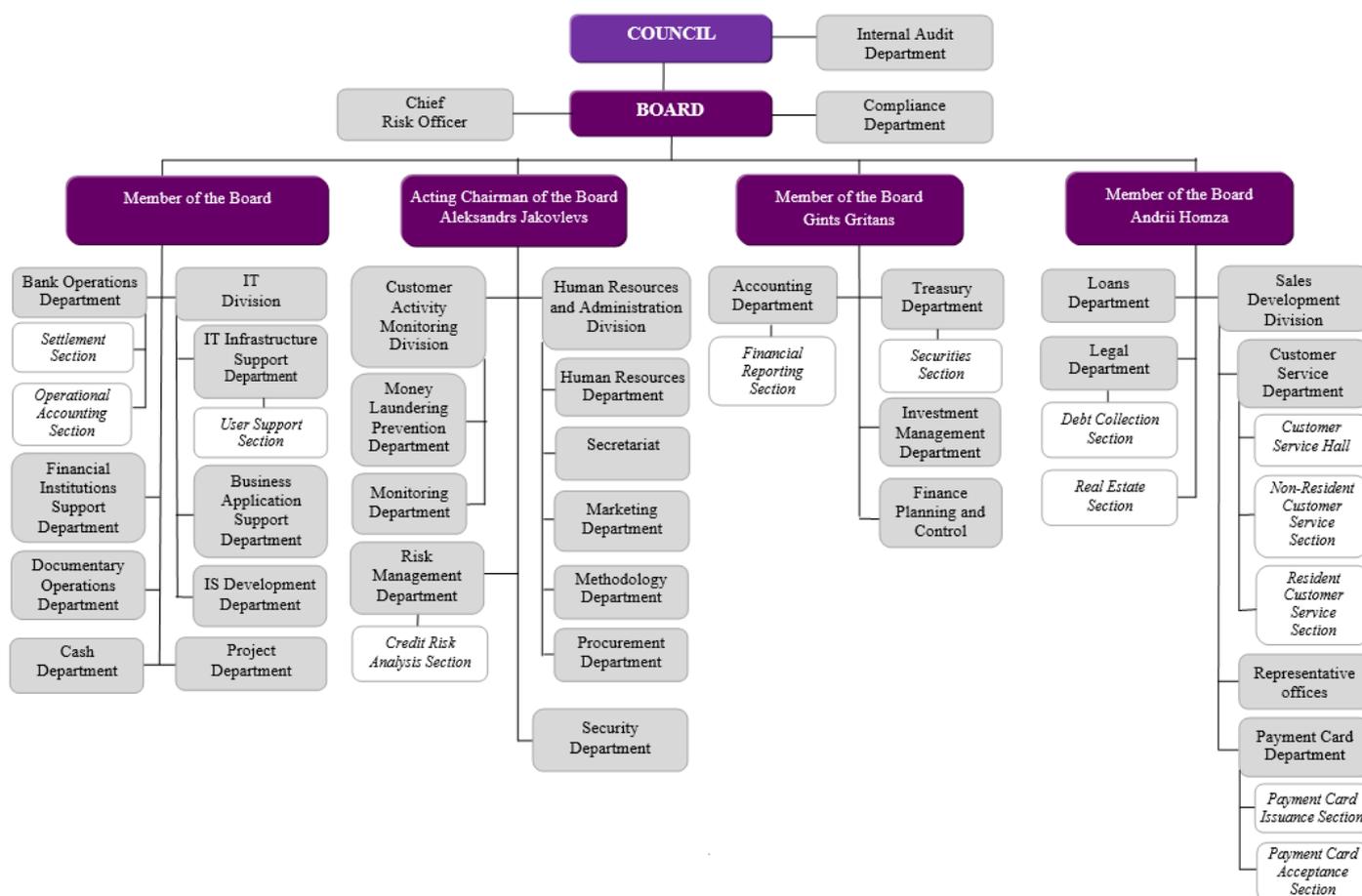
Position	Name
Acting Chairman of the Board	Aleksandrs Jakovlevs
Member of the Board	Gints Gritans
Member of the Board	Andrii Homza

## Shareholders of the Bank

Shareholder	Shares (%)
SIA "SKY Investment Holding"	37.40%
Yuriy Rodin	20.00%
AB „Pivdennyi“	13.76%
Mark Bekker	10.57%
Other shareholders (with less than 10% of shares)	18.27%

The nominal value of one share is EUR 1.00 and one share grants right to one vote at the meeting of shareholders. Currently the total core capital of the Bank is EUR 32.335 mill. The nominal value of one share is EUR 1.00.

## Organizational structure



## Risk Management

Risk management is one of the Bank's strategic goals. The Bank's Risk Management Strategy ensures management of the Bank's risks, the most significant of which are credit and residual risks, operational, market, liquidity, concentration risks.

In order to ensure the risk management, internal risk management policy and instructions have been developed, which were approved by the Bank Council and/or Board and implemented by the Bank's departments.

The aim of the Bank's Risk Management Strategy is to maintain such a level of the total risk undertaken by the Bank as the Bank has defined in its strategic tasks. The primary goal is to ensure security of assets and capital through minimizing risks that can cause unexpected losses.

The Bank's Risk Management Strategy has a systematic, complex approach which ensures the implementation of the following tasks:

- Identification and analysis of all risks present in the Bank's operations;
- Determination of an acceptable risk level with respect to various risk types;
- Qualitative and quantitative evaluation (measurement) of individual risk types;
- Analysis of the risk level with respect to current and planned Bank's operations;
- Evaluation of the acceptability and validity of the risk scale;
- Actions taken to ensure the acceptable risk levels;
- Development of internal system to trace risks in the negative tendency occurrence stage, as well as establishment of internal system for fast and adequate reaction in order to prevent or minimize risk.

The Bank's Board is responsible for the development and effective functioning of the Risk management System, ensures identification and management of the Bank's risks, including measurement, evaluation, control and provision of risk statements, implementing approved by the Bank's Council policies on risk identification and management, as well as other documents regarding risk management.

The main department responsible for identification, evaluation and control of risks is the Risk Management Department, which is an independent unit and its functions are separated from those of the business units.

The Risk Management System is being constantly updated in line with the changes in the Bank's activities and external conditions affecting the Bank's activity; regular control of this process is ensured by the Internal Audit Department.

The Bank's Board regularly and timely receives statements related to the evaluation, analysis, monitoring and control of the risks typical to the Bank's activity. Frequency and volume of these statements depends on the specific nature and volume of the Bank's activity, and allows the Bank's Board to make timely decisions with regard to the risk management issues.

### **Credit Risk and Residual Risk**

The Bank's principles in the evaluation, supervision and acceptance of credit risk are described and approved by the Credit Policy, Business Partner Policy and Investment Policy.

Normative documents related to residual risk management are specified and approved in the Credit policy and in the Instruction for real estate pledged to the Bank market value monitoring.

The Bank divides and controls its credit risk by determining several types of limits: limits of the acceptable risk for each borrower, groups of related borrowers, geographical regions, entrepreneur activity types, guarantee types and volumes, currencies, terms, ratings assigned by international agencies, and other limits.

Credit risk is also regularly supervised for each borrower by evaluating the borrowers' ability to repay the principal and the interest on the loan, as well as, if necessary, by changing the limits specified.

In order to ensure effective management of credit risks and evaluation of results of the Bank's activity, the Bank carries out regular evaluation and classification of assets (including loans) and off-balance sheet liabilities. The main criteria are Customer's future discounted cash flow and borrowing capacity – ability and willingness to fulfill liabilities in line with the contract terms and conditions.

Loans with significant increase of nonpayment risk, as compared with the risk accepted as of the day of loan granting, are considered as problematic.

As of 31.03.2019, financial assets measured at amortised cost amount to EUR 90 114 710, balances due from credit institutions amount to EUR 21 959 644.

### Loan portfolio breakdown by overdue periods as on 31.03.2019:

	Overdue loans, in EUR				Without delay	Gross outstanding amount, in EUR	Loan impairment reserve, in EUR
	1 - 30 days	30 - 90 days	90 - 180 days	over 180 days			
Loans to legal entities	0	379 664	3 707	16 109 763	97 445 802	113 938 936	17 504 052
Loans to individuals	0	0	0	631 692	5 580 679	6 212 371	3 204 199
<b>Total</b>	<b>0</b>	<b>379 664</b>	<b>3 707</b>	<b>16 741 455</b>	<b>103 026 480</b>	<b>120 151 306</b>	<b>20 708 251</b>

The amount of credits secured by deposits is EUR 2 678 952 (2.2% of the credit portfolio).

The Bank's exposure to credit risk is also supervised and mitigated, ensuring corresponding registration of collaterals and credit guarantees on behalf of the Bank. Fair value of these guarantees and collaterals is regularly reviewed.

Collateral is a property or rights that may serve as an alternative source of Loan repayment in the event if the Customer fails to fulfil its obligations.

As a collateral the Bank accepts the assets that comply with the following criteria:

- market value of assets, that is determined by independent valutors in the collateral appraisal and its changes are predictable within all the period of loan agreement. Attention is drawn to the market value of assets and to the fast forced sale value;
- assets are liquid, that is, they can be realized in a relatively short term at the price, which is close to the fast forced sale value (or market value);
- there is legal and actual opportunity to control these assets in order to prevent abuse by a borrower or by an owner of assets;
- the Bank's rights on these assets have legal priority over other creditors of the owner of assets (or creditors' rights with more privileged position compared to the Bank's rights, in total for an insignificant amount compared to the collateral value), allowing legal priority of Pivdennyi Bank as an exception.

Only certain types of assets are accepted as a collateral, and limits are set for every type of collateral in respect of maximum allowed loan amount against this collateral.

Types of collateral that are most commonly accepted:

- term deposit at the Bank
- real estate
- production facility of industrial nature
- land (depending on geographic location, communications, cadastral value, etc.)
- unused passenger cars
- unused trucks, tractor machinery
- used passenger cars under 7 years old and trucks under 9 years old, tractor machinery under 5 years old
- other cars and tractor machinery
- vessels
- stores (goods in a customs warehouse or otherwise controlled goods and goods in owner's warehouse)
- technological equipment and machinery
- other fixed assets of the company
- accounts receivable (as an aggregation of property)
- securities, capital shares, bills
- guarantees

Value of real estate is determined according to independent experts' opinion and by adjusting this valuation based on the Bank's experience and normative documents. Market value of stores (goods in a customs warehouse or otherwise controlled goods) and of stores (goods held at the owner's warehouse) is considered to be publicly available price, the formation mechanism of which is clear and acceptable for the Bank. Market value of technological

equipment and machinery is determined according to the net book value of equipment, if asset accounting methods applied by the Customer comply with common practice, if possible obtaining experts' opinion as well.

With a breakdown by loan collateral types, the major part is represented by:

- real estate mortgages EUR 40,5 million (34%);
- other mortgage EUR 39,9 million (33%).

## **Market Risk**

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

The Bank controls the market risk by diversifying its portfolio of financial instruments, setting restrictions to various types of financial instruments and carrying out the sensitivity analysis, which reflects the risk impact on the Bank's assets and equity capital.

## **Currency Risk**

The Bank's activity is exposed to 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 limits for open positions of foreign currencies, and these limits are below the supervisory limits; no individual open position exceeds 10% of equity capital, and the total currency open position does not exceed 20% of equity capital. Limits are controlled on daily basis.

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

- the change of values of the Bank's assets, liabilities and off-balance sheet positions as a result of the currency rate changes;
- How the Bank's income/expenditure changes in relation with changes in currency rates;
- stress-tests of the currency risk are carried out.

Basic elements of the currency risk management:

- evaluation of the currency risk;
- determination of limits and restrictions;
- control of compliance to the approved limits;
- performance of the currency stress-tests and analysis of the results;
- if necessary, risk limitation measures.

The Bank's total net foreign currency item as of 31.03.2019 amounted to EUR 0.8 million, i.e., 1.6% of the Bank's equity.

20% change in USD rate by +/-80 thousand EUR will influence foreign exchange position in US dollars as of March 31, 2019.

As on 31.03.2019, derivative instruments (hedge) are not being used.

## **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. Furthermore, stress tests of the interest rate risk are applied.

Basic elements of the interest rate risk management:

- sensitivity analysis of the interest rate risk;
- setting internal limits (limit for the decrease in economic value and for the total duration of securities portfolio);
- control of compliance of the internal limits;

- interest rate stress-tests and analysis of the results;
- if necessary, risk limitation measures.

The following changes in interest rates are applied to the sensitivity analysis: all items except for deposits and issued securities are subject to the interest rate change of +/-100 base points, deposits and issued securities are subject to the interest rate change of +/-50 base points, while the stress testing of the interest rate risk is subject to the interest rate change of +/-200 base points.

Sensitivity analysis results as of March 31, 2019: changes of economic value constitute -/+239 thousand EUR or 0.5% of the bank's equity.

## Liquidity Risk

Liquidity risk is a risk that the Bank – on daily basis and/or in the future – will not be able to timely satisfy legally justified claims without incurring substantial losses, as well as will not be able to overcome unplanned changes in the Bank's resources and/or in the market conditions as there will not be an adequate amount of liquid assets at its disposal.

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 the coordination is one of the Bank's most important daily management controls.

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

- Evaluation of existing and planned assets, liabilities, and off-balance sheet liabilities term structure 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;
- By determining liquidity indicators used for liquidity risk analysis and control;
- By determining internal limits:
  - for 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.

By specifying the calculation procedure of liquidity indicators and by determining its 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 (the basic elements) are as follows:

- normative execution of the liquidity indicators;
- determination of limits of the liquidity net position;
- determination of restrictions of the investment attraction;
- control of compliance of the definite limits;
- liquidity stress-tests and analysis of the obtained 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 money flows within the term interval of up to 7 days and 30 days.

In line with FCMC requirements, the Bank maintains the liquid assets to the extent required for fulfilment of liabilities. Liquidity ratio was 75.36% as on 31.03.2019.

## Concentration Risk

For limiting the concentration risk the Bank determines the limits for investment in various types of assets, instruments and markets, as well as other limits.

Country risk is one of the most significant concentration risks. Country risk – country partner risk – is an ability to suffer losses if the Bank's assets are placed in the country in which, due to the economic and political factors, the Bank may be exposed to problems with returning its assets within the prescribed term and volume. The reasons for non-fulfillment of liabilities by the partners and issuers are mainly the currency devaluation, unfavourable changes in legislation, establishment of new restrictions and barriers and other factors, including force majeure.

For the limitation of the concentration risk, the Bank has introduced the following limits:

- Country risk limits;
- Credit rating group limits;
- Financial markets operational risk limits;
- Open currency position and cash limits, acceptable losses limits for currency trade;
- Acceptable losses limits for securities trade portfolio instruments;
- Limits restricting large risk exposures;
- Limits restricting exposures with the Bank related persons;
- Credit program limits;
- Limits for exposures with customers in a specific economic sector (for non-bank borrowers);
- Limits for exposures secured by one type of security (for non-bank borrowers);
- Limits for loans granted in a currency which differs from the borrower's income currency (with respect to exposures with residents – private persons).

The Bank carries out control, analysis of these limits, and revises them if necessary.

For country risk analysis the information of the international rating agency is used (including credit rating, its dynamics); state economic indicators and other related information.

Basic elements of the risk control:

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

Assets, liabilities and off-balance sheet country risk is related to the country which may be considered as the basic country of the customer's business activity. If the loan has been granted to a resident of another state, and this collateral is physically located in a country other than the legal entity's country of residence, the country risk is transferred to the country where the collateral is physically located. The largest country risk concentration in the Bank's exposure to Ukraine.

In the 1th quarter of 2019, the Bank was in compliance with the requirements of the Credit Institutions Law with respect to the restriction of large risk exposures and the restriction of exposures to the Bank related persons.

### Analysis of the Bank's securities and claims against credit institutions by credit rating groups:

Rating group	Securities				Claims against credit institutions			
	Balance value	Accrued income	Total	%	Balance value	Accrued income and money in transition	Total	%
	1	2	(1+2)	4	5	6	(5+6)	8
Aaa to Aa3	22 833 446	0	22 833 446	66,6%	0	0	0	0,0%
A1 to A3	10 965 562	140 214	11 105 776	32,4%	993 072	347	993 419	3,2%
Baa1 to Baa3	354 280	684	354 965	1,0%	18 462 920	4 869	18 467 789	59,0%
Ba1 to Ba3	0	0	0	0,0%	0	0	0	0,0%
B1 to B3	0	0	0	0,0%	78 159	10	78 169	0,2%
below B3	7 958	0	7 958	0,0%	11 745 814	16 447	11 762 261	37,6%
	<b>34 161 247</b>	<b>140 898</b>	<b>34 302 145</b>	<b>100,0%</b>	<b>31 279 965</b>	<b>21 673</b>	<b>31 301 638</b>	<b>100,0%</b>
<b>No rating</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0,0%</b>	<b>14 834</b>	<b>0</b>	<b>14 834</b>	<b>0,0%</b>
	<b>34 161 247</b>	<b>140 898</b>	<b>34 302 145</b>	<b>100%</b>	<b>31 294 799</b>	<b>21 673</b>	<b>31 316 472</b>	<b>100%</b>

18,75% of requirements to credit institutions or EUR 5 871 027 are secured by Customers' deposits.

## Separation of financial assets that are classified as assets measured at fair value, reported in the profit and loss account, with a breakdown by countries

	Countries	Securities			
		Book value	Accumulated income	Total	%
		1	2	(1+2)	4
1.	USA	23 855 515	12 512	23 868 027	70.16%
1.1.	Including Central government securities	22 833 446	0	22 833 446	67.12%
2.	Poland	8 089 987	107 810	8 197 797	24.10%
2.1.	Including Central government securities	8 089 987	107 810	8 197 797	24.10%
3.	Latvia	1 212 930	15 210	1 228 140	3.61%
3.1.	Including Central government securities	1 212 930	15 210	1 228 140	3.61%
4.	China	533 749	3 754	537 503	1.58%
4.1.	Including Central government securities	0	0	0	0,00%
5.	Germany	177 026	1 611	178 637	0.53%
5.1.	Including Central government securities	0	0	0	0,00%
6.	Kazakhstan	7 958	0	7 958	0.02%
6.1.	Including Central government securities	0	0	0	0,00%
	<b>Total*</b>	<b>33 877 165</b>	<b>140 897</b>	<b>34 018 062</b>	<b>100%</b>

\* except for VISA shares (total amount of shares is EUR 284 thousand).

Key elements of risk management:

- determination of internal limits for regions, states, emitters;
- determination of stop-loss limits;
- control of internal limits execution;
- analysis and monitoring of emitters;
- revision of internal limits

### Operational Risk

Operational risk is a possibility to suffer loss due to inadequate or unsuccessful Bank's internal processes, human or system activity, or due to the impact of external conditions. Operational risk is a risk of decrease of the Bank's income/occurrence of additional expenditure (and the subsequent decrease in equity capital volume) due to error transactions with Customers/business partners, processing of information, making ineffective decisions, insufficient human resources or insufficient planning of the impact of external conditions.

The Bank establishes and maintains the operational risk events and losses database, which collects, processes and classifies internal information about the operational risk events and related losses.

Basic elements of the operational risk management:

- monitoring of the operational risk;
- control and minimisation of the operational risk:
  - development of the internal normative documents which exclude/decrease the operational risk possibility;
  - for compliance with the principle of division of duties;
  - control of execution of the internal limits;
  - compliance with the defined procedure in using IT and other bank resources;
  - proper training of employees;
  - regular checks of transaction and account documents;
  - ensuring the continuity of the Bank's operation;
  - stress testing.

In the 1th quarter of 2019, essential operational risk losses were not ascertained.

Please find additional information about the Bank's risks on

[http://www.ribbank.com/en/information/pilar\\_iii\\_information\\_disclosure](http://www.ribbank.com/en/information/pilar_iii_information_disclosure)

### Derivative instruments

The derivative instruments are used only for the Customers' transaction hedging.

**Reported data of 2018**

[http://www.ribbank.com/en/information/annual\\_reports](http://www.ribbank.com/en/information/annual_reports)