AS “Reģionālā investīciju banka”

Pilar III

Information Disclosure year 2021

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Introduction

The information disclosure report is prepared according to Article 36[3] paragraph (3) of Latvian Republic Credit Institution Law and part 8 of European Regulation (EU) No 575/2013 of the European Parliament and of the Council, and with regularity stated in paragraph 443 c, point 2. The report provides additional information to the information provided by the annual report concerning key risk metrics and overview of risk weighted exposure amounts, risk management objectives and policies, capital adequacy, liquidity requirements, credit risk, residual risk and the quality of the loan portfolio, market risk, operational risk and remuneration policy of the Group and the Bank.

Information about the Bank

The information is disclosed on a consolidated level, and is published on the Bank's website once a year. If information about the Bank needs to be disclosed separately, it is noted in the description.

In August 2016, the Bank established a 100% subsidiary – the limited liability company *Grunewald Residence*. The total direct Bank's investment into this subsidiary, as at December 31, 2021 was 100% or 9 190 EUR. The Bank and the subsidiary are fully consolidated. The is no any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the Bank and its subsidiary.

Disclosure of key metrics and overview of risk-weighted exposure amounts

Template EU KM1 - Key metrics at consolidated level (eur):

		a	e
		2021	**2020**
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1)	46 940 426	42 831 496
2	Tier 1	46 940 426	42 831 496
3	Total capital	46 940 426	44 615 281
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	169 545 135	162 248 338
	Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	27.69%	26.40%
6	Tier 1 ratio (%)	27.69%	26.40%
7	Total capital ratio (%)	27.69%	27.50%
	Additional equity capital risk requirements (except for excessive leverage risks) (as percentage of RWA)		
EU 7.a	Additional equity capital risk requirements (except for excessive leverage risks) (as % of RWA)	3.1%	2.9%
EU 7.b	of which: to be made up of CET 1 capital (percentage points)	1.74%	1.62%
EU 7.c	of which: to be made up Tier 1 capital (percentage points)	2.33%	2.18%
EU 7.d	Total SREP own funds requirements (%)	11.10%	10.9%
	Combined buffer and overall capital requirement (as percentage of RWA)		
8	Capital conservation buffer (%)	2.5%	2.5%

EU 8.a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)		
9	Institution specific countercyclical capital buffer (%)		
EU 9.a	Systemic risk buffer (%)		
10	Globally Systematically Important Institutions buffer (%)		
EU 10.a	Other Systematically Important Institutions buffer (%)		
11	Combined buffer requirements (%)	2.5%	2.5%
EU 11.a	Overall capital requrements (%)	13.4%	13.4%
12	CET1 available after meeting the total SREP own funds requirements (%)		
	Leverage ratio		
13	Total exposure measure	272 891 651	276 737 774
14	Leverage ratio (%)	17.20%	15.48%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)		
EU 14.a	Additional own funds requirements to address the risk of excessive leverage (%)	0%	
EU 14.b	of which: to be made up of CET1 capital (percentage points)	0%	
EU 14.c	Total SREP leverage ratio requirements (%)	3%	
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
EU 14.d	Leverage ratio buffer requirement (%)	3%	
EU 14.e	Overall leverage ratio requirement (%)	3%	
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA)	112 133 794	122 387 352
EU 16.a	Cash outflows - Total weighted value	89 426 772	77 720 268
EU 16.b	Cash inflows - Total weighted value	32 947 699	30 999 418
16	Total net cash outflow	56 479 073	46 720 850
17	LCR (%)	198.54%	261.95%
	Net Stable Funding Ratio		
18	Total available stable funding	159 753 377	
19	Total required stable funding	84 845 856	
20	NSFR (%)	188.29%	

Template EU OV1 - Overview of RWA (eur):

		RWA		**Minimum capital requirements**
		a	b	c
		T	**T-1**	**T**
1	**Credit risk (excluding counterparty credit risk)**	147 260 321	134 302 150	11 780 826
2	of which: standardised approach	147 260 321	134 302 150	11 780 826
3	of which: foundation internal ratings-based (F-IRB) approach			
4	of which: supervisory slotting approach			
EU 4.a	of which: equity positions according to standardised approach	235 618	221 711	18 849

5	of which: advanced internal ratings-based (A-IRB) approach			
6	**Counterparty credit risk (CCR)**			
7	of which: standardised approach for counterparty credit risk			
8	of which: Internal Model Method (IMM)			
EU 8.a	of which: CCP risk exposures			
EU 8.b	Credit valuation adjustment (CVA)			
9	of which: other CCR			
10	N/A			
11	N/A			
12	N/A			
13	N/A			
14	N/A			
15	**Settlement risk**			
16	**Securitisation exposures in banking book**			
17	of which: securitisation internal ratings-based approach (SEC-IRBA)			
18	of which: SEC-ERBA (including internal assessment approach (IAA))			
19	of which: securitisation standardised approach (SEC-SA)			
EU 19.a	of which: 1250% /(deduction)			
20	**Market risk**	2 010 051	2 946 250	160 804
21	of which: standardised approach	2 010 051	2 946 250	160 804
22	of which: internal models approach (IMA)			
EU 22.a	Large risk exposures			
23	**Operational risk**	20 274 763	24 999 938	1 621 981
EU 23.a	of which: basic indicator approach	20 274 763	24 999 938	1 621 981
EU 23.b	of which: standardised approach			
EU 23.c	of which: advanced measurement approach			
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)**			
25	N/A			
26	N/A			
27	N/A			
28	N/A			
29	**Total (1 + 6 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 20 + 23 + 24 + 25)**	169 545 135	162 248 338	13 563 611

Risk Management Objectives and Policies

Risk Management

Risk management is an integral part of the Bank's core business activities. The Risk Management Strategy has been developed for the purpose the Bank's risk management, which is based on the principle of performing banking activities without incurring losses and is oriented to achieve an optimal balance between profitability of the Bank's commercial operations and acceptable level of risks. The internal risk management strategy developed by the Bank ensures risk management, inter alia, identification, assessment, minimisation, monitoring, and control, as well as the creation and maintenance of the relevant internal reporting system for the Bank's management.

Members of the Bank's Council and Board are responsible for effective risk management. The Council appoints Members of the Council and the Board responsible for AML/CFT and risk management. The Bank has created special structural units independent of business structural units, which are responsible for risk management: Risk Management Department, Compliance Department, Customer Activity monitoring Division.

In the process of risk management, the Bank ensures the "principle of three-level protection" – structural units responsible for customer service play the primary role in identifying customer's risks. The second level of protection is ensured by structural units responsible for risk management, which carry out daily control activities; the third level of protection is the internal audit of the Bank, which assesses the efficiency of the risk management function.

The Risk Management Strategy of the Bank implies:

- compliance to strategic goals set by the Council of the Bank;
- effective management of available own capital and sufficient level of capitalization;
- accounting for the level of risks when evaluating performance of the Bank;
- development of adequate risk management system/environment and its effective functioning.

Development and documentation of risk management policies and control procedures at least for significant risks identifies by the Bank which include:

- methods and regularity of risk measurement and evaluation;
- adequate risk control procedures, including setting maximal limits and restrictions, risk minimization methods, control procedures in order to minimize quantitatively insignificant risks;
- regular flow of information among the Council of the Bank, The Board of the Bank and the heads of the departments of the Bank concerning the existing risks of the Bank, levels and tendencies of these risks, their impact on the amount of the Bank's capital and level of its adequacy and other important related information for decision making;
- risk management policy and control procedures, i.e. procedures of controlling and monitoring of limits' and restrictions' fulfilment;
- division of responsibilities, obligations and rights in risk management.

Risk identification, risk measurement, risk monitoring, risk control and minimization are main principals of risk management of the Bank.

The following risks are identified as significant for the Bank's activities: credit and residual risk, liquidity risk, concentration risk, country risk, operational risk, prevention of money laundering and terrorism financing risk and business model risks.

The Bank assesses and monitors risk management measures on a regular basis to make sure that the introduced risk management system corresponds to the Bank's profile and strategy. The Bank participates in the dialogue annually organised by the FCMC on risk management assessment and supervision and, if necessary, improves the risk management system according to the recommendations provided by supervisory institution.

In order to identify situations that could have a strong impact on the Bank, to assess the Bank's ability to withstand large potential losses, to determine ways in which the Bank could mitigate risks, to calculate the amount of total capital required, the recommended capital and liquidity reserve amount, the Bank has developed a stress testing program.

Stress tests are developed separately for each risk type that the Bank is willing to stress test; as well as for capital adequacy and liquidity stress testing, and stress testing of strategic planning. Stress tests are performed in accordance with the FCMC regulations on liquidity risk management, the regulations for managing credit risk, the regulations for establishing capital adequacy and liquidity assessment processes, as well as EBA guidelines for managing interest rate risk (AB/GL/2018/02), taking into account the risk profile of the Bank and its core activities. The Bank's credit risk stress tests include stress testing of the loan portfolio, the portfolio of foreclosed real estate, receivables from credit institutions, as well as the portfolio of securities for which the credit risk capital requirement is calculated.

Based on the results of the stress tests in 2021, the amount of capital and liquidity reserve are sufficient to the current and planned activities of the Bank.

The capital amount of the Bank exceeded total capital requirements by 14,8 million euros (individual capital requirement of the Bank was 13.4%) on December 31st, 2021, the liquidity reserve for the outflow of deposits over the requirement amounted to 92 million euros (individual liquidity requirement for the period of up to 30 days was 40%).

Taking into account the size of the Bank, its structure of assets and liabilities, current risk level, risk identification, assessment, monitoring and control measures, results of stress tests as well as the volume of the equity capital and the volume of liquidity reserves, risk management implemented by the Bank is adequate and effective, and the risk level of the Bank corresponds to the Bank’s strategic goals and set limitations.

Information on Management Arrangements

Pursuant to the bank’s Statutes The Council is composed of five members. The Shareholders’ Meeting elects the Council for a period not exceeding five years. Following the election of the Council the Shareholders’ Meeting monitors the general competence of Council members to enable the Council to perform its duties in an efficient way. Council members elect a Council Chairman and at least one Deputy Chairman from their midst.

The Board is composed of five members A Board member is elected for a term not exceeding five years. Board members are elected by the Council. When electing Board members the Council monitors the general competence of Board members to enable the Board, as a whole, to perform its duties in an efficient way. The Council elects a Board Chairman from among the members of the Board.

Board members of the Bank hold the following positions:

- Chairman of the Bank’s Board (CEO);
- Member of the Bank’s Board (CRO), Chief Risk Officer;
- Member of the Bank’s Board (CCO), Member of the Bank’s Board responsible for AML/CFTP;
- Head of the Activity Compliance Monitoring Department;
- Member of the Bank’s Board (CBO);
- Member of the Bank’s Board (COO), Head of the Personnel and Administration Division.

Management at the Bank's subsidiary company SIA "Grunewald Residence" is ensured by 2 (two) Board members. One Board member of the Bank's subsidiary company simultaneously holds the position of the Head of the Legal Department at the Bank and another Board member of the Bank's subsidiary company simultaneously holds the position of the Head of the Board of the Bank.

The bank's policy on the assessment of the suitability of members of the management body provides for the criteria used to assess the suitability of the bank's Council and Board members which should be complied with when assessing the suitability of nominated or elected Council and Board members as well as provides for actions to be taken when these persons are considered unsuitable for a respective position. With respect to Council and Board members one takes into account the fact that Council and Board members should devote a considerable amount of time and effort in performing their duties. Council and Board members, both individually and as a group, should possess a required specific knowledge, experience, competence, understanding (including understanding the business and related risks of the bank's subsidiaries) and personal characteristics (including professionalism and integrity) to allow the proper performance of the duties which in the case of Council members cover the supervision over the bank's or its subsidiary's Board activities, while in the case of Board members these cover the management of the bank's or subsidiary's activities. Council and Board members should possess a relevant information with respect to the bank's or subsidiary's activities not only at a level sufficient to perform his / her duties, but also should have an understanding of activities for which they do not bear the direct responsibility, while still bearing the overall responsibility.

The policy determines the procedure and frequency of evaluation of the members of the Council and the Board, as well as the criteria for appointing a new member of the Council Board or the Board.

The bank shapes its internal organizational structure so that business units that ensure the performance of certain functions within the bank's activities report to a Board member who bears the respective responsibility for these functions and possesses the relevant competence.

In order to ensure diversity, during the process of appointing the members of the Bank's Council and Board a wide range of personal information is taking into the account as well as their competencies. The Bank ensures gender diversity in management structural units.

Considering the amount, complexity and specifics of the Bank's operations as well as its organizational structure, there is no special risk committee at the Bank. The Council of the Bank is responsible for supervision of risk management of the Bank. The Council of the Bank has held 37 meetings of the Council in 2021.

Disclosure of own funds

Template EU CC1 – Composition of regulatory capital (eur):

		a	c
		Amounts	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	32 334 756	h
	of which: Instrument type 1		
	of which: Instrument type 2		

2	Retained earnings	12 147 144	
3	Accumulated other comprehensive income (and other reserves)	50 168	
EU-3.a	Funds for general banking risk		
4	*Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1*		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1 capital)		
EU-5.a	Independently reviewed interim profits net of any foreseeable charge or dividend		
6	**Common Equity Tier 1 capital before regulatory adjustments**	44 532 068	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudent valuation adjustments		
8	Goodwill (net of related tax liability)	-475 426	a minus d
9	Not applicable		b minus e
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)		
11	Cash flow hedge reserve	-32 745	
12	Shortfall of provisions to expected losses		
13	Securitisation gain on sale (as set out in [CAP30.14])		
14	Gains and losses due to changes in own credit risk on fair valued liabilities		
15	Defined benefit pension fund net assets		
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)		
17	Reciprocal cross-holdings in common equity		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		
20	Not applicable		c minus f minus 10% threshold
EU-20.a	Exposure amount of the following items which qualify for a RW of 1 250 %, where the institution opts for the deduction alternative		
EU-20.b	of which: qualifying holdings outside the financial sector (negative amount)		
EU-20.c	of which: securitisation positions (negative amount)		
EU-20.d	of which: free deliveries (negative amount)		

21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount		
22	Amount exceeding the 17,65% threshold (negative amount)		
23	Of which: significant investments in the common stock of financials		
24	Not applicable		
25	of which: deferred tax assets arising from temporary differences		
EU-25.a	Losses for the current financial year (negative amount)		
EU-25.b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)		
26	Not applicable		
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	2 916 529	
27.a	Other regulatory adjustments	2 916 529	
28	**Total regulatory adjustments to Common Equity Tier 1 capital**	2 408 358	
29	**Common Equity Tier 1 capital (CET1)**	469 40 426	
	Additional Tier 1 capital: instruments		
30	Capital instruments and the related share premium accounts		i
31	of which: classified as equity under applicable accounting standards		
32	of which: classified as liabilities under applicable accounting standards		
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1		
EU-33.a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1		
EU-33.b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1		
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties		
35	of which: instruments issued by subsidiaries subject to phase out		
36	Additional Tier 1 (AT1) capital before regulatory adjustments		
	Additional Tier 1 capital: regulatory adjustments		
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)		
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with		

	the institution designed to inflate artificially the own funds of the institution (negative amount)		
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		
41	Not applicable		
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)		
42.a	Other regulatory adjustments to AT1 capital		
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**		
44	**Additional Tier 1 (AT1) capital**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	46 940 426	
	Tier 2 capital instruments		
46	Capital instruments and the related share premium accounts		
47	Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR		
EU-47.a	Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2		
EU-47.b	Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2		
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties		
49	*of which: instruments issued by subsidiaries subject to phase-out*		
50	Credit risk adjustments		
51	**Tier 2 (T2) capital before regulatory adjustments**		
	Tier 2 (T2) capital: regulatory adjustments		
52	Investments in own Tier 2 instruments Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)		
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		

54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative		
54a	Not applicable		
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		
56	Not applicable		
EU-56.a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)		
EU-56.b	Other regulatory adjustments to T2 capital		
57	**Total regulatory adjustments to Tier 2 (T2) capital**		
58	**Tier 2 (T2) capital**		
59	**Total capital (TC = T1 + T2)**	46 940 426	
60	**Total Risk exposure amount**	169 545 135	
	Capital ratios and requirements including buffers		
61	**Common Equity Tier 1 capital**	27.69%	
62	**Tier 1 capital**	27.69%	
63	**Total capital**	27.69%	
64	**Institution CET1 overall capital requirements**	4 238 628	
65	of which: capital conservation buffer requirement	4 238 628	
66	of which: countercyclical risk buffer requirement		
67	of which: systemic risk buffer requirement		
EU-67.a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement		
EU-67.b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage		
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**		
	National minima (if different from Basel III)		
69	Not applicable		
70	Not applicable		
71	Not applicable		
	Amounts below the thresholds for deduction (before risk-weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		

73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)		
74	Not applicable		
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)		
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	*Current cap on CET1 instruments subject to phase out arrangements*		
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*		
82	*Current cap on AT1 instruments subject to phase out arrangements*		
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*		
84	*Current cap on T2 instruments subject to phase out arrangements*		
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*		

Template CC2 – Reconciliation of regulatory capital to balance sheet (eur):

	Balance sheet as in published financial statements	**Under regulatory scope of consolidation**	**Reference**
	As at period-end	**As at period-end**	
Assets			
Cash and balances at central banks	82 900 231	82 900 231	
Trading portfolio assets	1 607 310	1 607 310	
Financial assets designated at fair value	30 902 143	30 902 143	
Derivative financial instruments			
Loans and advances to banks	383 93 662	38 393 662	

Loans and advances to customers	83 259 093	83 259 093	
Reverse repurchase agreements and other similar secured lending			
Available for sale financial investments	235 618	235 618	
Current and deferred tax assets			
Prepayments, accrued income and other assets	4 958 489	4 974 415	
Investments in associates and joint ventures	583972		
Goodwill and intangible assets	475 426	475 426	
of which: goodwill			a
of which: other intangibles (excluding MSR)			b
of which: MSR			c
Property, plant and equipment	12 872 931	12 872 931	
Total assets	256 188 875	255 620 829	
Liabilities			
Deposits from banks			
Customer accounts	209 730 323	2083 33 160	
Repurchase agreements and other similar secured borrowing			
Trading portfolio liabilities			
Financial liabilities designated at fair value			
Derivative financial instruments			
Debt securities in issue			
Accruals, deferred income and other liabilities	2 051 157	2 161 286	
Current and deferred tax liabilities	1 645	594 315	
of which: deferred tax liabilities (DTL) related to goodwill			d
of which: DTL related to intangible assets (excluding MSR)			e
of which: DTL related to MSR			f
Subordinated liabilities			
Provisions			
Retirement benefit liabilities			
Total liabilities	211 783 125	211 088 761	
Shareholders' equity			
Paid-in share capital	32 334 762	32 334 762	
of which: amount eligible for CET1 capital			h
of which: amount eligible for AT1 capital			i
Retained earnings	12 020 826	12147144	
Accumulated other comprehensive income	50 162	501 62	
Total shareholders' equity	44 405 750	44 532 068	

Transitional period measures to mitigate the effect of the IFRS9 introduction on the equity capital

During transitional period from January 1st, 2018 until December 31st, 2022 equity capital and equity capital ratios are calculated according to Regula (EC) 2017/2395, the purpose of which is for transitional period to mitigate the effect of the IFRS9 introduction on the equity capital, and also on limits set for large exposures. Transitional coefficients set in the article 473a paragraph 6 of the Regula are used for capital calculation.

Capital adequacy and leverage ratios as if IFRS 9 or analogous ECLs transitional arrangements had not been applied and had been applied (eur):

		31.12.2021 Bank	31.12.2021 Group
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	46 940 426	42 831 496
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	44 023 897	38 748 355
3	Tier 1 capital	46 940 426	42 831 496
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	44 023 897	38 748 355
5	Total capital	46 940 426	44 615 281
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	44 023 897	40 532 140
	Risk-weighted assets (amounts)		
7	Total risk-weighted assets	169 545 135	162 248 338
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	166 670 181	157 839 466
	Capital ratios		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	27.69%	26.40%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	26.41%	24.55%
11	Tier 1 (as a percentage of risk exposure amount)	27.69%	26.40%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	26.41%	24.55%
13	Total capital (as a percentage of risk exposure amount)	27.69%	27.50%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	26.41%	25.68%
	Leverage ratio		
15	Leverage ratio total exposure measure	273 459 113	272 891 651
16	Leverage ratio	17.12%	17.20%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.23%	16.31%

The Bank chooses not to apply the temporary treatment set out in Article 468 of the Regulation to unrealized gains or losses on financial assets measured at fair value through other comprehensive income in response to the COVID-19 pandemic.

On Liquidity Requirements

Liquidity risk is the risk that the Bank, in its daily operations and/or in future, will not be able to satisfy legally justified claims in a timely manner without significant losses and will not be able to overcome unforeseen changes in Bank's resources and/or market conditions, as it will not have the sufficient amount of liquid assets.

The Bank is subject to two liquidity risks:

- funding liquidity risk – the risk that the Bank will not be able to ensure its current and future cash flows and meet collateral need obligations in a way preventing threats to the Bank's daily operations or the Bank's overall financial position;
- market liquidity risk – the risk that the Bank will not be able to sell its financial assets for market prices due to the market collapse or insufficient market depth.

The aim of the Bank's Liquidity Management Strategy is to minimise the Bank's liquidity risk to the maximum extent, placing assets in a way ensuring the ability to satisfy the legally justified claims of the Bank's creditors, i.e., ensuring the sufficient level of liquidity reserve, as well as ensuring the Bank's ability to fulfil other liquidity risk management functions. The Bank's strategy stipulates the management of liquid assets in the sufficient amount and the ability to attract necessary resources in the interbank market or from other possible sources.

The main directions of the Bank's strategy are the following:

- ensuring the sufficient level of liquidity reserve;
- achieving the best level of liquidity possible, increasing and stabilising the deposit base (by terms and amounts);
- achieving the diversification of deposits / sources of funding;
- constantly and systematically increasing the Bank's equity capital;
- forming the optimal structure of assets, i.e., the balanced portfolio of the Bank (including also loans), which corresponds to the deposit base at the disposal of the Bank;
- improving and automating the Bank's liquidity and condition control system and methods.

The Liquidity Management Policy determines the basic principles and procedures for liquidity management to identify in a timely manner, assess, analyse, and manage the liquidity risk during respective periods of time, including intra-day, to ensure the sufficient level of liquidity reserve.

The Liquidity Management Strategy and the Liquidity Management Policy are approved by the Council and the Board of the Bank, and they are revised at least once a year.

The Bank's strategic goals and risk appetite in general are determined by the Council of the Bank, whereas the Board of the Bank is responsible for their implementation. The Assets and Liabilities Committee of the Bank ensures the adoption of decisions on daily liquidity risk management within the framework of the Bank's strategy and policy. The Treasury Department manages the Bank's portfolio of liquid assets, whereas regular control over the execution of management decisions is ensured by the Chief Risk Officer and the Risk Management Department.

Liquidity management within the Group is centralised and is implemented at the Bank, as the Bank is the main entity that ensures the Group's liquidity.

Liquidity control is ensured based on the information provided in a range of internal and external reports. The Bank ensures both operative daily reports for the monitoring of the current situation and periodical reports for the assessment of general tendencies and the adoption of strategic decisions. Regular control over the observance of set restrictions and provision of information to the Bank's management is ensured pursuant to the procedures and observing the periodicity as laid down in the internal regulatory documents of the Bank.

The Bank develops internal documents on liquidity risk management, which allow identifying in a timely manner, assessing, analysing, and managing the liquidity risk during respective periods of time to ensure the sufficient level of liquidity reserve that covers the positive difference between the planned outgoing and ingoing cash flows within the interval from 7 days to 30 days, taking into account the results of stress tests performed by the Bank.

To restrict the liquidity risk, the Bank determines liquidity risk limits and restrictions on the attraction of deposits:

- limits for the groups of terms of general liquidity positions of the term structure of assets and liabilities;
- internal liquidity indicators and their target levels (individual liquidity indicator up to 30 days; absolute liquidity indicators; the share of highly liquid assets in total net assets; the share of liquid assets in total net assets; the share of net loans issued to non-banks in total net assets);
- the maximum amount of attracted deposits, as well as the maximum amount of attracted deposits with the maturity date on the same day (except demand deposits) from one customer or group of related customers;
- the minimum liquidity coverage indicator;
- the minimum stable funding indicator.

The Bank determines and regularly analyses the system of early warning signs to identify negative tendencies affecting liquidity in a timely manner, analyses them, and assesses the necessity to carry out activities minimising the liquidity risk. The Bank has developed, regularly tests, and revises the action plan for overcoming the liquidity crisis, which includes a detailed description of activities to be carried out in the event of both short-term and long-term liquidity crisis, inter alia, specifying possible sources of funding.

To identify the sources of potential liquidity problems and determine the necessary amount of liquidity reserve, the Bank regularly, at least once in six months, carries out stress testing (i.e., analyses and assesses possible Bank's development scenarios for various periods of time and various levels of stress), which includes the following scenarios:

- institution-specific crisis – internal unfavourable events typical of the Bank;
- market-wide crisis – changes in general market conditions;
- combined scenarios (institution-specific crisis and market-wide crisis simultaneously).

Scenarios used in stress testing are extraordinary, with a sufficiently significant impact, but not impossible. Taking into account the results of stress testing, the Bank develops an efficient possible action plan for overcoming the liquidity crisis and, if necessary, improves liquidity risk management strategies, policies, and procedures, including limits.

Aiming at certifying that the liquidity risk management system corresponds to the Bank's profile and strategy, the Bank prepares the "Report on Internal Liquidity Adequacy Assessment Process" (ILAAP) on an annual basis. The goal of the report is to provide detailed information on the liquidity risk management process, identify possible discrepancies in the liquidity adequacy assessment process, and assess the sufficiency of liquidity reserve.

Taking into account the Bank's size, structure of assets and liabilities, existing level of risks, risk identification, assessment, monitoring, and control measures, stress testing results, as well as the amount of liquidity reserves, liquidity risk management at the Bank is adequate and efficient, and the Bank's level of liquidity risk corresponds to the Bank's strategic goals and set restrictions.

In accordance with the FCMC requirements, the Bank maintains the sufficient amount of liquid assets for fulfilling obligations. The main source of funding of the Bank is funds on demand. Current accounts form more than 90% of the Bank's deposits, which is balanced with a great share of liquid assets (as of

31.12.2021, approximately 60% is formed by cash register, funds at the Bank of Latvia, and liquid money market instruments). The liquidity indicator as of 31.12.2021 amounted to 62.28%. In 2021, no significant violations of the Bank's internal and external liquidity limits were detected. The results of stress tests performed by the Bank have shown that additional measures stipulated in the Bank's Liquidity Crisis Overcoming Plan and the Bank's liquid reserves will be able to ensure the Bank's liquidity and the fulfilment of internal and external indicators in various crisis scenarios.

The general principles of the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) as measurements of the liquidity position are defined in the Regulation (EC) No 575/2013. The Commission Delegated Regulation (EU) 2015/61 defines general LCR calculation principles in more details. The minimum LCR requirement is 100% and it represents the amount of liquidity available to cover calculated net future liquidity outflows.

EU LIQ1 - Quantitative information of LCR (eur):

Group		a	b	c	d	e	f	g	h
		Total unweighted value (average)				**Total weighted value (average)**			
EU 1a	Quarter ending on	**31.12.2021**	**30.09.2021**	**30.06.2021**	**31.03.2021**	**31.12.2021**	**30.09.2021**	**30.06.2021**	**31.03.2021**
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High - quality liquid assets									
1	Total high-quality liquid assets (HQLA)					115 031 992	116 641 518	111 994 288	114 634 157
Cash - outflows									
2	Retail deposits and deposits from small business customers, of which:	56 235 766	60 545 916	66 065 940	68 147 497	9 027 932	9 801 971	10 837 976	11 109 945
3	*Stable deposits*								
4	*Less stable deposits*	56 235 766	60 545 916	66 065 940	68 147 497	9 027 932	9 801 971	10 837 976	11 109 945
5	Unsecured wholesale funding	120 002 582	116 808 296	109 592 299	113 881 392	65 724 793	64 505 935	61 716 652	63 357 995
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*								
7	*Non-operational deposits (all counterparties)*	120 002 582	116 808 296	109 592 299	113 881 392	65 724 793	64 505 935	61 716 652	63 357 995
8	*Unsecured debt*								
9	*Secured wholesale funding*					-	-	-	-
10	Additional requirements	22 452 642	18 619 791	18 559 862	18 990 833	2 246 709	1 863 314	1 861 545	1 909 248
11	*Outflows related to derivative exposures and other collateral requirements*	1 606	1 483	6 177	11 294	1 606	1 483	6 177	11 294
12	*Outflows related to loss of funding on debt products*								
13	*Credit and liquidity facilities*	22 451 037	18 618 308	18 553 685	18 979 539	2 245 104	1 861 831	1 855 369	1 897 954
14	Other contractual funding obligations	4 806 535	3 826 386	2 632 457	1 499 724	247 936	199 271	139 829	83 168
15	Other contingent funding obligations	2 987 893	2 662 364	2 727 043	1 447 751	2 987 893	2 662 364	2 727 043	1 447 751

16	**Total cash outflows**					80 235 264	79 032 854	77 283 045	77 908 106
Cash - inflows									
17	Secured lending (e.g. reverse repos)								
18	Inflows from fully performing exposures	30 642 167	30 870 925	29 278 601	30 698 815	26 155 064	26 349 918	24 991 729	26 150 072
19	Other cash inflows								
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)								
EU-19b	(Excess inflows from a related specialised credit institution)								
20	**Total cash inflows**	30 642 167	30 870 925	29 278 601	30 698 815	26 155 064	26 349 918	24 991 729	26 150 072
EU-20a	*Fully exempt inflows*								
EU-20b	*Inflows subject to 90% cap*								
EU-20c	*Inflows subject to 75% cap*	30 642 167	30 870 925	29 278 601	30 698 815	26 155 064	26 349 918	24 991 729	26 150 072
Total adjusted value									
EU-21	Liquidity buffer					115 031 992	116 641 518	111 994 288	114 634 157
22	Total net cash outflows					54 080 200	52 682 936	52 291 316	51 758 034
23	Liquidity coverage ratio					212.71%	221.40%	214.17%	221.48%

The Group is primarily deposit funded, therefore the dynamics of the liquidity coverage ratio is mainly influenced by the activities of depositors, i.e. inflows and outflows, and corresponding changes in high-quality liquid assets. In the deposit portfolio as of 31.12.2021. almost 70% are deposits of legal entities, 30% - deposits of natural persons. Liquidity reserves mainly consist of balances with the Bank of Latvia and high-quality debt securities.

The value of the liquidity coverage ratio has not changed significantly during the reporting period.

EU LIQ2: Net Stable Funding Ratio (eur):

		a	b	c	d	e
		Unweighted value by residual maturity				**Weighted value**
		No maturity	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	
Available stable funding (ASF) Items						
1	Capital items and instruments				38 835 182	38 835 182
2	*Own funds*				38 835 182	38 835 182
3	*Other capital instruments*					
4	Retail deposits		54 680 668	3 922 145	1 595 512	54 338 044
5	*Stable deposits*					
6	*Less stable deposits*		54 680 668	3 922 145	1 595 512	54 338 044
7	Wholesale funding		145 536 426	3 276 609	718 964	58 615 292
8	*Operational deposits*					
9	*Other wholesale funding*		145 536 426	3 276 609	718 964	58 615 292
10	Interdependent liabilities					
11	Other liabilities:		1 081 968		50 025	50 025
12	*NSFR derivative liabilities*					
13	*All other liabilities and capital instruments not included in the above categories*		1 081 968		50 025	50 025
14	**Total available stable funding (ASF)**					151 838 543
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					
EU-15a	Assets encumbered for more than 12m in cover pool					
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:		61 350 970	5 996 521	52 530 150	61 772 923
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*					

19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		39 317 610	1 500 626	4 468 604	9 161 554
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		16 921 001	3 219 761	47 760 155	50 749 253
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*					
22	*Performing residential mortgages, of which:*		32 753	34 334	57 879	
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*					
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		5 079 606	1 241 800	243 512	1 862 116
25	Interdependent assets					
26	Other assets:		2 720 724	2 022 768	17 390 311	20 869 096
27	*Physical traded commodities*				1 763 453	1 498 935
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*					
29	*NSFR derivative assets*					
30	*NSFR derivative liabilities before deduction of variation margin posted*					
31	*All other assets not included in the above categories*		2 720 724	2 022 768	15 626 858	19 370 161
32	**Off-balance sheet items**		4 277 221	18 251 004	29 125 206	2 779 846
33	**Total RSF**					85 421 865
34	**Net Stable Funding Ratio (%)**					177.75%

Credit Risk, Residual Risk and Quality of the Loan portfolio

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 fulfil 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.

Lending is the primary area of the Bank's activity. The Bank has developed and regularly updates the Credit Risk Management Strategy that stipulates the following:

- ensuring compliance to the Bank's strategic goals set by the Council of the Bank;
- maintaining the Bank's equity capital and liquidity reserves at the sufficient level for covering the Credit Risk and the liquidity risk;
- creating the suitable Credit Risk management system and ensuring its efficient functioning, including the following:
    - developing a set of documents laying down the responsibility of the management in the process of Credit Risk management, including for the creation of an effective environment for managing the Credit Risk;
    - defining comprehensible and clear criteria for the disbursement of loans;
    - creating and maintaining an efficient system for the asset quality assessment;
    - ensuring the appropriate control of the Credit Risk with regard to the Bank and the Group;
    - ensuring the constant control and administration of loans, the assessment and analysis of the Credit Risk, its monitoring.

The Bank develops and regularly updates the documents regulating the Credit Risk management, which allow identifying, assessing, analysing, and managing the Credit Risk in a timely manner, taking into account the interaction with other risks inherent to the Bank's operations.

To implement the Credit Risk Management Strategy, the Bank develops and constantly improves internal regulatory documents on the Credit Risk management, which are the integral elements of implementing this Strategy and generally determine the following:

- the permissible level of the Credit Risk and the profit that the Bank wishes to gain, taking into account the respective Credit Risk;
- the capital necessary for covering the Credit Risk;
- types of Loans offered by the Bank;
- sectors of the national economy and the geographical risk of a Loan;
- the permissible level of concentration, currencies, terms, and return of various types of Loans;
- basic principles of classification of Loans according to their quality;
- the preferable level of quality of Loans and the increase or reduction of the total volume of Loans;
- stipulated methods of minimising the Credit Risk.

The Bank uses the following as the main methods of managing and minimising the Credit Risk:

- the determination of the Customer's creditworthiness class and the level of risk assumed by the Bank;
- the control of the credit portfolio structure;
- the collateral of Loans and its insurance;
- the classification (assessment) of Loans;
- the administration and control (monitoring) of Loans.

To ensure the efficient monitoring of Loan quality and determining the level of the assumed risk, the Bank uses an internal rating system based on the point scale for determining the Customer's creditworthiness class. To ensure the compliance of the internal rating to the quality of a Loan, the Bank revises the internal rating assigned to the Customer on a regular basis. With regard to the Loans, the quality of which has deteriorated significantly, the Bank considers a possibility of performing forbearance or developing a Loan recovery plan.

The control of the general structure of the credit portfolio includes the determination of the diversification level and permissible concentrations. The maximum amount of the credit portfolio depends on the volume of free credit resources, i.e., on the amount of long-term liabilities and the equity capital, availability of alternative types of investment of funds.

The Bank, considering the possibility of disbursing a loan or performing another transaction subject to the Credit Risk, assesses the availability of free funds in breakdown by limits determined for various types of concentrations, the current and planned volume of the equity capital and/or first-level capital.

Depending on the type of collateral of a Loan, limits are set for the maximum amount of an exposure from the amount of the collateral. The collateral of a Loan, except land, securities, receivables, and other intangible assets, is subject to insurance in favour of the Bank for the validity term of a Loan Agreement (prolonging insurance policies during the entire validity period of the Loan Agreement).

The Bank, considering the possibility of disbursing a Loan, assesses the Customer’s creditworthiness. The availability of a collateral does not replace the performance of the Customer’s creditworthiness assessment and the obtaining of necessary information.

To recognise the collateral offered for a pledge as an acceptable, the Bank verifies the documents certifying the establishment of the Customer’s ownership right to the pledge. This allows minimising the Bank’s risks related to the alienation of the offered pledge and/or recognition of the respective pledge agreements as invalid.

In the event the only source of recovery of a Loan is the disposal of the collateral, the Bank monitors changes in the market value and liquidity of the collateral to control the risks related to the fluctuations of market prices, as well as the possibility of covering loan obligations in the event of disposal (either voluntary or compulsory) of the collateral. The Bank critically assesses the collateral appraisals submitted by external appraisers, as well as assesses the experience and reputation of external appraisers on the market.

The classification of Loans is the assessment of Loans, according to which loans are classified into three stages in accordance with IFRS 9 and the internal Instruction on the Assessment of Assets and Off-Balance Liabilities of the Bank and the Calculation of Provisions for Impairment:

- loans not subject to the significant increase of the Credit Risk;
- loans subject to the significant increase of the Credit Risk;
- loans in default.

Administration and control of Loans: the Bank monitors the fulfilment of terms and conditions of the Loan Agreement by the Customers, changes in the financial position of the Customer, and the condition of the collateral. Monitoring is aimed at disciplining Customers and preventing them from violating the terms and conditions of the Loan Agreement, identifying possible bad Loans, assessing Customers in terms of possible further cooperation, inter alia, monitoring of the following is ensured:

- financial position and creditworthiness;
- fulfilment of terms and conditions of an agreement (incl. with regard to the use of a Loan according to the set goal; covenants);
- sufficiency of the collateral, incl. taking into account changes in the market and development trends;
- regular analysis and monitoring of insurer limits in cases where the method of reducing the Credit Risk is the insurance of debtors’ default and the insolvency risk;
- delayed payments and other signs suggesting the deterioration of Loans are identified in a timely manner and used as the basis for including a Customer on the watch list.

Bank’s products in the area of lending are oriented towards working with Customers from the medium and large business segment. The Bank has identified the following sectors as the priority segments for lending for the upcoming years:

- wholesale and retail trade;
- transport;
- logistics and storage;
- forestry and wood processing;
- construction, incl. infrastructure objects;
- real estate;
- hotel business;
- services;
- agriculture.

In the sectors not included on the Bank’s list of priorities, the implementation of individual projects is possible based on an individual risk assessment, depending on the customer’s creditworthiness, reliability of a collateral, as well as based on the analysis of the current market situation in a particular industry and taking into account the development forecasts of the industry. When examining the disbursement of a potential new Loan or revising the terms of the already existing Loan, the area of financing, wherein the Customer is operating, is analysed as well.

The Bank pays special attention to cooperation with customers who operate in high-risk commercial activities. In the gambling segment, the Bank may provide only guarantees related to the requirements for obtaining a license, if they are 100% secured with funds and if the necessary in-depth customer and money source research required for the placement of funds in the form of collateral has been successfully completed in accordance with the requirements of the applicable (national) legislation and the Bank's internal regulatory documents.

Based on the responsible banking principles, the Bank is interested in supporting projects oriented towards the “Green Deal” and the climate neutrality, i.e., supporting lending projects supporting the “Green Deal”, such as clean energy production and consumption, construction and repair, sustainable industry, circular economy, sustainable mobility, combating pollution, biodiversity, etc.

The Bank regularly, at least twice a year, identifies and assesses ESG risk, in relation to its clients’ loan exposures and their collateral in the Bank's loan portfolio. In addition, the Bank identifies and assesses this risk each time a loan project is reviewed by the Credit Committee or the Problem Loan Committee.

The Bank divides and controls its Credit Risk by setting various types of limits and in various breakdowns, the main of which are: limits of the acceptable risk for each Customer / group of interrelated Customers, geographical regions, business sectors, types and amounts of collaterals. In implementing the Asset Risk Minimisation Strategy, the Bank may choose certain forms of concentration instead of diversification, e.g., by creating concentrations of high-quality assets.

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 disposed 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 over other creditors of the owner's assets (or over those creditors' rights which are in a more privileged position with respect to 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 Bank Pivdenny's claims

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

- time deposits placed with 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;
- accounts receivable (as a totality of objects;
- 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 equipment and machineries shall be determined, according to the balance sheet residual value of the equipment, 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 large, then the documents, confirming the purchase value of this fixed asset, should be checked.

The collateral (movable or immovable objects) 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.

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 that reflects the effect of the respective risks on the Bank's assets and equity capital. Capital requirement for market risk is calculated according to the standardized approach.

Template KM1 – Market risk under standardised approach (eur):

		a
		RWA
	Outright products	
1	Interest rate risk (general and specific)	101 688
2	Equity risk (general and specific)	15 800
3	Foreign exchange risk	1 892 563
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus method	
7	Scenario approach	
8	Securitisation	
9	**Total**	2 010 051

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 +/-50/-+/-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 2018, 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.

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.

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.

The basic elements of the operational risk management:

- identification and measurement of operational risk;
- 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.

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.

Monitoring of the Operational Risk means monitoring activities/procedures performed with the aim to manage the Operational Risk in changing conditions, quickly identify and eliminate any shortcomings (discrepancies) in processes and procedures, which might have a negative impact on the financial position of the Bank.

The main elements of the Operational Risk monitoring are the following:

- controlling the fulfilment of risk indicator limits;
- monitoring the processes of implementing new products/services;
- monitoring the Database of Operational Risk Incidents and Losses;
- monitoring and analysing Operational Risk Incidents in the banking sector;
- monitoring weaknesses in the Operational Risk management, identified in the process of assessment.

The main method of minimising the Operational Risk are the following:

- development of internal regulatory documents of the Bank that exclude/minimise the possibility of occurrence of an Operational Risk Incident;
- for the purpose of minimising the Operational Risk, enhanced attention is paid to the observance of the obligation distribution principle.

The main methods of controlling the Operational Risk are:

- controlling the observance of internal limits;
- observing the set procedures in using IT resources and other resources of the Bank;
- ensuring the appropriate training of Bank's employees;
- regularly verifying documents on transactions and accounts.

The Board and the Council of the Bank examine a report on the Operational Risk management at the Bank on a regular basis, at least once a year (incl. information about the amounts and tendencies of the Operational Risk, impact of the risk on the amount of capital and capital adequacy of the Bank, other necessary information for adopting decisions).

The Board of the Bank regularly examines reports related to the Operational Risk management and, based thereon, gives instructions to the structural units of the Bank to carry out necessary activities for improving the Operational Risk management, inter alia: examines information about the occurrence of Operational Risk Incidents and potential Operational Risk Incidents at the Bank and in the banking sector, the reasons and amounts of losses recorded in the Database of Operational Risk Incidents and Losses of the Bank, planned activities for improving the situation and/or improving efficiency, a report on the fulfilment of set limits, and other topical information at least once a quarter.

To calculate the capital requirement for the Operational Risk, the Bank uses principal indicator method.

Template EU OR1 – Operational risk own funds requirements and risk-weighted exposure amounts (eur):

	a	b	c	d	e
Banking activities	**Relevant indicator**			**Own funds requirements**	**Risk exposure amount**
	Year-3	**Year-2**	**Last year**		
Banking activities subject to basic indicator approach (BIA)	10 928 968	7 583 201	6 622 369	1 256 757	15 709 088

Note: the table shows audited data.

The Bank carries out the stress testing of the Operational Risk on a regular basis, at least once a year.

A remuneration policy and practice

The Council of the Bank is the main structural unit supervising remuneration. In 2021, the Council of the Bank conducted 37 meetings. The Council of the Bank determines and approves the fundamental principles of the Remuneration Policy; is responsible for introduction of the Policy and monitoring of its observance in the internal processes of the Bank; determines remuneration for members of the Board of the Bank, Head of the Internal Audit Department, Head and employees of the Compliance Department, the Chief Risk Officer, heads of representative offices of the Bank and members of the board and of the council of subsidiary companies, as well as for employees whose remuneration is equal to or exceeds the lowest remuneration set for any of the members of the Bank's Board; approves the Internal Audit Action Plan on compliance of introduction and observance of the Remuneration Policy to the approved fundamental principles; lays down the procedures pursuant to which reports on performed inspections of internal control functions and their results are submitted to the Council of the Bank, as well as on the effects of the Remuneration Policy on the Bank's risk profile and the quality of risk management.

The Remuneration Policy is binding to all employees of the Bank and the Bank's subsidiary companies, as well as employees of representative offices of the Bank, in so far it does not contradict the requirements of laws and regulations of a particular country.

Once a year, the Board or a work group created by the Board of the Bank carries out a self-assessment to identify the employees whose professional activity affects or might significantly affect the risk profile of the Bank. The identification of employees is carried out in accordance with Article 92(3) of Directive 2013/36/EU of the European Parliament and of the Council, and the qualitative and quantitative criteria determined in Commission Delegated Regulation (EU) 2021/923 of 25 March 2021, as well as includes an additional criterion: employee's responsibility for the area wherein a fine might be imposed on the Bank exceeding 0.5% of the first-level capital of the Bank.

The Bank has identified the following categories of positions whose professional activity affects significantly the risk profile:

- members of the Council and of the Board;
- heads of structural units fulfilling internal control functions;
- members of committees of the Bank;
- employees ensuring the provision of investment services, taking into account Article 3, Paragraphs four and five of the Financial Instrument Market Law;
- heads of structural units fulfilling corporate functions;
- Head of the Money Laundering Prevention Department / Sanctions Officer;
- Head of the Customer Activity Monitoring Division;
- heads of business structural units;
- Data Protection Officer.

The goal of the Remuneration Policy is to determine the basic principles of remuneration for the Bank's employees according to the Bank's strategy, areas of the Bank's operations, and the Bank's risk profile, as well as to attract and retain the best employees. The task of the Remuneration Policy is to determine such a remuneration system at the Bank, which would ensure conformity of remuneration to the employee's performance, coherence and fairness of remuneration at the Bank, conformity and competitiveness of remuneration in the labour market. A decision on the determination of the fixed and variable remuneration for identified employees (heads of structural units fulfilling internal control functions, members of the Board) is adopted by the Council of the Bank; in turn, the Board of the Bank adopts a decision with regard to the remaining risk profile positions. For the purpose of assessing the performance of identified employees, Goal Maps are used and the achievement of results determined in the Goal Maps is assessed.

The Remuneration Policy is revised once a year. The latest amendments were introduced to the Remuneration Policy on December 30, 2021, updating it in accordance with Commission Regulation No 154 of November 16, 2021 "Regulations on Remuneration Policy and Practice", determining the highest limit of the fixed remuneration, supplementing with conditions concerning the reduction of the variable remuneration and documentation of assessments, as well as the performance of the conformity assessment of the Remuneration Policy, and the preparation and submission of information about remuneration policy and practice.

Remuneration for employees who fulfil internal control functions is determined according to the attainment of goals set for internal control functions, regardless of achieved performance results in the areas of activity controlled by internal control functions.

The Bank has determined that the determination of the guaranteed variable remuneration does not comply with cautious risk management and cannot be stipulated in future remuneration plans. The guaranteed variable remuneration can be determined only by way of exception in cases of hiring of new employees during the first year of work, unless it prohibits the Bank from maintaining the appropriate capital base. If the internal regulatory documents of the Bank stipulate a compensation that exceeds the amounts of severance payments determined in the Labour Law of the Republic of Latvia in case of termination of an employment contract, upon adopting a decision on the severance payment the respective severance payment shall be agreed by the Council; likewise, it is necessary to take into account the mistakes and shortcomings made by employees holding positions that affect the risk profile during the period of activity or information regarding the unduly performed professional activity.

Prior to obtaining the irrevocable right to the deferred share of the variable remuneration, it is adjusted (reduced) if necessary, taking into account the risks included in the initial calculation, which have become known during the period, for which the variable remuneration was deferred, and which are related to the work results, for the achievement of which the deferred share of the variable remuneration was determined. The remuneration process takes into account all significant current and future risks that may adversely affect the Bank's financial results (credit risks, operational risks, reputation risks and other risks).

The highest limit of the variable remuneration can be determined at 46% of the fixed remuneration during the reporting year, unless a different maximum highest limit of the variable remuneration has been determined by an individual decision of the shareholders' meeting.

To assess employee's performance results, individual / structural unit's / Bank's Goal Maps can be developed, including therein quantitative (financial targets (for example, fulfilment of the budget, profit, liquidity, and other indicators), customer service targets (for example, internal/external customer satisfaction indicators, attraction of new customers, etc.), process goals (for example, indicators of observance of normative acts, i.e., indicators of observance of external/internal normative acts and limits, which can affect the Bank's risk profile and financial indicators respectively, etc.)) and qualitative goals (for example, professional improvement, project/field management to develop particular competence, the variability indicator of structural unit's employees, satisfaction of structural unit's employees with work, etc.).

For the purpose of calculating the variable remuneration for identified employees, the individual employee's performance results are taken into account in combination with the assessment of performance of a structural unit or area, for the operation of which the employee is responsible, and in combination with general performance results at the level of the Bank, as well as assessments expressed by experts, for example, Bank's employees who control risks, on performance.

If any risks to the financial stability in future are identified in the process of the Bank's activity, the Council of the Bank may adopt a decision on reducing the variable remuneration, deferring a larger variable remuneration for a period longer than that specified in the Policy.

Upon adopting a decision on the granting of the variable remuneration, the performance indicators of the previous reporting period are taken into account in assessing performance.

If the variable remuneration for identified employees is determined in the amount of 10% up to 35% of the fixed remuneration of the respective employee during the reporting year, up to 40% of the variable remuneration is deferred for one year according to the amount of the deferred part set for the respective identified employee. If the variable remuneration for identified employees is determined in the amount of 35% up to 46% of the fixed remuneration of the respective employee during the reporting year, 40% of the variable remuneration is deferred for three years according to the amount of the deferred part set for the respective risk profile position.

Identified employees are provided with the following payments of the variable remuneration and the conditions of the irrevocable right there to:

- the variable remuneration, including the deferred part, is paid out or the irrevocable right thereto is granted to an employee according to the Bank's operation cycle and the risks of its operations, as well as in the event the payment corresponds to the Bank's financial position and the performance of the Bank, the employee holding the position that affects the risk profile, and the respective structural unit;
- if the Bank's financial results worsen or are negative, the total amount of the variable remuneration (including the deferred part) is reduced;
- if the variable remuneration is granted for work results based on the data that later turned out to be knowingly distorted (malicious act), the Bank requests the respective employee to refund

the paid variable remuneration and reduces, either fully or partially, the variable remuneration, which was deferred;

- the Bank reduces the deferred part of the variable remuneration, to which no irrevocable right was obtained, based on actual work results;
- the irrevocable right to the deferred part of the variable remuneration is obtained in proportion to the period (number of years), for which the variable remuneration was deferred, but no sooner than in 12 months after the variable remuneration was determined. Prior to obtaining the irrevocable right to the deferred share of the variable remuneration, it is adjusted (reduced) if necessary, taking into account the risks included in the initial calculation, which have become known during the period, for which the variable remuneration was deferred, and which are related to the work results, for the achievement of which the deferred share of the variable remuneration was determined;
- in adjusting the variable remuneration, situations in which the respective employee participated and the fact whether the employee was responsible for actions that resulted in significant losses for the Bank, or the situations in which the respective employee did not conform to the respective suitability and compliance standards are assessed;
- the deferred part of the variable remuneration can actually be paid to an employee only once vested with the irrevocable right thereto.

Table 1.Template EU REM1 – Remuneration awarded for the financial year (eur):

			a	b	c	d
			MB Supervisory function	**MB Management function**	**Other senior management**	**Other identified staff**
1	**Fixed remuneration**	Number of identified staff	5	5	9	13
2		**Total fixed remuneration**	179 557	479 665	549 125	356 872
3		of which: cash-based	179 557	479 665	549 125	356 872
4		(not applicable in the EU)				
EU-4a		of which: shares or equivalent ownership interests	-	-	-	-
5		of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-5x		of which: other instruments	-	-	-	-
6		(not applicable in the EU)				
7		of which: other forms	-	-	-	-
8		(not applicable in the EU)				
9	**Variable remuneration**	Number of identified staff		5	5	2
10		**Total variable remuneration**		93 036	34 319	12 658
11		of which: cash-based	-	55 822	31 482	12 658
12		of which: deferred	-	37 214	2 837	
EU-13a		of which: shares or equivalent ownership interests	-	-	-	-
EU-14a		of which: deferred	-	-	-	-
EU-13b		of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14b		of which: deferred	-	-	-	-

EU-14x		of which: other instruments	-	-	-	-
EU-14y		of which: deferred	-	-	-	-
15		of which: other forms	-	-	-	-
16		of which: deferred	-	-	-	-
17	**Total remuneration (2 + 10)**		179 557	572 701	583 444	369 530

Table 2.Template EU REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff):

		a	b	c	d
		MB Supervisory function	**MB Management function**	**Other senior management**	**Other identified staff**
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards – Number of identified staff	-	-	-	-
2	Guaranteed variable remuneration awards – Total amount	-	-	-	-
3	of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year – Number of identified staff	-	-	-	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year – Total amount	-	-	-	-
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year – Number of identified staff				1
7	Severance payments awarded during the financial year – Total amount				*
8	of which paid during the financial year				*
9	of which deferred				
10	of which severance payments paid during the financial year, that are not taken into account in the bonus cap				
11	of which highest payment that has been awarded to a single person				*

**) Observing the principles of personal data protection (data would be provided for 1 particular person), information about the employee's remuneration cannot be disclosed.*

Table 3.Template EU REM3 – Deferred remuneration (eur):

		a	b	c	d	e	f	EU – g	EU – h
	Deferred and retained remuneration	**Total amount of deferred remuneration awarded for previous performance periods**	**Of which due to vest in the financial year**	**Of which vesting in subsequent financial years**	**Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year**	**Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years**	**Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)**	**Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year**	**Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods**
1	**MB Supervisory function**	-	-	-	-	-	-	-	-
2	Cash-based	-	-	-	-	-	-	-	-
3	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
4	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
5	Other instruments	-	-	-	-	-	-	-	-
6	Other forms	-	-	-	-	-	-	-	-
7	**MB Management function**	148 700		148 700					
8	Cash-based	148 700		148 700					
9	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
10	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-

11	Other instruments	-	-	-	-	-	-	-	-
12	Other forms	-	-	-	-	-	-	-	-
13	**Other senior management**	22 838	20 001	2 837	20 001				
14	Cash-based	22 838	20 001	2 837	20 001				
15	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
16	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
17	Other instruments	-	-	-	-	-	-	-	-
18	Other forms	-	-	-	-	-	-	-	-
19	**Other identified staff**								
20	Cash-based								
21	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
22	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
23	Other instruments	-	-	-	-	-	-	-	-
24	Other forms	-	-	-	-	-	-	-	-
25	**Total amount**	171 538	20 001	151 537	20 001	-	-	-	-

The report has been approved

Head of the board AS "Reģionālā investīciju banka" A. Jakovlevs

31st of March, 2022