



Balance sheet

AS "Reģionālā investīciju banka"

June 30, 2019

(last day of the reporting period)

| No | Position | 30.06.2019 Bank unaudited | 30.06.2019 Group unaudited | 31.12.2018 Bank audited | 31.12.2018 Group audited |
|-----|---|---------------------------------|----------------------------------|-------------------------------|--------------------------------|
| 1. | Cash and balances due from central banks | 75 865 875 | 75 865 875 | 95 088 745 | 95 088 745 |
| 2. | Balances due from credit institutions | 13 662 307 | 13 662 307 | 22 484 025 | 22 484 025 |
| 3. | Financial assets designated at fair value through profit or loss | 19 253 204 | 19 253 204 | 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 | 94 688 158 | 91 372 200 | 109 908 800 | 107 146 825 |
| 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 | 13 403 203 | 13 403 203 | 13 460 695 | 13 460 695 |
| 10. | Intangible assets | 470 053 | 470 053 | 502 886 | 502 886 |
| 11. | Tax assets | 1 575 | 1 575 | 278 648 | 278 648 |
| 12. | Other assets | 10 772 202 | 20 517 714 | 9 389 346 | 18 593 450 |
| 13. | Non-current assets and disposal groups classified as held for sale | 0 | 0 | 0 | 0 |
| 14. | Total assets (1.+.....+13.) | 234 500 660 | 234 830 214 | 282 746 714 | 283 088 843 |
| 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 | 199 007 902 | 199 007 879 | 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 | 662 369 | 661 500 | 878 001 | 878 000 |
| 22. | Tax liabilities | | | | |
| 23. | Other liabilities | 579 270 | 580 328 | 2 962 891 | 2 987 488 |
| 24. | Liabilities included in disposal groups classified as held for sale | 0 | 0 | 0 | 0 |
| 25. | Total liabilities (15.+...+24.) | 200 249 541 | 200 249 707 | 250 444 685 | 250 462 098 |
| 26. | Equity and reserves | 34 251 119 | 34 580 507 | 32 302 029 | 32 626 745 |
| 27. | Total equity and reserves, and liabilities (25.+26.) | 234 500 660 | 234 830 214 | 282 746 714 | 283 088 843 |
| 28. | Off-balance sheet items | | | | |
| 29. | Contingent liabilities | 5 961 549 | 5 961 549 | 6 934 513 | 6 934 513 |
| 28. | Commitments | 13 589 252 | 13 026 303 | 11 552 260 | 11 547 703 |

Profit and Loss Account

June 30, 2019

(last day of the reporting period)

| No | Position | 6 months 2019 Bank unaudited | 6 months 2019 Group unaudited | 6 months 2018 Bank unaudited | 6 months 2018 Group unaudited |
|-----|--|---------------------------------------|--|---------------------------------------|--|
| 1. | Interest income | 3 806 291 | 3 748 151 | 4 737 638 | 4 687 096 |
| 2. | Interest expense (-) | -1 351 350 | - 1 351 350 | -1 715 300 | -1 715 300 |
| 3. | Income from dividends | 2 513 | 2 513 | 1 874 | 1 874 |
| 4. | Commission income | 2 305 207 | 2 305 153 | 3 245 852 | 3 245 675 |
| 5. | Commission expense (-) | -237 359 | -237 438 | -459 322 | -459 322 |
| 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 (+/-) | 471 091 | 471 091 | 1 840 723 | 1 840 723 |
| 8. | Net gains or (-) losses from hedge accounting (+/-) | 0 | | 0 | 0 |
| 9. | Exchange differences [gain or (-) loss], net (+/-) | 122 707 | 122 707 | -638 194 | -638 194 |
| 10. | Net gains or (-) losses on derecognition of non financial assets (+/-) | 27 322 | 27 322 | -386 942 | -386 942 |
| 11. | Other operating income | 117 440 | 196 295 | 2 203 399 | 2 281 235 |
| 12. | Other operating Expenses (-) | -123 327 | -123 327 | -148 463 | -148 497 |
| 13. | Administrative expense (-) | -3 686 547 | -3 713 093 | -3 925 328 | -3 971 761 |
| 14. | Depreciation (-) | -266 268 | -266 268 | -272 846 | -272 846 |
| 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 (-/+) | -588 | -588 | 5 005 | 5 005 |
| 17. | Impairment or (-) reversal of impairment (-/+) | 829 539 | 840 175 | -1 896 114 | -1 896 114 |
| 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. | Profit/loss before corporate income tax calculation (+/-) | 2 016 671 | 2 021 343 | 2 591 982 | 2 572 632 |
| 22. | Corporate income tax | -67 581 | -67 581 | -374 189 | -381 076 |
| 23. | Profit/losses for the period (+/-) | 1 949 090 | 1 953 762 | 2 217 793 | 2 191 556 |
| 24. | Other comprehensive income for the period (+/-) | 95 111 | 95 111 | 45 970 | 45 970 |

Key ratios of the Consolidated group and the Bank

June 30, 2019

(last day of the reporting period)

| Position | Bank 30.06.2019 | Consolidated group 30.06.2019 | Bank 30.06.2018 | Consolidated group 30.06.2018 |
|----------------------------|--------------------|----------------------------------|--------------------|----------------------------------|
| Return on Equity (ROE) (%) | 11.55 | 11.47 | 12.35 | 12.28 |
| Return on Assets (ROA) (%) | 1.49 | 1.49 | 1.34 | 1.32 |

Group Consolidation

June 30, 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

June 30, 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. | Own funds (1.1.+1.2.) | C 01.00 1 | 46 647 117 | 46 977 933 |
| 1.1. | Tier 1 capital (1.1.1.+1.1.2.) | C 01.00 1.1. | 36 764 439 | 37 095 255 |
| 1.1.1. | Common equity Tier 1 capital | C 01.00 1.1.1. | 36 764 439 | 37 095 255 |
| 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. | 9 882 678 | 9 882 678 |
| 2. | Total Risk Exposure Amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.) | C 02.00 1. | 167 757 578 | 170 368 458 |
| 2.1. | Risk Weighted Exposure Amounts for Credit, Counterparty Credit and Dilution Risks and Free Deliveries | C 02.00 1.1. | 135 767 990 | 138 348 945 |
| 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. | 3 287 925 | 3 287 925 |
| 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. | Capital adequacy ratios and capital levels | | | |
| 3.1. | Common equity Tier 1 capital ratio (1.1.1./2.*100) | C 03.00 1. | 21.92 | 21.77 |
| 3.2. | Surplus(+)/Deficit(-) of Common equity Tier 1 capital (1.1.1.-2.*4,5%) | C 03.00 2. | 29 215 348 | 29 428 674 |
| 3.3. | Tier 1 capital ratio (1.1./2.*100) | C 03.00 3. | 21.92 | 21.77 |
| 3.4. | Surplus(+)/Deficit(-) of Tier 1 capital (1.1.-2.*6%) | C 03.00 4. | 26 698 984 | 26 873 148 |
| 3.5. | Total capital ratio (1./2.*100) | C 03.00 5. | 27.81 | 27.57 |
| 3.6. | Surplus(+)/Deficit(-) of Total capital (1.-2.*8%) | C 03.00 6. | 33 226 511 | 33 348 456 |
| 4. | Combined buffer requirements (4.1.+4.2.+4.3.+4.4.+4.5.) | C 04.00 27. | 4 212 380 | 4 277 347 |
| 4.1. | Capital conservation buffer | | 4 193 939 | 4 259 211 |
| 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 | | 18 441 | 18 136 |
| 4.4. | Systemic risk buffer | | 0 | 0 |

| | | | | |
|------|--|----------------|-------|-------|
| 4.5. | Other Systemically Important Institution buffer | | 0 | 0 |
| 5. | Capital adequacy ratios, including adjustments | | | |
| 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 | 21.92 | 21.77 |
| 5.3. | Tier 1 capital ratio with adjustment specified in row 5.1 | C 03.00 9. | 21.92 | 21.77 |
| 5.4. | Total capital ratio with adjustment specified in row 5.1 | C 03.00 11. | 27.81 | 27.57 |

II. Information on Equity Capital and Capital Adequacy Ratios, where a Credit Institution Applies Transition Period to Reduce IFRS 9 Effect on Equity Capital June 30, 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 | 41 689 016 | 42 019 832 |
| 1.1.A | Tier 1 capital, if IFRS 9 transition arrangements were not applied | 31 806 338 | 32 137 154 |
| 1.1.1.A | Common equity Tier 1 capital, if IFRS 9 transitional arrangements were not applied | 31 806 338 | 32 137 154 |
| 2.A | Total risk exposure amount, if IFRS 9 transitional arrangements were not applied | 162 854 392 | 165 469 494 |
| 3.1.A | Common equity Tier 1 capital ratio, if IFRS 9 transitional arrangements were not applied | 19.53 | 19.42 |
| 3.3.A | Tier 1 capital ratio, if IFRS 9 transitional arrangements were not applied | 19.53 | 19.42 |
| 3.5.A | Total capital ratio, if IFRS 9 transitional arrangements were not applied | 25.60 | 25.39 |

Liquidity Coverage Ratio Calculation

June 30, 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 | 88 825 870 | 88 825 870 |
| 2. | Net Liquidity Outflow | 60 582 324 | 60 583 377 |
| 3. | Liquidity coverage ratio (%) | 146.62 | 146.62 |

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

June 30, 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 | 914 760 | 4 234 988 | 11 897 779 | 904 297 | 4 234 988 | 11 897 779 |
| of which for standby credit facilities | 128 398 | 6 476 | 0 | 127 529 | 6 476 | 0 |
| of which for guarantees | 1 001 | 0 | 0 | 1 001 | 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

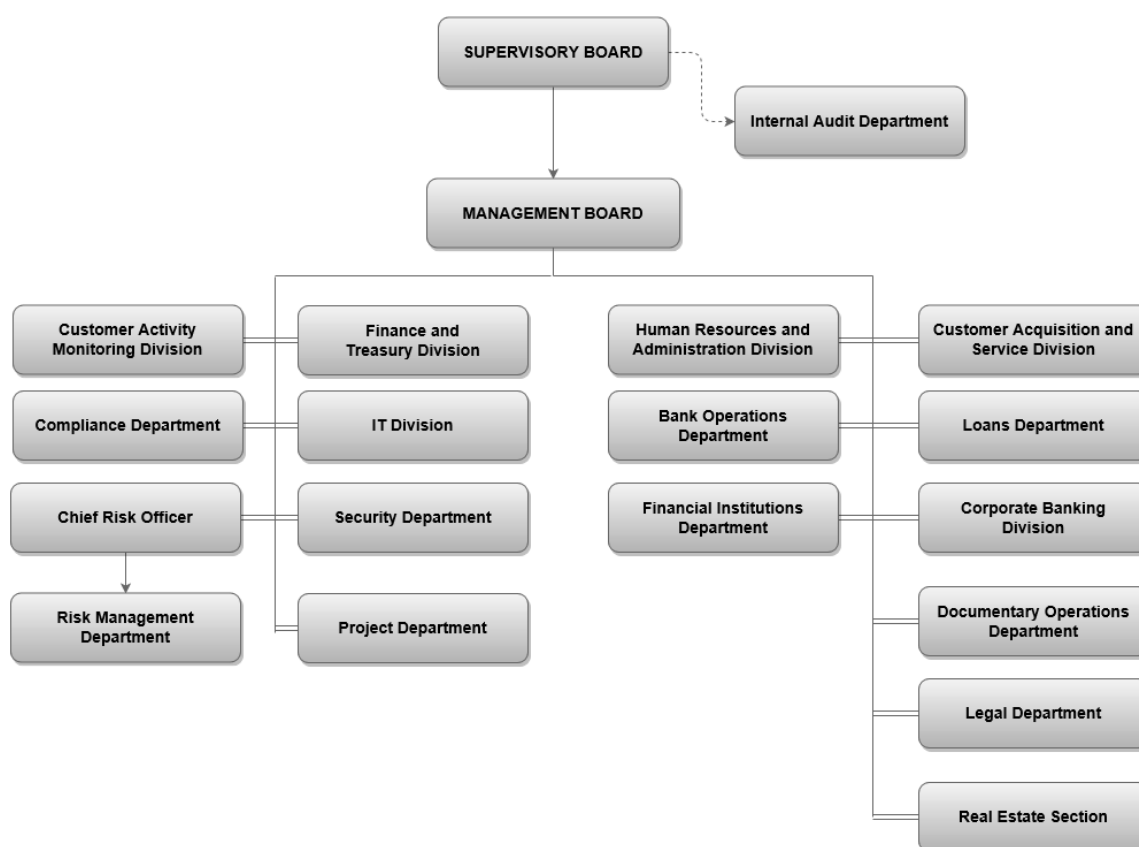
| Position | Name |
|------------------------------|----------------------|
| Acting Chairman of the Board | Aleksandrs Jakovlevs |
| Member of the Board | Andrii Homza |
| Member of the Board | Alda Odina |
| Member of the Board | Dace Gaigala |

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



Strategy and goals of activity

AS "Reģionālā investīciju banka" (hereinafter – 'the Bank' or 'RIB') is a specialised European lending bank, founded and registered in Latvia, with more than 15 years of experience in the field of international finance.

The Bank's strategy is to be a stable and efficient specialised European bank that offers highly - qualified consultations and a range of products and services currently in demand in the market in the field of lending and business financing.

Bank's products are oriented towards legal entities – Latvian/EU small and medium enterprises ('SMEs'), as well as individuals – employees, managers, and beneficiaries of the companies serviced by the Bank.

The primary goals of the Bank's activity are:

- offering consultations on matters concerning the attraction of financing and in the field of lending, as well as offering related 'classical' banking products to customers;
- ensuring the high quality and speed of service, observing such principles as openness, flexibility, innovation, competence, confidentiality, and security;
- creating a stable, highly-profitable, and balanced customer base in terms of residence and risks, which complies with the highest standards of the Latvian banking sector in the field of anti-money laundering and counter-financing of terrorism ('AML/CFT');
- forming a team of highly-qualified employees with a high level of professionalism, necessary expertise, and common corporate values;
- continuously optimising all the processes of the Bank, developing a sustainable business model, achieving planned efficiency and profitability indicators.

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 30.06.2019, financial assets measured at amortised cost amount to EUR 91 372 200, balances due from credit institutions amount to EUR 13 662 307.

Loan portfolio breakdown by overdue periods as on 30.06.2019:

| | 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 | 222 039 | 0 | 1 976 770 | 13 054 472 | 95 916 892 | 111 170 173 | 14 187 112 |
| Loans to individuals | 4 472 768 | 0 | 0 | 216 695 | 272 664 | 4 962 127 | 2 668 340 |
| Total | 4 694 806 | 0 | 1 976 770 | 13 271 168 | 96 189 556 | 116 132 300 | 16 855 452 |

The amount of credits secured by deposits is EUR 3 889 370 (3.3% 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 37,1 million (32%);
- other mortgage EUR 41,2 million (36%).

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 30.06.2019 amounted to EUR 0.9 million, i.e., 2.01% of the Bank's equity.

20% change in USD rate by +/-82 thousand EUR will influence foreign exchange position in US dollars as of June 30, 2019.

As on 30.06.2019, 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 June 30, 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 67.83% as on 30.06.2019.

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-fulfilment 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 2th 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 | 4 695 228 | 456 | 4 695 684 | 24,1% | 0 | 0 | 0 | 0,0% |
| A1 to A3 | 13 866 549 | 280 042 | 14 146 591 | 72,5% | 1 301 883 | 374 | 1 302 257 | 5,7% |
| Baa1 to Baa3 | 662 911 | 5 972 | 668 883 | 3,4% | 13 518 535 | 3 018 | 13 521 553 | 59,3% |
| Ba1 to Ba3 | 0 | 0 | 0 | 0,0% | 634 | 17 | 651 | 0,0% |
| B1 to B3 | 0 | 0 | 0 | 0,0% | 56 620 | 12 | 56 632 | 0,2% |
| below B3 | 7 857 | 0 | 7 857 | 0,0% | 7 888 856 | 18 880 | 7 907 736 | 34,7% |
| | 19 232 244 | 286 470 | 19 519 015 | 100% | 22 766 528 | 22 301 | 22 788 829 | 99,9% |
| No rating | 0 | 0 | 0 | 0,0% | 14 502 | 0 | 14 502 | 0,1% |
| | 19 232 244 | 286 470 | 19 519 015 | 100% | 22 781 030 | 22 301 | 22 803 331 | 100% |

25,48% of requirements to credit institutions or EUR 5 809 599 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. | Poland | 7 909 402 | 232 480 | 8 141 883 | 42.33% |
| 1.1. | Including Central government securities | 7 909 402 | 232 480 | 8 141 883 | 42.33% |
| 2. | USA | 6 550 761 | 11 641 | 6 562 402 | 34.12% |
| 2.1. | Including Central government securities | 4 390 973 | 0 | 4 390 973 | 22.83% |
| 3. | Latvia | 1 201 736 | 31 617 | 1 233 353 | 6.41% |
| 3.1. | Including Central government securities | 1 201 736 | 31 617 | 1 233 353 | 6.41% |
| 4. | Netherlands | 617 265 | 3 713 | 620 977 | 3.23% |
| 4.1. | Including Central government securities | 0 | 0 | 0 | 0.00% |
| 5. | United Kingdom | 611 547 | 1 722 | 613 269 | 3.19% |
| 5.1. | Including Central government securities | 0 | 0 | 0 | 0.00% |
| 6. | Germany | 479 642 | 1 373 | 481 015 | 2.50% |
| 6.1. | Including Central government securities | 0 | 0 | 0 | 0.00% |
| 7. | China | 351 996 | 2 368 | 354 363 | 1.84% |
| 7.1. | Including Central government securities | 0 | 0 | 0 | 0.00% |
| 8. | Belgium | 306 176 | 750 | 306 927 | 1.60% |
| 8.1. | Including Central government securities | 0 | 0 | 0 | 0.00% |
| 9. | France | 305 085 | 121 | 305 206 | 1.59% |
| 9.1. | Including Central government securities | 0 | 0 | 0 | 0.00% |
| 10. | Sweden | 304 255 | 456 | 304 711 | 1.58% |
| 10.1. | Including Central government securities | 0 | 0 | 0 | 0.00% |
| 11. | Denmark | 302 740 | 230 | 302 969 | 1.58% |
| 11.1. | Including Central government securities | 0 | 0 | 0 | 0.00% |
| 12. | Kazakhstan | 7 856 | 0 | 7 856 | 0.04% |
| 12.1. | Including Central government securities | 0 | 0 | 0 | 0.00% |
| | Total* | 18 948 461 | 286 470 | 19 234 932 | 100% |

* 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 2th quarter of 2019, significant operational risk losses have not been registered.

Please find additional information about the Bank's risks on

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