



**Balance sheet**

AS "Reģionālā investīciju banka"

**March 31, 2018**

(last day of the reporting period)

No	Position	31.03.2018 Bank unaudited	31.03.2018 Group unaudited	31.12.2017 Bank audited	31.12.2017 Group audited
1.	Cash and balances due from central banks	89 921 047	89 921 047	90 638 213	90 638 213
2.	Balances due from credit institutions	34 252 118	34 252 118	62 752 051	62 752 051
3.	Financial assets designated at fair value through profit or loss	50 462 764	50 462 764	60 350 334	60 350 334
4.	Financial assets at fair value through other comprehensive income	234 942	234 942	234 942	234 942
5.	Financial assets at amortised cost	125 042 540	122 533 651	125 492 434	122 991 601
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	6 600 000	0	6 600 000	0
9.	Tangible assets	13 729 318	13 729 318	13 822 007	13 822 007
10.	Intangible assets	554 671	554 671	573 148	573 148
11.	Tax assets	0	0	0	0
12.	Other assets	6 069 005	14 966 441	6 948 303	15 601 184
13.	Non-current assets and disposal groups classified as held for sale	0	0	0	0
14.	<b>Total assets (1.+.....+13.)</b>	<b>326 866 405</b>	<b>326 654 952</b>	<b>367 411 432</b>	<b>366 963 480</b>
15.	Balances due to central banks	0	0	0	0
16.	Balances due to credit institutions	0	0	0	0
17.	Financial liabilities designated at fair value through profit or loss	0	0	0	0
18.	Financial liabilities measured at amortised cost	289 256 277	289 160 669	325 962 265	325 614 151
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	821 383	821 383	688 763	688 763
22.	Tax liabilities	0	0	0	0
23.	Other liabilities	849 572	850 472	1 427 475	1 429 562
24.	Liabilities included in disposal groups classified as held for sale	0	0	0	0
25.	<b>Total liabilities (15.+...+24.)</b>	<b>290 927 232</b>	<b>290 832 524</b>	<b>328 078 503</b>	<b>327 732 476</b>
26.	Equity and reserves	35 939 173	35 822 428	39 332 929	39 231 004
27.	<b>Total equity and reserves, and liabilities (25.+26.)</b>	<b>326 866 405</b>	<b>326 654 952</b>	<b>367 411 432</b>	<b>366 963 480</b>
28.	Off-balance sheet items				
29.	Contingent liabilities	8 342 964	8 342 964	8 931 032	8 931 032
28.	Commitments	18 103 681	18 103 681	21 745 831	21 745 831

## Profit and Loss Account

March 31, 2018

(last day of the reporting period)

No	Position	3 months 2018 Bank unaudited	3 months 2018 Group unaudited	3 months 2017 Bank unaudited	3 months 2017 Group unaudited
1.	Interest income	2 329 322	2 304 322	2 486 677	2 486 677
2.	Interest expense (-)	-782 108	-782 108	-960 574	-960 574
3.	Income from dividends	561	561	517	517
4.	Commission income	1 635 971	1 635 904	1 950 883	1 950 868
5.	Commission expense (-)	-218 525	-218 525	-270 836	-270 836
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 (+/-)	1 222 141	1 222 141	716 151	716 151
8.	Net gains or (-) losses from hedge accounting (+/-)	0	0	0	0
9.	Exchange differences [gain or (-) loss], net (+/-)	-491 900	-491 900	27 306	27 306
10.	Net gains or (-) losses on derecognition of non financial assets (+/-)	-387 003	-387 003	0	0
11.	Other operating income	78 502	110 662	64 716	64 566
12.	Other operating Expenses (-)	-20 052	- 21 063	-21 894	-21 894
13.	Administrative expense (-)	-2 024 182	- 2 045 084	-2 088 772	-2 091 462
14.	Depreciation (-)	-138 538	-138 538	-96 451	-96 451
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 (-/+)	4 929	4 929	0	0
17.	Impairment or (-) reversal of impairment (-/+)	1 415 657	1 415 657	-152 679	-152 679
18.	Negative goodwill recognised in profit or loss	0	0	0	0
19.	Profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method (+/-)	0	0	0	0
20.	Profit or (-) loss from non-current assets and disposal groups classified as held for sale (+/-)	0	0	0	0
21.	<b>Profit/loss before corporate income tax calculation (+/-)</b>	<b>2 624 775</b>	<b>2 609 955</b>	<b>1 655 044</b>	<b>1 652 189</b>
22.	Corporate income tax	-185 473	-185 473	-41 767	-41 767
23.	<b>Profit/losses for the period (+/-)</b>	<b>2 439 302</b>	<b>2 424 482</b>	<b>1 613 277</b>	<b>1 610 422</b>
24.	Other comprehensive income for the period (+/-)	45 970	45 970	0	0

## Key ratios of the Consolidated group and the Bank

March 31, 2018

(last day of the reporting period)

Position	Bank 31.03.2018	Consolidated group 31.03.2018	Bank 31.03.2017	Consolidated group 31.03.2017
Return on Equity (ROE) (%)	27.41	27.48	17.11	17.06
Return on Assets (ROA) (%)	2.75	2.73	1.38	1.40

## Group Consolidation

March 31, 2018

(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	100%	100%	MS

\* PLS-supporting company

\*\* MS-subsidiary company

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

March 31, 2018

(last day of the reporting period)

No.	Position	COREP position	Bank unaudited data in the reporting period	Consolidation group unaudited data in the reporting period
1.	<b>Own funds</b> (1.1.+1.2.)	C 01.00 1	<b>51 802 060</b>	<b>51 781 718</b>
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	C 01.00 1.1.	35 803 445	35 783 103
1.1.1.	Common equity Tier 1 capital	C 01.00 1.1.1.	35 803 445	35 783 103
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.	15 998 615	15 998 615
2.	<b>Total Risk Exposure Amount</b> (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	C 02.00 1.	<b>178 138 862</b>	<b>180 436 261</b>
2.1.	Risk Weighted Exposure Amounts for Credit, Counterparty Credit and Dilution Risks and Free Deliveries	C 02.00 1.1.	144 023 623	146 321 059
2.2.	Total Risk Exposure Amount for Settlement/Delivery	C 02.00 1.2.	0	
2.3.	Total Risk Exposure Amount for Position, Foreign Exchange and Commodities Risks	C 02.00 1.3.	6 115 701	6 115 701
2.4.	Total Risk Exposure Amount for Operational Risk	C 02.00 1.4.	27 969 125	27 969 088
2.5.	Total Risk Exposure Amount for Credit Valuation Adjustment	C 02.00 1.6.	30 413	30 413
2.6.	Total Risk Exposure Amount Related to Large Exposures in the Trading Book	C 02.00 1.7.	0	
2.7.	Other Risk Exposure Amounts	C 02.00 1.8.	0	
3.	<b>Capital adequacy ratios and capital levels</b>			
3.1.	Common equity Tier 1 capital ratio (1.1.1./2.*100)	C 03.00 1.	20.10	19.83
3.2.	Surplus(+)/Deficit(-) of Common equity Tier 1 capital (1.1.1.-2.*4,5%)	C 03.00 2.	27 787 196	27 663 471
3.3.	Tier 1 capital ratio (1.1./2.*100)	C 03.00 3.	20.10	19.83
3.4.	Surplus(+)/Deficit(-) of Tier 1 capital (1.1.-2.*6%)	C 03.00 4.	25 115 113	24 956 927
3.5.	Total capital ratio (1./2.*100)	C 03.00 5.	29.08	28.70
3.6.	Surplus(+)/Deficit(-) of Total capital (1.-2.*8%)	C 03.00 6.	37 550 951	37 346 817
4.	<b>Combined buffer requirements</b> (4.1.+4.2.+4.3.+4.4.+4.5.)	C 04.00 27.	4 453 472	4 510 907
4.1.	Capital conservation buffer		4 453 472	4 510 907
4.2.	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State		-	-
4.3.	Institution specific countercyclical capital buffer		-	-
4.4.	Systemic risk buffer		-	-
4.5.	Other Systemically Important Institution buffer		-	-
5.	<b>Capital adequacy ratios, including adjustments</b>			
5.1.	Adjustments to asset value due to prudential filters	C 04.00 28.	-	-
5.2.	Tier 1 common capital ratio with adjustment specified in row 5.1	C 03.00 7	20.10	19.83
5.3.	Tier 1 capital ratio with adjustment specified in row 5.1	C 03.00 9.	20.10	19.83
5.4.	Total capital ratio with adjustment specified in row 5.1	C 03.00 11.	29.08	28.70

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

March 31, 2018

(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	46 225 556	46 205 214
1.1.A	Tier 1 capital, if IFRS 9 transition arrangements were not applied	30 226 941	30 206 599
1.1.1.A	Common equity Tier 1 capital, if IFRS 9 transitional arrangements were not applied	30 226 941	30 206 599
2.A	Total risk exposure amount, if IFRS 9 transitional arrangements were not applied	177 868 278	180 165 678
3.1.A	Common equity Tier 1 capital ratio, if IFRS 9 transitional arrangements were not applied	16.99	16.77
3.3.A	Tier 1 capital ratio, if IFRS 9 transitional arrangements were not applied	16.99	16.77
3.5.A	Total capital ratio, if IFRS 9 transitional arrangements were not applied	25.99	25.65

### Liquidity Coverage Ratio Calculation

March 31, 2018

(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	134 446 414	134 446 414
2.	Net Liquidity Outflow	44 818 452	44 800 230
3.	Liquidity coverage ratio (%)	300	300

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

March 31, 2018

(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	1 124 435	3 367 106	26 797 297	1 124 435	3 367 106	26 797 297
of which for standby credit facilities	238 082	11 028	0	238 082	11 028	0
of which for guarantees	23 901	0	0	23 901	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	Alexander Jakovlev
Member of the Board	Daiga Muravska
Member of the Board	Gints Gritāns
Member of the Board	Andrii Gomza

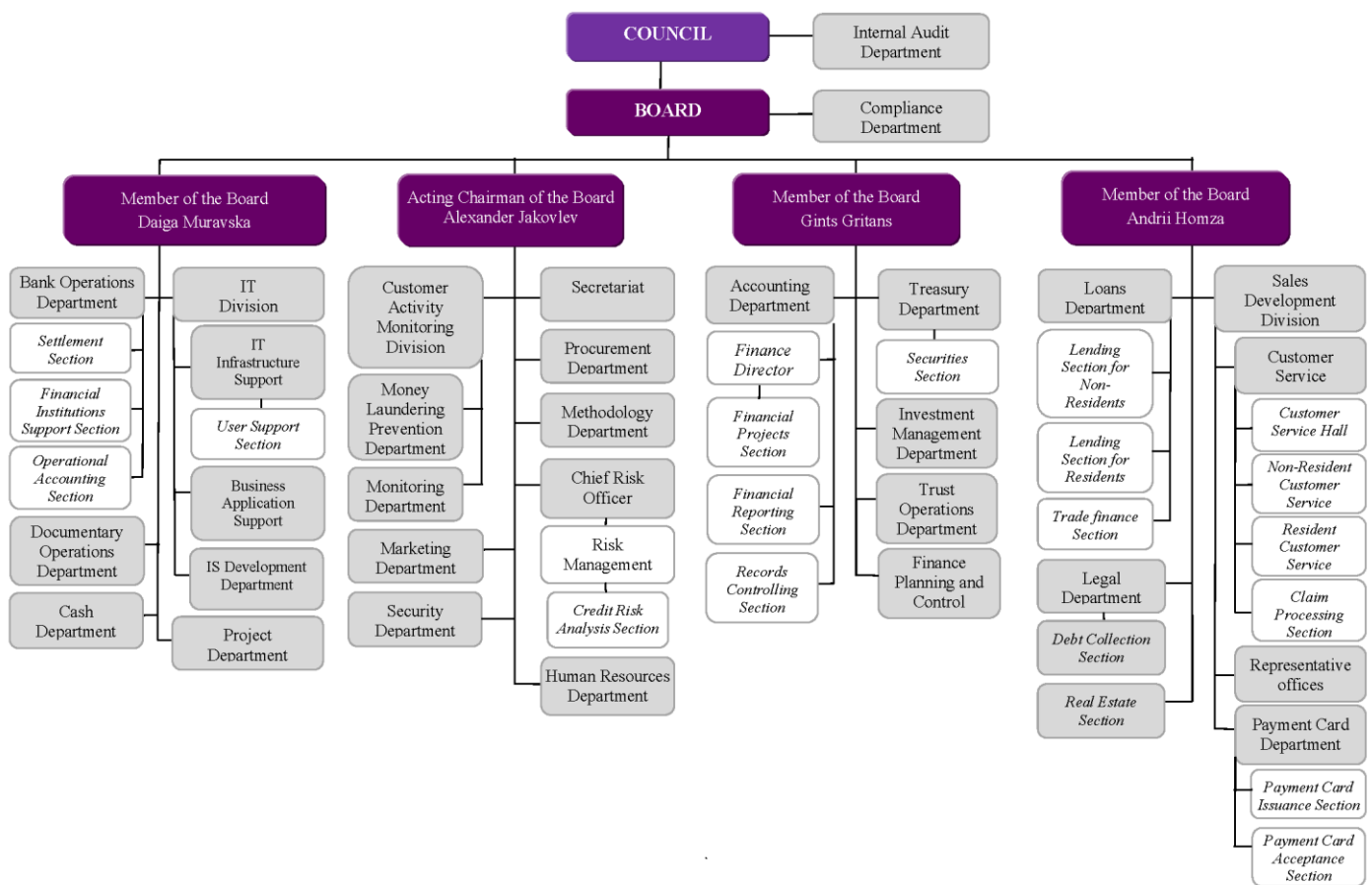
### Shareholders of the Bank

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

The nominal value of one share is EUR 1.00 and one share grants right to one vote at the meeting of shareholders.

Currently the total core capital of the Bank is EUR 32.335 mill. The nominal value of one share is EUR 1.00.

## Organizational structure



## Risk Management

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

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

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

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

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

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

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

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

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

### Credit Risk and Residual Risk

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

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

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

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

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

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

As on 31.03.2018, loans and receivables make EUR 125 042 540, demand claims against credit institutions make EUR 34 252 118.

Loan portfolio breakdown by overdue periods as on 31.03.2018:

	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	6 836 820	3 722 835	85	19 180 489	78 119 331	107 859 560	26 714 704
Loans to individuals	0	6	11	1 997 105	8 648 349	10 645 471	4 235 388
<b>Total</b>	<b>6 836 820</b>	<b>3 722 841</b>	<b>96</b>	<b>21 177 594</b>	<b>86 767 680</b>	<b>118 505 031</b>	<b>30 950 093</b>

The amount of credits secured by deposits is EUR 7 468 005 EUR (6.30 % 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:

- other mortgages EUR 35.60 million (33.66 %);
- commercial real estate mortgages EUR 33.15 million (31.34 %);
- commercial pledges EUR 13.53 million (12.79 %).

## **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.

Bank's total foreign currency net position as of 31.03.2018 amounted to 0.9 million. EUR or 1.7 % of the bank's equity.

20% change in USD rate by +/-86 thousand EUR will influence foreign exchange position in US dollars as of March 31, 2018.

As on 31.03.2018, 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 interest rate changes are applied for the sensitivity analysis: for all balance sheet positions, except deposits, the interest rate change of +/-100 basis points is applied; the interest rate change of +/-50 basis points is applied for deposit; for stress testing of the interest rate risk - +/-200 base points.

Sensitivity analysis results as of March 31, 2018: changes of economic value constitute +/-431 thousand EUR or 0.8% of the bank's equity.

## Liquidity Risk

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

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

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

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

- Evaluation of existing and planned assets, liabilities, and off-balance sheet liabilities term structure by financial instruments, various term intervals in all currencies together and individually, in which the Bank performs a significant amount of transactions (i.e. currency the proportion of which in the Bank's assets/liabilities exceeds 5%) or which has a non-liquid market;
- By determining liquidity indicators used for liquidity risk analysis and control;
- By determining internal limits:
  - for assets and liabilities term structure net liquidity positions in euro and all foreign currencies in which the Bank performs a significant amount of transactions (i.e. currency the proportion of which in the Bank's assets/liabilities exceeds 5%) or which has a non-liquid market;
  - for deposit concentration;
  - for other liquidity indicators which the Bank has specified for the liquidity risk control.

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

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

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

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

- normative execution of the liquidity indicators;
- determination of limits of the liquidity net position;
- determination of restrictions of the investment attraction;
- control of compliance of the definite limits;
- liquidity stress-tests and analysis of the obtained results;
- proposals for solving liquidity problems;
- setting and monitoring of a set of indicators for liquidity evaluation;
- maintenance of an adequate liquidity buffer which covers the positive difference between the planned outgoing and incoming money flows within the term interval of up to 7 days and 30 days.

In line with FCMC requirements, the Bank maintains the liquid assets to the extent required for fulfilment of liabilities. Liquidity ratio was 75.10% as on 31.03.2018.

### **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 1st quarter of 2018, 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	37 557 007	0	37 557 007	74,1	0	0	0	0,0
A1 to A3	11 192 854	132 998	11 325 842	22,3	8 899 753	1 414	8 901 167	12,4
Baa1 to Baa3	1 761 296	11 670	1 772 966	3,5	26 634 814	8 545	26 643 359	37,0
Ba1 to Ba3	0	0	0	0,0	7 989 262	555	7 989 817	11,1
B1 to B3	33 801	834	34 635	0,1	3 204 022	78	3 204 100	4,5
below B3	7 256	0	7 256	0,0	23 582 670	65 236	23 647 906	32,9
	<b>50 552 215</b>	<b>145 491</b>	<b>50 697 706</b>	<b>100,0</b>	<b>70 310 519</b>	<b>75 830</b>	<b>70 386 349</b>	<b>97,8</b>
<b>No rating</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0,0</b>	<b>1 564 542</b>	<b>0</b>	<b>1 564 542</b>	<b>2,2</b>
	<b>50 552 215</b>	<b>145 491</b>	<b>50 697 706</b>	<b>100</b>	<b>71 875 061</b>	<b>75 830</b>	<b>71 950 891</b>	<b>100</b>

23.22% of requirements to credit institutions or EUR 16 708 886 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.		39 537 588	20 680	39 558 268	78,39
1.1.	Including Central government securities	37 557 007	0	37 557 007	74,43
2.		7 644 266	98 308	7 742 574	15,34
2.1.	Including Central government securities	7 644 266	98 308	7 742 574	15,34
3.		1 270 154	15 197	1 285 351	2,55
3.1.	Including Central government securities	1 270 154	15 197	1 285 351	2,55
4.		564 613	3 356	567 970	1,13
4.1.	Including Central government securities	0	0	0	0,00
5.		484 898	3 423	488 322	0,97
5.1.	Including Central government securities	0	0	0	0,00
6.		206 767	562	207 329	0,41
6.1.	Including Central government securities	0	0	0	0,00
7.		203 151	1 995	205 146	0,41
7.1.	Including Central government securities	0	0	0	0,00
8.		202 660	186	202 846	0,40
8.1.	Including Central government securities	0	0	0	0,00
9.		162 118	950	163 068	0,32
9.1.	Including Central government securities	0	0	0	0,00
10.		41 058	834	41 891	0,08
10.1.	Including Central government securities	0	0	0	0,00
	<b>Total *</b>	<b>50 317 273</b>	<b>145 491</b>	<b>50 462 765</b>	<b>100%</b>

\* except for VISA shares (total amount of shares is EUR 234.9 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.

The total amount of operational risks losses in the first quarter of 2018 is not significant.

Please find additional information about the Bank's risks on

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

**Derivative instruments**

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

**Reported data of 2017**

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