Regional Investment Bank

Balance sheet
AS "Reģionālā investīciju banka"
September 30, 2018
(last day of the reporting period)

No	Position	30.09.2018 Bank unaudited	30.09.2018 Group unaudited	31.12.2017 Bank audited	31.12.2017 Group audited
1.	Cash and balances due from central banks	108 025 669	108 025 669	90 638 213	90 638 213
2.	Balances due from credit institutions	22 516 441	22 516 441	62 752 051	62 752 051
3.	Financial assets designated at fair value through profit or loss	27 189 589	27 189 589	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	116 356 964	113598682	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	13 547 859	13 547 859	13 822 007	13 822 007
10.	Intangible assets	532 291	532 291	573 148	573 148
11.	Tax assets	0	0	0	0
12.	Other assets	9 447 512	18 624 946	6 948 303	15 601 184
13.	Non-current assets and disposal groups classified as held for sale	0	0	0	0
14.	**Total assets** (1.+....+13.)	**304 451 267**	**304 270 419**	**367 411 432**	**366 963 480**
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	266 620 855	266 617 481	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	457 765	457 765	688 763	688 763
22.	Tax liabilities	0	0	0	0
23.	Other liabilities	1 123 099	1 124 000	1 427 475	1 429 562
24.	Liabilities included in disposal groups classified as held for sale	0	0	0	0
25.	**Total liabilities** (15.+...+24.)	**268 201 719**	**268 199 246**	**328 078 503**	**327 732 476**
26.	Equity and reserves	36 249 548	36 071 173	39 332 929	39 231 004
27.	**Total equity and reserves, and liabilities** (25.+26.)	**304 451 267**	**304 270 419**	**367 411 432**	**366 963 480**
28.	Off-balance sheet items				
29.	Contingent liabilities	8 178 925	8 178 925	8 931 032	8 931 032
28.	Commitments	12 269 653	12 261 653	21 745 831	21 745 831

Profit and Loss Account
September 30, 2018
(last day of the reporting period)

No	Position	9 months 2018 Bank unaudited	9 months 2018 Group unaudited	9 months 2017 Bank unaudited	9 months 2017 Group unaudited
1.	Interest income	6 998 163	6 919 603	7 274 756	7 273 923
2.	Interest expense (–)	-2 565 871	-2 565 871	-3 014 029	-3 014 029
3.	Income from dividends	2 484	2 484	1 941	1 941
4.	Commission income	4 980 184	4 979 879	5 861 091	5 861 008
5.	Commission expense (–)	-608 780	-608 780	-985 304	-985 304
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 (+/–)	2 258 943	2 258 943	2 649 272	2 649 272
8.	Net gains or (-) losses from hedge accounting (+/–)	0	0	0	0
9.	Exchange differences [gain or (-) loss], net (+/–)	-732 394	-732 394	-584 279	-584 279
10.	Net gains or (-) losses on derecognition of non financial assets (+/–)	-387 003	-387 003	-35 630	-35 630
11.	Other operating income	2 346 716	2 453 648	192 674	192 224
12.	Other operating Expenses (–)	-193 181	-193 215	-181 130	-181 130
13.	Administrative expense (–)	-5 634 449	- 5 729 239	-6 618 852	-6 722 783
14.	Depreciation (–)	-404 433	-404 433	-360 808	-360 808
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 (–/+)	27 880	27 880	0	0
17.	Impairment or (-) reversal of impairment (–/+)	-3 186 214	-3 185 577	1 769 383	1 769 383
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** (+/–)	**2 902 045**	**2 835 925**	**5 969 085**	**5 863 788**
22.	Corporate income tax	-152 368	-162 698	-517 489	-517 489
23.	**Profit/losses for the period** (+/–)	**2 749 677**	**2 673 227**	**5 451 596**	**5 346 299**
24.	Other comprehensive income for the period (+/–)	45 970	45 970	0	0

Key ratios of the Consolidated group and the Bank
September 30, 2018
(last day of the reporting period)

Position	Bank 30.09.2018	Consolidated group 30.09.2018	Bank 30.09.2017	Consolidated group 30.09.2017
Return on Equity (ROE) (%)	10.09	9.87	18.68	18.34
Return on Assets (ROA) (%)	1.13	1.10	1.71	1.69

Group Consolidation
September 30, 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
September 30, 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.	**Own funds** (1.1.+1.2.)	C 01.00 1	**52 476 373**	**52 374 447**
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	C 01.00 1.1.	38 463 026	38 361 100
1.1.1.	Common equity Tier 1 capital	C 01.00 1.1.1.	38 463 026	38 361 100
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.	14 013 347	14 013 347
2.	**Total Risk Exposure Amount** (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	C 02.00 1.	**177 299 211**	**179 784 264**
2.1.	Risk Weighted Exposure Amounts for Credit, Counterparty Credit and Dilution Risks and Free Deliveries	C 02.00 1.1.	142 683 835	145 167 801
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.	5 970 888	5 970 888
2.4.	Total Risk Exposure Amount for Operational Risk	C 02.00 1.4.	28 613 913	28 615 000
2.5.	Total Risk Exposure Amount for Credit Valuation Adjustment	C 02.00 1.6.	30 575	30 575
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.	21.69	21.34
3.2.	Surplus(+)/Deficit(-) of Common equity Tier 1 capital (1.1.1.-2.*4,5%)	C 03.00 2.	30 484 562	30 270 808
3.3.	Tier 1 capital ratio (1.1./2.*100)	C 03.00 3.	21.69	21 34
3.4.	Surplus(+)/Deficit(-) of Tier 1 capital (1.1.-2.*6%)	C 03.00 4.	27 825 073	27 574 044
3.5.	Total capital ratio (1./2.*100)	C 03.00 5.	29.6	29.13
3.6.	Surplus(+)/Deficit(-) of Total capital (1.-2.*8%)	C 03.00 6.	38 292 436	37 991 706
4.	**Combined buffer requirements** (4.1.+4.2.+4.3.+4.4.+4.5.)	C 04.00 27.	**4 434 226**	**4 496 320**
4.1.	Capital conservation buffer		4 432 480	4 494 607
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		1 746	1 713
4.4.	Systemic risk buffer		-	-

4.5.	Other Systemically Important Institution buffer		-	-
5.	**Capital adequacy ratios, including adjustments**			
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	21.69	21.34
5.3.	Tier 1 capital ratio with adjustment specified in row 5.1	C 03.00 9.	21.69	21.34
5.4.	Total capital ratio with adjustment specified in row 5.1	C 03.00 11.	29.60	29.13

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

September 30, 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	46 934 957	46 833 031
1.1.A	Tier 1 capital, if IFRS 9 transition arrangements were not applied	32 921 610	32 819 684
1.1.1.A	Common equity Tier 1 capital, if IFRS 9 transitional arrangements were not applied	32 921 610	32 819 684
2.A	Total risk exposure amount, if IFRS 9 transitional arrangements were not applied	171 661 358	174 146 412
3.1.A	Common equity Tier 1 capital ratio, if IFRS 9 transitional arrangements were not applied	19.18	18.85
3.3.A	Tier 1 capital ratio, if IFRS 9 transitional arrangements were not applied	19.18	18.85
3.5.A	Total capital ratio, if IFRS 9 transitional arrangements were not applied	27.34	26.89

Liquidity Coverage Ratio Calculation

September 30, 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	130 344 045	130 344 045
2.	Net Liquidity Outflow	56 809 567	56 811 143
3.	Liquidity coverage ratio (%)	229	229

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

June 30, 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	539 552	7 331 968	17 846 152	538 916	7 331 968	17 846 152
of which for standby credit facilities	74 195	27 451	0	74 194	27 451	0
of which for guarantees	950	0	0	950	0	0

The Council and Board of the Bank

The Council

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

Board

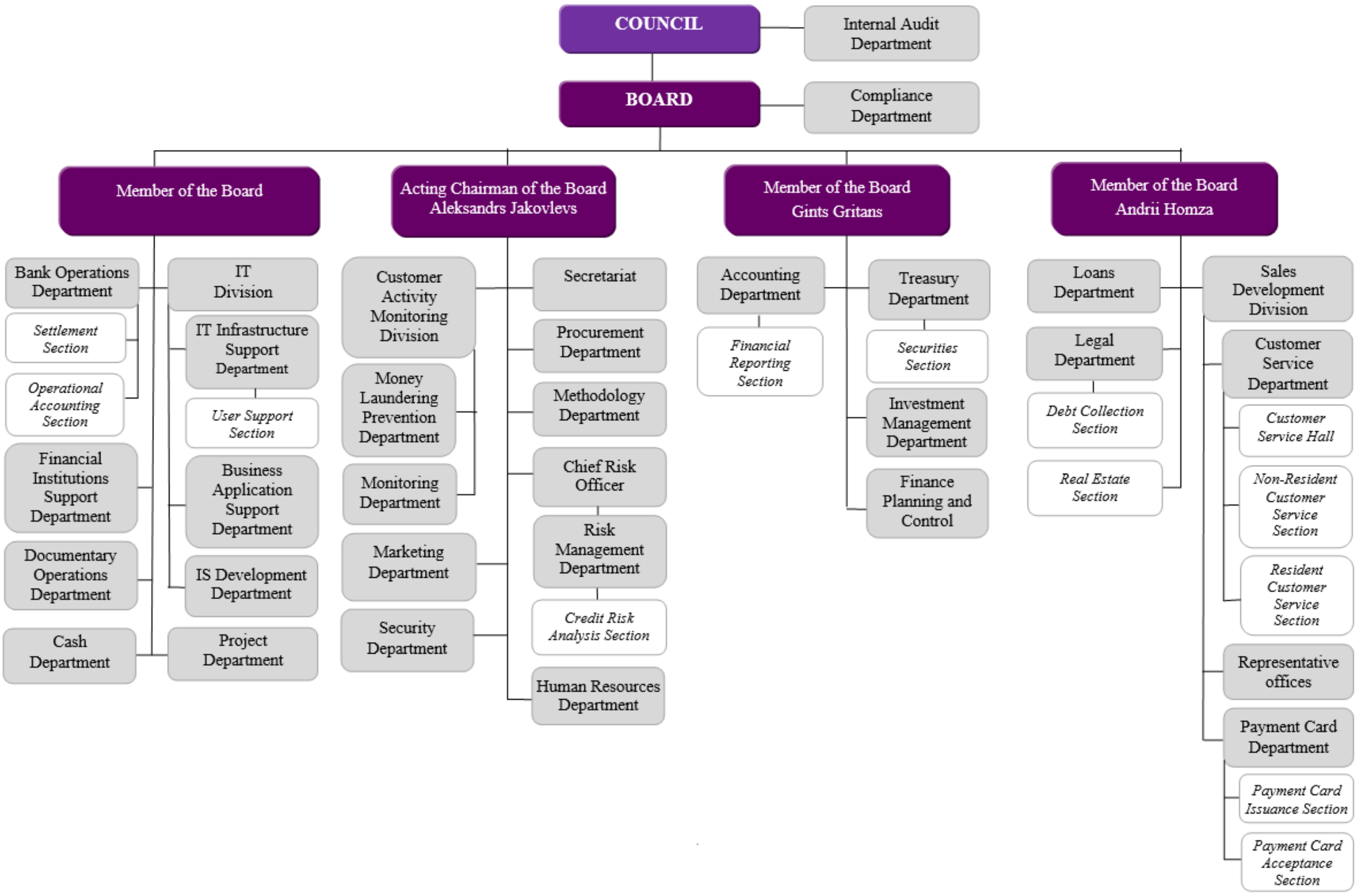
Position	Name
Acting Chairman of the Board	Aleksandrs Jakovlevs
Member of the Board	Gints Gritans
Member of the Board	Andrii Homza

Shareholders of the Bank

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

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

Organizational structure



Risk Management

Risk management is one of the Bank's strategic goals. The Bank's Risk Management Strategy ensures management of the Bank's risks, the most significant of which are credit and residual risks, operational, market, liquidity, concentration risks.
In order to ensure the risk management, internal risk management policy and instructions have been developed, which were approved by the Bank Council and/or Board and implemented by the Bank's departments.

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

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

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

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

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

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

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

Credit Risk and Residual Risk

The Bank’s principles in the evaluation, supervision and acceptance of credit risk are described and approved by the Credit Policy, Business Partner Policy and Investment Policy.
Normative documents related to residual risk management are specified and approved in the Credit policy and in the Instruction for real estate pledged to the Bank market value monitoring.

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

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

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

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

As of 30.09.2018, financial assets measured at amortised cost amount to EUR 113 598 682, balances due from credit institutions amount to EUR 22 516 441.

Loan portfolio breakdown by overdue periods as on 30.09.2018:

	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	16 865 927	6 685 681	420 200	17 876 048	67 796 944	109 644 800	20 473 883
Loans to individuals	6 610 999	0	0	1 985 135	231 380	8 827 514	4 950 296
Total	**23 476 926**	**6 685 681**	**420 200**	**19 861 183**	**68 028 324**	**118 472 314**	**25 424 179**

The amount of credits secured by deposits is EUR 5 289 575 (4.46 % 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 valuators 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 52 million (43.85%);
- commercial real estate mortgages EUR 30.8 million (26.03%);
- commercial pledges EUR 13.3 million (11.23%).

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 30.09.2018 amounted to EUR 2.9 million, i.e., 5.7% of the Bank's equity.

20% change in USD rate by -/+358 thousand EUR will influence foreign exchange position in US dollars as of September 30, 2018.

As on 30.09.2018, 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 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 September 30, 2018: changes of economic value constitute -/+241 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 73.80% as on 30.09.2018.

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-fulfillment of liabilities by the partners and issuers are mainly the currency devaluation, unfavourable changes in legislation, establishment of new restrictions and barriers and other factors, including force majeure.

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

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

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

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

Basic elements of the risk control:

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

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

In the 3rd 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	14 674 881	0	14 674 881	53.5%	0	0	0	0.0%
A1 to A3	11 454 963	172 565	11 627 528	42.4%	2 633 688	0	2 633 688	5.7%
Baa1 to Baa3	1 117 034	5 088	1 122 122	4.1%	14 196 700	5 460	14 202 160	30.9%
Ba1 to Ba3	0	0	0	0%	9 454 495	1 311	9 455 806	20.6%
B1 to B3	0	0	0	0%	766 728	165	766 893	1.7%
below B3	7 723	0	7 723	0%	18 671 142	66 409	18 737 551	40.8%
	27 254 602	**177 653**	**27 432 255**	**100%**	**45 722 753**	**73 345**	**45 796 098**	**99.6%**
No rating	**0**	**0**	**0**	**0%**	**173 878**	**0**	**173 878**	**0.4%**
	27 254 602	**177 653**	**27 432 255**	**100%**	**45 896 631**	**73 345**	**45 969 976**	**100%**

36.42% of requirements to credit institutions or EUR 16 743 078 are secured by Customers' deposits.

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

	Countries	Securities			
		Book value	Accumulated income	Total	%
		1	2	(1+2)	4
1.	USA	16 232 339	15 955	16 248 294	59.74%
1.1.	Including Central government securities	14 674 881	0	14 674 881	53.96%
2.	Poland	7 986 567	104 635	8 091 202	29.75%
2.1.	Including Central government securities	7 986 567	104 635	8 091 202	29.75%
3.	Latvia	1 242 337	48 204	1 290 542	4.75%
3.1.	Including Central government securities	1 242 337	48 204	1 290 542	4.75%
4.	China	515 296	3 644	518 940	1.91%
4.1.	Including Central government securities	0	0	0	0.00%
5.	Germany	385 670	2 295	387 966	1.43%
5.1.	Including Central government securities	0	0	0	0.00%
6.	Great Britain	217 830	598	218 428	0.80%
6.1.	Including Central government securities	0	0	0	0.00%
7.	Austria	216 085	2 124	218 209	0.80%
7.1.	Including Central government securities	0	0	0	0.00%
8.	Japan	215 811	198	216 009	0.79%
8.1.	Including Central government securities	0	0	0	0.00%
9.	Kazakhstan	7 723	0	7 723	0.03%
9.1.	Including Central government securities	0	0	0	0.00%
	Total*	**27 019 660**	**177 653**	**27 197 312**	**100.00%**

* except for VISA shares (total amount of shares is EUR 235 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 non-recovered amount of operational risk losses during the first 9 months of 2018 is EUR 9.1 thousand, of which it is planned to recover EUR 5 thousand.

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 2017

http://www.ribbank.com/en/information/annual_reports