Regional Investment Bank

**Balance sheet**
AS "Reģionālā investīciju banka"
**December 31, 2018**
(last day of the reporting period)

| No | Position | 31.12.2018 Bank unaudited | 31.12.2018 Group unaudited | 31.12.2017 Bank audited | 31.12.2017 Group audited |
|---|---|---|---|---|---|
| 1. | Cash and balances due from central banks | 95 088 745 | 95 088 745 | 90 638 213 | 90 638 213 |
| 2. | Balances due from credit institutions | 22 484 025 | 22 484 025 | 62 752 051 | 62 752 051 |
| 3. | Financial assets designated at fair value through profit or loss | 25 241 678 | 25 241 678 | 60 350 334 | 60 350 334 |
| 4. | Financial assets at fair value through other comprehensive income | 284 083 | 284 083 | 234 942 | 234 942 |
| 5. | Financial assets at amortised cost | 110 362 997 | 107 601 022 | 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 | 6 100 000 | 0 | 6 600 000 | 0 |
| 9. | Tangible assets | 13 460 695 | 13 460 695 | 13 822 007 | 13 822 007 |
| 10. | Intangible assets | 502 886 | 502 886 | 573 148 | 573 148 |
| 11. | Tax assets | 221 050 | 221 050 | 0 | 0 |
| 12. | Other assets | 9 455 499 | 18 659 603 | 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.) | **283 201 658** | **283 543 787** | **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 | 246 603 793 | 246 596 610 | 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 | 838 145 | 838 144 | 688 763 | 688 763 |
| 22. | Tax liabilities | 0 | 0 | 0 | 0 |
| 23. | Other liabilities | 2 955 632 | 2 980 229 | 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.) | **250 397 570** | **250 414 983** | **328 078 503** | **327 732 476** |
| 26. | Equity and reserves | 32 804 088 | 33 128 804 | 39 332 929 | 39 231 004 |
| 27. | **Total equity and reserves, and liabilities** (25.+26.) | **283 201 658** | **283 543 787** | **367 411 432** | **366 963 480** |
| 28. | Off-balance sheet items | | | | |
| 29. | Contingent liabilities | 6 934 513 | 6 934 513 | 8 931 032 | 8 931 032 |
| 28. | Commitments | 11 552 261 | 11 547 704 | 21 745 831 | 21 745 831 |

## Profit and Loss Account
## December 31, 2018
(last day of the reporting period)

| No | Position | 12 months 2018 Bank unaudited | 12 months 2018 Group unaudited | 12 months 2017 Bank unaudited | 12 months 2017 Group unaudited |
|---|---|---|---|---|---|
| 1. | Interest income | 9 188 988 | 9 082 213 | 10 067 948 | 10 041 559 |
| 2. | Interest expense (–) | -3 508 867 | -3 508 867 | -4 226 074 | -4 226 074 |
| 3. | Income from dividends | 3 231 | 3 231 | 2 489 | 2 489 |
| 4. | Commission income | 6 404 557 | 6 404 161 | 7 579 442 | 7 579 321 |
| 5. | Commission expense (–) | -789 447 | -789 447 | -1 303 580 | -1 303 580 |
| 6. | Net gains or (-) losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss (+/–) | -214 581 | -214 581 | 0 | 0 |
| 7. | Net gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss (+/–) | 2 575 494 | 2 575 494 | 2 114 995 | 2 114 995 |
| 8. | Net gains or (-) losses from hedge accounting (+/–) | 0 | 0 | 0 | 0 |
| 9. | Exchange differences [gain or (-) loss], net (+/–) | -573 913 | -573 913 | 594 669 | 594 669 |
| 10. | Net gains or (-) losses on derecognition of non financial assets (+/–) | -383 094 | -383 094 | -1 067 510 | -1 067 510 |
| 11. | Other operating income | 580 691 | 734 001 | 311 793 | 340 109 |
| 12. | Other operating Expenses (–) | -296 797 | -296 831 | -248 719 | -252 162 |
| 13. | Administrative expense (–) | -7 783 911 | -7 890 298 | -9 261 579 | -9 341 525 |
| 14. | Depreciation (–) | -532 930 | -532 930 | -1 441 075 | -1 441 075 |
| 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 (–/+) | 28 096 | 28 097 | 0 | 0 |
| 17. | Impairment or (-) reversal of impairment (–/+) | 1 726 278 | 1 726 973 | 166 641 | 166 641 |
| 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** (+/–) | **6 423 795** | **6 364 209** | **3 289 440** | **3 207 857** |
| 22. | Corporate income tax | -216 521 | -230 294 | -617 152 | -617 152 |
| 23. | **Profit/losses for the period** (+/–) | **6 207 274** | **6 133 915** | **2 672 288** | **2 590 705** |
| 24. | Other comprehensive income for the period (+/–) | 95 111 | 95 111 | 0 | 0 |

## Key ratios of the Consolidated group and the Bank
## December 31, 2018
(last day of the reporting period)

| Position | Bank 31.12.2018 | Consolidated group 31.12.2018 | Bank 31.12.2017 | Consolidated group 31.12.2017 |
|---|---|---|---|---|
| Return on Equity (ROE) (%) | 17.02 | 16.89 | 6.74 | 6.55 |
| Return on Assets (ROA) (%) | 1.96 | 1.94 | 0.65 | 0.66 |

**Group Consolidation**
**December 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 | 92.42% | 92.42% | MS |

* PLS-supporting company
** MS-subsidiary company

## I. Summary Report on Equity Capital and Capital Adequacy Ratio Calculations
**December 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. | **Own funds** (1.1.+1.2.) | C 01.00 1 | **44 257 069** | **44 661 244** |
| 1.1. | Tier 1 capital (1.1.1.+1.1.2.) | C 01.00 1.1. | 31 603 710 | 32 007 885 |
| 1.1.1. | Common equity Tier 1 capital | C 01.00 1.1.1. | 31 603 710 | 32 007 885 |
| 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. | 12 653 359 | 12 653 359 |
| 2. | **Total Risk Exposure Amount** (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.) | C 02.00 1. | **183 561 530** | **186 524 815** |
| 2.1. | Risk Weighted Exposure Amounts for Credit, Counterparty Credit and Dilution Risks and Free Deliveries | C 02.00 1.1. | 150 555 817 | 153 518 015 |
| 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. | 4 391 800 | 4 391 800 |
| 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. | 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. | 17.22 | 17.16 |
| 3.2. | Surplus(+)/Deficit(-) of Common equity Tier 1 capital (1.1.1.-2.*4,5%) | C 03.00 2. | 23 343 441 | 23 614 268 |
| 3.3. | Tier 1 capital ratio (1.1./2.*100) | C 03.00 3. | 17.22 | 17.16 |
| 3.4. | Surplus(+)/Deficit(-) of Tier 1 capital (1.1.-2.*6%) | C 03.00 4. | 20 590 018 | 20 816 396 |
| 3.5. | Total capital ratio (1./2.*100) | C 03.00 5. | 24.11 | 23.94 |
| 3.6. | Surplus(+)/Deficit(-) of Total capital (1.-2.*8%) | C 03.00 6. | 29 572 147 | 29 739 259 |
| 4. | **Combined buffer requirements** (4.1.+4.2.+4.3.+4.4.+4.5.) | C 04.00 27. | **4 591 914** | **4 665 945** |
| 4.1. | Capital conservation buffer | | 4 589 038 | 4 663 120 |
| 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 | | 2 876 | 2 825 |
| 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 | 17.22 | 17.16 |
| 5.3. | Tier 1 capital ratio with adjustment specified in row 5.1 | C 03.00 9. | 17.22 | 17.16 |
| 5.4. | Total capital ratio with adjustment specified in row 5.1 | C 03.00 11. | 24.11 | 23.94 |

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

**December 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 | 38 715 653 | 39 119 828 |
| 1.1.A | Tier 1 capital, if IFRS 9 transition arrangements were not applied | 26 062 294 | 26 466 469 |
| 1.1.1.A | Common equity Tier 1 capital, if IFRS 9 transitional arrangements were not applied | 26 062 294 | 26 466 469 |
| 2.A | Total risk exposure amount, if IFRS 9 transitional arrangements were not applied | 177 906 125 | 180 870 446 |
| 3.1.A | Common equity Tier 1 capital ratio, if IFRS 9 transitional arrangements were not applied | 14.65 | 14.63 |
| 3.3.A | Tier 1 capital ratio, if IFRS 9 transitional arrangements were not applied | 14.65 | 14.63 |
| 3.5.A | Total capital ratio, if IFRS 9 transitional arrangements were not applied | 21.76 | 21.63 |

### Liquidity Coverage Ratio Calculation

**December 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 | 116 233 565 | 116 233 565 |
| 2. | Net Liquidity Outflow | 60 223 057 | 60 246 218 |
| 3. | Liquidity coverage ratio (%) | 193 | 193 |

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

**December 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 | 929 321 | 4 565 298 | 16 430 432 | 928 626 | 4 565 298 | 16 430 432 |
| of which for standby credit facilities | 70 788 | 676 | 0 | 70 787 | 676 | 0 |
| of which for guarantees | 734 | 0 | 0 | 734 | 0 | 0 |

## The Council and Board of the Bank

### The Council

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

## Board

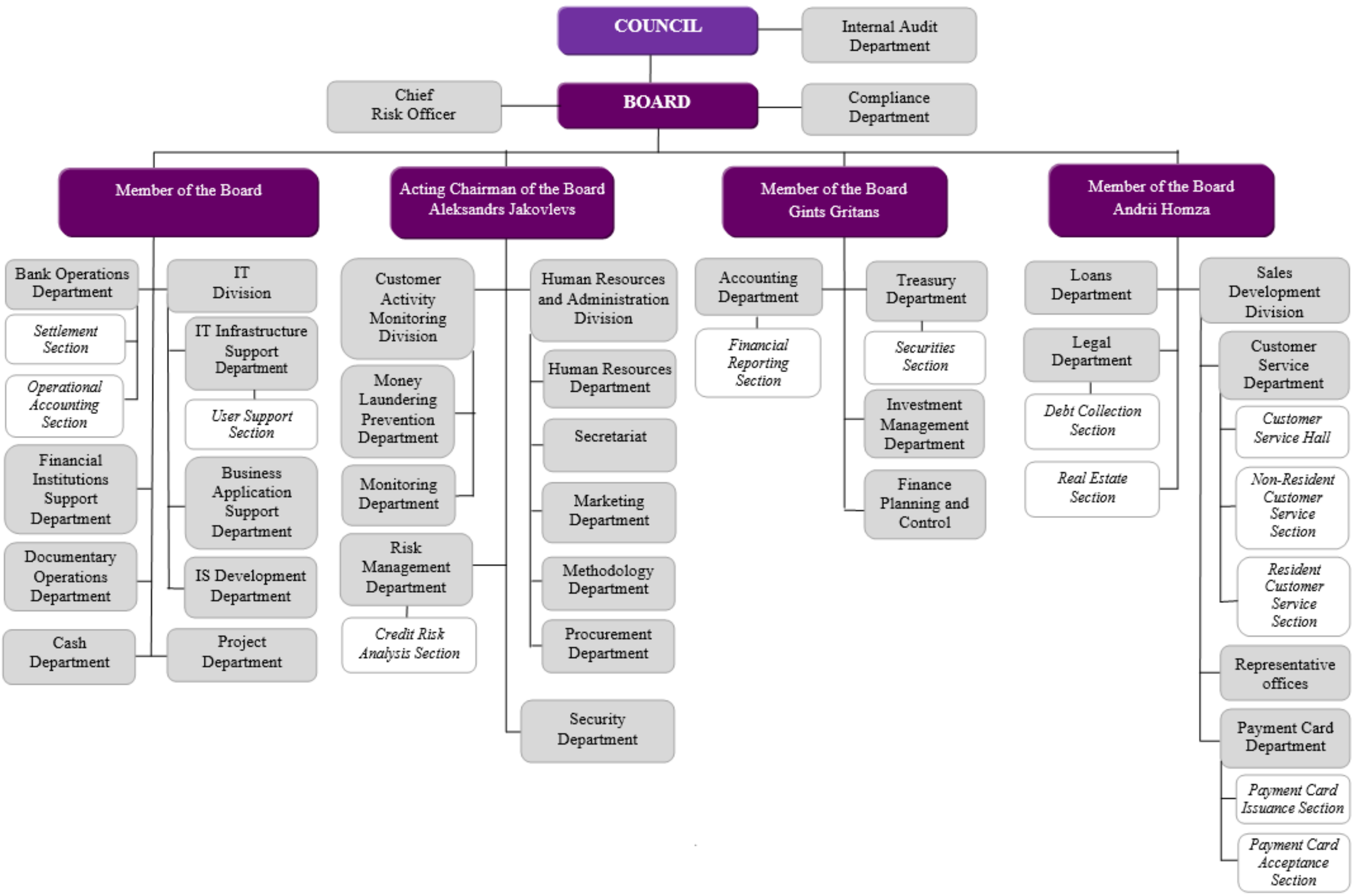
| Position | Name |
|---|---|
| Acting Chairman of the Board | Aleksandrs Jakovlevs |
| Member of the Board | Gints Gritans |
| Member of the Board | Andrii Homza |

## Shareholders of the Bank

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

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

## Organizational structure




## Risk Management

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

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

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

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

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

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

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

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

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

### Credit Risk and Residual Risk

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

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

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

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

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

As of 31.12.2018, financial assets measured at amortised cost amount to EUR 107 601 022, balances due from credit institutions amount to EUR 22 484 025.

**Loan portfolio breakdown by overdue periods as on 31.12.2018:**

| | 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 | 439 | 101 041 | 1 353 224 | 17 698 914 | 84 920 218 | 104 073 836 | 18 915 769 |
| Loans to individuals | 0 | 0 | 0 | 758 745 | 5 648 274 | 6 407 019 | 3 208 440 |
| **Total** | **439** | **101 041** | **1 353 224** | **18 457 659** | **90 568 492** | **110 480 855** | **22 124 209** |

The amount of credits secured by deposits is EUR 2 675 457 (2.42% 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 42 million (38.11%);
- commercial real estate mortgages EUR 35 million (31.72%);
- commercial pledges EUR 15 million (13.59%).

### Market Risk

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

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

### Currency Risk

The Bank's activity is exposed to risk of exchange of the main currencies involved in it, which influences both the Bank's financial result and cash flow. The Bank controls the foreign currency assets and liabilities in order to avoid inadequate currency risk. The Board determines limits for open positions of foreign currencies, and these limits are below the supervisory limits; no individual open position exceeds 10% of equity capital, and the total currency open position does not exceed 20% of equity capital. Limits are controlled on daily basis.

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

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

The Bank's total net foreign currency item as of 31.12.2018 amounted to EUR 1.5 million, i.e., 3.6% of the Bank's equity.

20% change in USD rate by -/+80 thousand EUR will influence foreign exchange position in US dollars as of December 31, 2018.

As on 31.12.2018, 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 December 31, 2018: changes of economic value constitute -/+337 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 71.20% as on 31.12.2018.

## 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 4th 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 | 12 903 680 | 0 | 12 903 680 | 50.5% | 0 | 0 | 0 | 0.0% |
| A1 to A3 | 11 319 529 | 296 003 | 11 615 531 | 45.5% | 817 335 | 359 | 817 694 | 1.9% |
| Baa1 to Baa3 | 998 518 | 8 034 | 1 006 552 | 3.9% | 21 397 380 | 16 012 | 21 413 392 | 48.5% |
| Ba1 to Ba3 | 0 | 0 | 0 | 0.0% | 11 323 182 | 0 | 11 323 182 | 25.6% |
| B1 to B3 | 0 | 0 | 0 | 0.0% | 91 573 | 0 | 91 573 | 0.2% |
| below B3 | 7 808 | 0 | 7 808 | 0.0% | 10 450 181 | 27 886 | 10 478 067 | 23.7% |
| | **25 229 535** | **304 036** | **25 533 571** | **100%** | **44 079 650** | **44 258** | **44 123 908** | **99.9%** |
| **No rating** | **0** | **0** | **0** | **0.0%** | **58 598** | **0** | **58 598** | **0.1%** |
| | **25 229 535** | **304 036** | **25 533 571** | **100%** | **44 138 248** | **44 258** | **44 182 506** | **100%** |

15.36% of requirements to credit institutions or EUR 6 784 766 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 | 14 342 351 | 16 700 | 14 359 051 | 56.87% |
| 1.1. | Including Central government securities | 12 903 680 | 0 | 12 903 680 | 51.10% |
| 2. | Poland | 8 018 646 | 231 059 | 8 249 705 | 32.67% |
| 2.1. | Including Central government securities | 8 018 646 | 231 059 | 8 249 705 | 32.67% |
| 3. | Latvia | 1 227 251 | 46 116 | 1 273 368 | 5.04% |
| 3.1. | Including Central government securities | 1 227 251 | 46 116 | 1 273 368 | 5.04% |
| 4. | China | 522 055 | 2 647 | 524 702 | 2.08% |
| 4.1. | Including Central government securities | 0 | 0 | 0 | 0.00% |
| 5. | Germany | 390 214 | 2 615 | 392 829 | 1.56% |
| 5.1. | Including Central government securities | 0 | 0 | 0 | 0.00% |
| 6. | Great Britain | 218 978 | 3 198 | 222 176 | 0.88% |
| 6.1. | Including Central government securities | 0 | 0 | 0 | 0.00% |
| 7. | Japan | 218 148 | 1 701 | 219 850 | 0.87% |
| 7.1. | Including Central government securities | 0 | 0 | 0 | 0.00% |
| 8. | Kazakhstan | 7 808 | 0 | 7 808 | 0.03% |
| 8.1. | Including Central government securities | 0 | 0 | 0 | 0.00% |
| | **Total*** | **24 945 452** | **304 036** | **25 249 488** | **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.

The total non-recovered amount of operational risk losses during 2018 is EUR 17 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