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Pilar III - year 2014

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Risk Management

Risk management is one of the Bank's strategic tasks. For the purposes of the Bank's risk management, the Risk Management Strategy has been developed for the management of the following risks:

Credit Risk and Residual Risk

The overdue loan – the loan, the repayment of which is not performed by the Customer, observing the term and procedure, stipulated and agreed between the Bank and the Customer in the mutually concluded contract(-s)

Losses incurred due to the decrease in value in the result of the quality deterioration:

The objective evidences, proving that the losses have been incurred due to the decrease in value of the loans or loan groups in the result of the quality deterioration, include such verifiable information, which comes into the Bank's field of vision regarding such cases of losses:

- the significant financial difficulties of the debtor;
- the non-compliance with the provisions of the agreement, that is, the delay of payment of the loan's principal sum or delay of interest payment;
- the concession, granted to the borrower, due to such economic or legal reasons, which pertain to the borrower's financial difficulties, but in another case, such concession wouldn't be granted by the Bank (that is, the Bank has made the loan restructuring);
- there exists a relatively high probability that the borrower will start a bankruptcy procedure or another type of financial reorganization;
- the loss of an active market due to the financial difficulties of the corresponding issuer of the financial assets;
- the use of the granted loan funds for the purposes, not stipulated by the credit agreement;
- the non-occurrence of the preconditions, necessary for the credited project's implementation;
- the non-fulfillment of the person's, related with the borrower, obligations, which influence the borrower's ability to meet his/her debt obligations against the Bank;
- the decrease in value of the collateral security in cases, when the loan repayment directly depends on the value of the collateral security. (SGS 39.60).

Credit risk is a risk of losses in case the borrower (loan taker, debtor) or business partner of the Bank is unable or refuses to fulfill his/her obligations towards the Bank under the agreement provisions. Credit risk is related to the Bank's operations which create claims of the Bank against other parties and which are reflected in the Bank's balance and off-balance sheets.

The residual risk is a risk that the credit risk mitigation methods used by the Bank might turn out to be less efficient than planned.

The Bank's principles with respect to assessment, monitoring and accepting of credit risk have been described and approved within the Credit Policy, Business Partner Policy and Investment Policy.

The Bank categorizes and controls its credit risk by determining limits of different types and amounts: limits for the acceptable risk for each debtor, related debtors' groups, geographic regions, business sectors, types and amounts of guarantees, currencies, terms and ratings granted by international agencies.

Credit risk is also regularly monitored individually for each debtor evaluating the debtor's ability to repay the principal amount and interest, as well as changing the limits set, if necessary.

The Bank's exposure to credit risk is also monitored and minimized by ensuring adequate collaterals and registering the guarantees on behalf of the Bank. The real value of these guarantees and collaterals is regularly reviewed.

The collateral is a property or rights which can serve as the alternative source of the loan repayment in a case, if the Customer does not meet his/her debt obligations.

As collateral, the Bank accepts assets that meet the following criteria:

- has the market value of assets as determined in the pledge assessment by independent expert and its changes are predictable within the loan agreement term. Both the market value of assets and value in case of urgent, forced sale are considered;
- assets are liquid, i.e. they may be realised in a comparatively short term for a price which is close to the urgent, forced sale value (or market value);
- there is a legal and actual opportunity to control these assets in order to prevent their misuse by the debtor or asset owner;
- the Bank's rights to these assets have a legal priority against other creditors of the owner's assets (or against those creditors' rights which are in a more privileged position against the Bank's rights in the total amount, which makes up an insignificant amount in comparison with the collateral value), as the exception admitting the legal priority of the Bank's Parent bank.

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

- time deposits in the Bank;
- real estate;
- industrial production facilities;
- land (depending on its geographical location, possibilities of its use, communications, cadastral value, etc.);
- unused motor (passenger) cars;
- unused lorries, tractors;
- used (second-hand) motor (passenger) cars, which are not older than 7 years, and the lorries, which are not older than 9 years, the tractors, which are not older than 5 years;
- other motor cars/lorries and tractors;
- ships/vessels;
- stocks (goods in the customs warehouses or otherwise controlled goods in the warehouse of their owner);
- technological equipment and machinery;
- other fixed assets of the company;
- debtors' debts (as community of goods);
- securities, capital shares, bills of exchange;
- guarantees.

The value of the real estate shall be determined based on the opinion of the independent experts and this evaluation shall be corrected, based on the Bank's experience and normative documents.

The market value of the stocks (the goods in the customs warehouses or otherwise controlled goods) and the market value of the stocks (the goods in the warehouse of its owner) shall be determined, based on the publicly available prices, the pricing mechanism of which is understandable and acceptable for the Bank.

The market value of the technological equipments and machineries shall be determined, according to the balance sheet residual value of the equipments, if the fixed assets accounting methods, applied by the Customer, correspond to the generally accepted practice, and if possible, it is also recommended to receive the experts' opinion. If the residual value of the fixed asset is big, then the documents, confirming the purchase value of this fixed asset, shall be checked.

The collateral security – movable or immovable objects, which are evaluated by the appraisal companies, appointed by the Bank, except for the cases, when the Bank's Board has authorized a competent employee to make an appraisal.

Any collateral, except land, securities, debtor debts and other nonmaterial assets, must be secured on behalf of the Bank for the loan agreement's term.

In order to efficiently manage credit risk and assess performance of the Bank's activity, the Bank carries out regular evaluation and classification of assets (incl. loans) and off-balance sheet liabilities. The classification is the evaluation of the loans, according to which the loans are classified as standard, under supervision, sub-standard, doubtful and lost. The main evaluation criteria are the Customer's (borrower's) discounted future cash flow and creditworthiness – ability and willingness to fulfill the obligations under the loan agreement terms and conditions.

If a loan's default risk has significantly increased in comparison with the risk that had been accepted at the time of granting the loan, it is considered to be a problematic loan. The following is considered to be the characteristics of problematic loans:

- significant (20 working days and more) delay of payment;
- breech of other terms and conditions of the loan agreement;
- worsening of a customer's financial condition as reflected in his reports or other information;
- other creditor has filed a claim in court against the customer, or the State Revenue Service's request has been received on writing off funds from the current account;
- the value of the loan's collateral has significantly decreased.

The extent of the overdue risk transactions and the extent of the savings made for the unstable debts broken down into the essential branches, thous. EUR:

	31.12.2013		31.12.2014		The average extent in 2014	
Risk transactions by branches	The residue of the credit	The special savings for the principal amount	The residue of the credit	The special savings for the principal amount	The residue of the credit	The special savings for the principal amount
Forestry, agriculture	1305	868	1691	976	1 498	922
Production, processing industry	5 756	137	5 760	136	5 758	137
Trade	30 592	5 986	30 389	8 052	30 491	7 019
Transport	15 021	2 281	19 684	4 451	17 353	3 366
Financial services	3 041	545	4 737	1840	3 889	1193
Real estate operations	18 913	4 025	21 367	5 381	20 140	4 703
Construction	4 758	2 023	6 221	3 640	5 490	2 832
Accommodation and food services	2 776	1 602	2 657	1 602	2 717	1 602
Other services	1 939	0	1 649	0	1 794	0
Physical persons, overdrafts	3 954	2 234	3 659	2 921	3 807	2 578
The total extent of the risk transactions	88 055	19 701	97 813	28 997	92 934	24 349

	31.12.2013		31.12.2014		**The average extent in 2014**	
Overdue (>90 days) risk transactions by branches	The residue of the credit	The special savings for the principal	The residue of the credit	The special savings for the principal	The residue of the credit	The special savings for the principal

		amount		amount		amount
Forestry, agriculture	413	413	464	464	439	439
Production, processing industry	135	135	135	135	135	135
Trade	3 818	2 699	3 231	3 179	3 525	2 939
Transport	4 577	1 746	9 162	4 279	6 870	3 013
Financial services	0	0	0	0	0	
Real estate operations	3 098	1 948	10 800	3 108	6 949	2 528
Construction	4 489	2 022	4 904	3 632	4 697	2 827
Accommodation and food services	1 596	1 596	1 595	1 595	1 596	1 596
Physical persons, overdrafts	1 927	1 885	1 944	1 937	1 936	1 911
The total extent of the risk transactions	20 053	12 444	32 235	18 329	26 144	15 387

The extent of the overdue risk transactions and the extent of the savings made for the unstable debts broken down into the essential geographical regions, taking into account the risk transfer, thous. EUR:

	31.12.2013		31.12.2014		The average extent in 2014	
Risk transactions by general geographical regions * , EUR	The residue of the credit	The special savings for the principal amount	The residue of the credit	The special savings for the principal amount	The residue of the credit	The special savings for the principal amount
Bulgaria	667	0	189	47	428	24
China	0	0	911	0	456	0
Germany	2 446	585	372	372	1 409	479
Georgia			2 099	0	1 050	0
Latvia	39 621	8 818	54 680	10 682	47 151	9 750
Monaco	20	0	17	0	19	0
Russia	1	0	2	0	2	0
Ukraine	45 299	10 299	39 543	17 683	42 421	13 991
Other	0	0	1	0	1	0
The total extent of the risk transactions	88 054	19 702	97 814	28 784	92 934	24 243

	31.12.2013		31.12.2014		The average extent in 2014	
Overdue (>90 days) risk transactions by general geographical regions * , EUR	The residue of the credit	The special savings for the principal amount	The residue of the credit	The special savings for the principal amount	The residue of the credit	The special savings for the principal amount
Germany	373	373	372	372	373	373
Latvia	9394	6901	17 184	8 589	13 289	7 745
Ukraine	9619	5171	14 680	9 368	12 150	7 270
Bulgaria	667	0	0	0	334	0
The total extent of the risk transactions	20053	12444	32 236	18 329	26 145	15 387

Operational Risk

Operational risk is a risk to incur losses due to inadequate or failing internal processes of the Bank, activity of people and system, or due to effect of external conditions. The operational risk means that the Bank's income may decrease/additional expenditure may occur to the Bank (and, as a result, the equity capital might decrease) due to errors in transaction with customers/business partners, information processing, making of inefficient decisions, insufficient human resources, or insufficient planning of external conditions effects.

For the evaluation of the operational risk, self-evaluation process of the operational risk is used during which the Bank assesses performed operations against the types of the operational risk; the Bank's strong and weak sides regarding the management of the operational risk are identified.

The Bank has developed and maintains the Operation Risk Events and Losses Data Base in which the internal data on operational risk events and related losses is collected, summarized and classified.

The basic elements of the operational risk management:

- operational risk monitoring;
- operational risk control and minimisation:
- development of internal normative documents which exclude/minimise the possibility of operational events;
- compliance with the principle of division of duties;
- control of execution of internal limits;
- compliance with the defined procedure when using IT and other Bank's resources;
- appropriate training of employees;
- regular checks of transactions and account documents;
- ensuring the continuity of operation;
- stress testing.

Market Risk

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

The Bank controls market risks by diversifying its financial instruments portfolio, setting restrictions for different types of financial instruments and carrying out sensitivity analysis which reflects the effect of the respective risks on the Bank's assets and equity capital.

Position Risk

Position risk – possibility to incur losses due to revaluation of position of debt securities or capital securities, when the price of the respective securities changes. The position risk can be categorised as specific and systematic risk:

- specific risk – possibility to incur losses if the debt securities' or capital securities' price will change due to factors related to the securities issuer;
- systematic risk – possibility to incur losses if the securities' price will change due to factors related to interest rate changes (in case of debt securities) or with significant changes in the capital market (in case of capital securities), which are not related to the specific securities issuer.

Basic elements of position risk management:

- evaluation and analysis of securities' portfolio;
- analysis and monitoring of issuers' financial position;
- setting of internal limits on exposures/diversification (stop-loss; issuers, countries, regions, terms, credit rating groups etc.);
- control of execution of the internal limits.

Interest Rate Risk

The interest rate risk is characterized by the influence of the market rate changes on the Bank's financial results. The Bank's everyday activity depends on the interest rate risk, which is influenced by the terms of repayment of assets and liabilities related to the interest income and expenditures or interest rate review dates. This risk is controlled by the Bank's Assets and Liabilities Committee by defining the limits of the interest rate coordination and evaluating the interest rate risk undertaken by the Bank.

For the evaluation of interest rate risk, the effect of interest rate changes on the Bank's economic value is assessed, incl. the evaluation of interest rate risk from the perspective of income and the evaluation of interest rate risk from the perspective of economic value. The evaluation of the interest rate risk is carried out once per month. Furthermore, at least 2 times per year, the stress tests of the interest rate risk are applied.

For monthly evaluation of the interest rate risk, for all balance sheet positions interest rate changes of +/-100 basis points are applied; for stress testing of interest rate risk – +/-200 basis points. Division of assets, liabilities and off-balance positions by term in the groups of term structures is carried out on the basis of:

- shortest term from the outstanding repayment/settlement/clearance term – for financial instruments with fixed interest rate;
- term until the next interest rate changes date or interest rate re-evaluation term – for financial instruments with a floating interest rate.

Basic elements of interest rate risk management:

- sensitivity analysis of interest rate risk;
- setting of internal limits (limit for decrease in economic value and for duration of securities' portfolio);
- control of compliance to the internal limits;
- carrying out of interest rate stress tests and analysis of their results;
- carrying out of hedging operations, if necessary.

Currency Risk

The Bank's activity is exposed to the risk of exchange of the main currencies involved in it, which influences both the Bank's financial result and cash flow. The Bank controls the foreign currency assets and liabilities in order to avoid inadequate currency risk. The Board determines the limits for the open positions of foreign currencies, and these limits are being supervised every day. The legislation of Latvia states that no individual foreign currency open position of the credit institution shall exceed 10% of the equity capital of the credit institution, and the total foreign currency open position shall not exceed 20% of the equity capital. During 2014, the Bank did not exceed these limits.

The Bank's foreign currency risk evaluation is based on the following basic principles:

- evaluation with respect to how the Bank's assets, liabilities and off-balance sheet items value changes due to changes in currency rates;
- how the Bank's income/expenditure changes due to changes in currency rates;
- the currency risk stress testing is performed.

Basic elements of currency risk management:

- evaluation of currency risk;
- setting of limits and restrictions;
- control of execution of these limits;
- currency risk stress testing and analysis of the results;
- carrying out of hedging operations, if necessary.

Liquidity Risk

The Bank is subject to the daily risk that it might need to use the available funds and short-term liquid assets for the fulfillment of its short-term liabilities. The term relation of assets and liabilities, as well as off-balance items, is related to liquidity risk and reflects to what extent funds would be necessary to fulfill the existing liabilities.

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 this coordination is one of the Bank's most important daily management tasks.

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

- evaluation of existing and planned assets, liabilities, and off-balance sheet liabilities term-structure broken down 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;

- determining liquidity indicators used for liquidity risk analysis and control;

- determining internal limits:

    - 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;
    - stress testing.

By specifying the calculation procedure of liquidity indicators and by its determining 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 (basic elements) are as follows:

- fulfillment of liquidity indicator limits;
- determining of net liquidity position limits;
- determining restriction on deposit concentration;
- control of compliance with the defined limits;
- liquidity stress testing and analysis of the 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 cash flows within the term interval of up to 7 days and 30 days.

In accordance with FCMC's requirements, the Bank maintains sufficient liquid assets for the fulfillment of its liabilities.

Transaction Concentration Risk

Transaction concentration risk is a risk that occurs from transaction concentration. In order to restrict the transaction concentration risk, the Bank determines limits for investments in various assets, instruments, markets etc. One of the most significant transaction concentration risks is the concentration of geographic regions (country risk).

Country Risk

Country risk – country partner risk – the possibility to incur losses if the Bank's assets are invested in a country whose changing economic and political factors may create problems for the Bank to retrieve its assets in the planned time and extent. A partner's and issuer's default occurs mainly due to currency devaluation, unfavorable changes in legislation, creation of new restrictions and barriers and other conditions, including *force majeure* factors.

For the country risk analysis, information of the international rating agencies (incl. credit ratings, their dynamics), economic indicators of countries and other related information is used.

Fundamental elements of risk control:

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

Assets, liabilities and off-balance sheet country risk is attributable to a country which may be considered the customer's main country of entrepreneurship. If the loan is granted to a resident of another country against a pledge, and this pledge is physically located in another country which is not the legal person's country of residence, the country risk is transferred to the country where the loan's pledge is actually located.

Capital Adequacy

Capital adequacy reflects the Bank's capital resources necessary to secure itself against risks related to assets and off-balance sheet items.

The Bank has the Capital Adequacy Assessment Process Policy, the aim of which is to ensure that the amount, elements and proportion of the Bank's equity capital are adequate to cover the substantial risks inherent to the Bank's current and planned operation.

For the risks for which the minimum regulatory capital requirements have been defined in accordance with the Regulations for the Calculation of the Minimum Capital Requirements, the capital requirement is calculated using the following approaches or methods:

- the credit risk requirement is calculated in accordance with a standardised approach;
- for the credit risk mitigation, simple method is used for financial collateral;
- the foreign currency risk capital requirements, debt securities' and capital securities' position risk, the payment/settlement risk capital requirements are calculated by using the standardised approach;
- debt securities' systematic risk capital requirement is determined by using the term method;
- the operational risk minimum capital requirement is calculated in accordance with the basic indicator approach.

For the calculation of the minimum capital requirements for the purpose of determining the transaction risk degree, the Bank applies the FCMC's recognized ECRA (rating agency) evaluations/ratings. ECRA are nominated for each risk transaction category, into which the Bank's risk transactions are divided into. If the Bank has no transactions, which can be included into any of the risk transaction categories, then, for this category, ECRA is nominated, when the actual risk transaction(-s) of this category appears.

The following ECRA are nominated for the risk transaction categories:

Risk transaction category	***Nominated ECRA***
Claims against the central governments and central banks (CG and CB)	FitchRatings; Standard&Poor's Ratings Services; Moody's Investors Service.
Claims against the institutions with the exception of such institutions, for which the short-term rating is available	FitchRatings; Standard&Poor's Ratings Services; Moody's Investors Service.
Claims against the commercial companies with the exception of such institutions, for which the short-term rating is available	FitchRatings; Standard&Poor's Ratings Services; Moody's Investors Service
The overdue risk transactions	FitchRatings; Standard&Poor's Ratings Services; Moody's Investors Service
Claims against the institutions and commercial companies with the short-term ratings	Moody's Investors Service
Other claims	FitchRatings; Standard&Poor's Ratings Services; Moody's Investors Service

Bank examines whether the fulfillment of the minimum capital requirements ensures, that the Bank's capital is adequate to cover all potential losses related with the risks mentioned above.

Other substantial Bank's risks for which the regulatory minimum capital requirements have not been defined, but for which the Bank assesses the necessity to calculate the capital requirement, are the following:

- interest rate risk;
- liquidity risk;
- concentration risk;
- money laundering and terrorist financing risk;
- other risks (incl. activity compliance risk, strategy risk, reputation risk).

In addition to the determination of capital necessary to cover the risks, the Bank sets a capital reserve in order to ensure that the Bank's capital is adequate in case of possible adverse events, as well as to ensure that the Bank's capital is adequate throughout the whole economic cycle, i.e. during an economic upturn the Bank forms a capital reserve to cover loses which may occur during an economic downturn. The capital reserve is set to be at least 10% of the sum of minimum regulatory capital requirements.

Methods for ensuring the total amount of necessary capital:

- fulfillment of the capital adequacy norms;
- analysis of the fulfillment of the capital adequacy norms;
- maintaining of the capital adequacy objectives' level;
- determining and planning of the necessary total capital amount to cover the substantial risks inherent to the Bank's current and planned operation;
- assessment and analysis of all substantial risks;
- development of stress test scenarios, performing stress tests and analyzing the results;
- development of capital crisis management plan.

On 31 December 2014, the Bank's calculated capital adequacy ratio was 26.57% (on 31 December 2013, it was 21.64%) which exceeds the minimum and the sum of capital conservation buffer minimum (10.5%) laid down in the European Parliament and Council Regulation (EU) No 575/2013 that own funds ratio against the risk weighted assets and off-balance sheet items must be at least 8% and the capital conservation buffer must be at least 2.5%. In the end of 2014, the Financial and Capital Market Commission recalculated the Bank's individual capital adequacy ratio and set it at 13.5%. The Bank observes and meets this individual capital adequacy requirement.

Capital adequacy evaluation results as on 31.12.2014

The capital necessary to cover risks, thous. EUR

	Minimum regulatory capital requirements	**Bank's evaluation of the necessary capital**
Credit Risk	**11 330**	**11 330**
Market Risks	**871**	**871**
Currency Risk	**173**	**173**
Tradable Debt Instruments, securities	**699**	**699**
Operational Risk	**1 955**	**1 955**
Other significant risks for which the minimum regulatory capital requirements have not been defined		**11 653**
Capital Reserve		**1 416**
Total	**14 155**	**25 193***

*Taking into account the FCMC's individual capital requirements and the Second pillar requirements Capital at the Bank's disposal, thous. EUR

Own Capital	Definition of the Bank's capital
47 024	47 024
Capital deficit/surplus in accordance with the Bank's evaluation	21 831

In the following table, the risk transaction category values before and after the credit risk mitigation are presented, as well as the total amount of the risk transactions, which have been concluded with the adequate collateral (thous. EUR):

Credit risk: the risk transaction categories	The risk transactions before the credit risk mitigation	Collateral (simple method)	The risk transactions after the credit risk mitigation	The risk weighted assets of the risk transactions
Claims against the central governments and central banks	**100 081**	**0**	**100 081**	**0**
0% risk degree	100 081	0	100 081	0
Claims against the institutions	**186 995**	**0**	**186 995**	**44 438**
20% risk degree	163 531	0	163 531	32 706
50% risk degree	23 464	0	23 464	11 732
Claims against the commercial societies	**110 869**	**28 998**	**87 761**	**68 018**
0% risk degree	0	28 989	25 804	0
20% risk degree	0	9	5	1
100% risk degree	72 295	4 323	49 823	49 823
150% risk degree	38 574	24 675	12 130	18 194
High risk transactions	**13 077**	**2 897**	**15 974**	**19 102**
0% risk degree	0	2 897	2 897	0
150% risk degree	13 077	0	13 077	19 102
Overdue risk transactions	**5 737**	**0**	**5 737**	**7 152**
100% risk degree	2 903	0	2 903	2 903
150% risk degree	2 834	0	2 834	4 250
Other claims	**5 224**	**0**	**5 224**	**2 910**
0% risk degree	2 099	0	2 099	0
20% risk degree	269	0	269	54
100% risk degree	2 856	0	2 856	2 856
Total	**421 983**	**31 895**	**401 772**	**141 620**

The average net amount of the risk transactions within the reporting period, broken down into different risk transaction categories after the credit risk mitigation application (thous. EUR):

Credit risk: the risk transaction categories	The risk weighted assets of the risk transactions in 2014	Average risk weighted assets of the risk transactions in 2014	The risk weighted assets of the risk transactions in 2013	Average risk weighted assets of the risk transactions in 2013
Claims against the central governments and central banks	**0**	**0**	**0**	**0**
0% risk degree	0	0	0	**0**
Claims against the institutions	**44 438**	**37 632**	**108 495**	**70 808**
20% risk degree	32 706	31 482	48 122	29 874
100% risk degree	11 732	6 150	60 374	40 934

Claims against the commercial societies	**68 018**	**102 289**	**60 742**	**46 918**
0% risk degree	0	0	0	0
20% risk degree	1	1	22	18
100% risk degree	49 823	57 580	60 720	44 963
150% risk degree	18 194	44 708	0	1 967
Speculative risk transactions	**19 102**	**22 990**	**0**	**0**
0% risk degree	0	0	0	0
150% risk degree	19 102	22 990	0	0
Overdue risk transactions	**7 152**	**7 353**	**10 537**	**8 098**
100% risk degree	2 903	5 010	3 974	3 973
150% risk degree	4 250	2 343	6 563	4 123
Other claims	**2 910**	**3 620**	**4 465**	**2 276**
0% risk degree	0	0	0	**0**
20% risk degree	54	50	595	**370**
100% risk degree	2 856	3 570	3 867	**1 907**
Total	**141 620**	**173 883**	**184 239**	**128 100**

Leverage ratio

Leverage ratio calculation:	**EUR, thousand**
Securities-financing transactions (SFT) exposure according to Article 220 of the CRR	
SFT exposure according to Article 222 of the CRR	
Derivatives: market value	737
Derivatives: add-on mark-to-market method	436
Derivatives: original exposure method	0
Undrawn credit facilities, which may be cancelled unconditionally at any time without notice	0
Medium/ low risk trade related off-balance sheet items	0
Medium risk trade related off-balance sheet items and officially supported export finance related off-balance sheet items	0
Other off-balance sheet items	19 852
Other assets	592 056
Tier 1 capital – fully phased-in definition	35 369
Tier 1 capital – transitional definition	35 369
Amount to be added according to second subparagraph of Article 429(4) of the CRR	0
Amount to be added according to second subparagraph of Article 429(4)(2) of the CRR – transitional definition	0
Regulatory adjustments – Tier 1 capital – fully phased-in definition, of which:	0
Regulatory adjustments regarding own credit risk	0
Regulatory adjustments – Tier 1 capital – transitional definition	0
Leverage ratio using the fully phased-in definition of Tier 1 capital, %	5.77
Leverage ratio using the transitional definition of Tier 1 capital, %	5.77

In order to manage the leverage risk, the Bank has revised and supplemented the Capital Adequacy Assessment Process Policy, and the strategic planning process is being implemented taking into account the leverage ratio requirements.

As compared to 2013, in 2014, the Bank's deposit portfolio has increased by 26% and amounted to EUR 539 million at the end of the year, whereas the amount of assets increased by 24.5% and amounted to EUR 592.86 million on 31 December 2014.

As compared to 31 December 2013, the Bank's credit portfolio has increased by 0.8% and amounts to EUR 70.4 million. In the end of 2014, the Bank's securities portfolio amounted to EUR 199.94 million which is a significant increase as compared to 31 December 2013 when the securities portfolio was only EUR 23.56 million.

As compared to 2013, the amount of own funds did not undergo a significant change, and, in the end of 2014, it amounted to EUR 47 million.

Geographical breakdown of the Bank's credit risk exposures for transactions that are essential for the calculation of the Bank's countercyclical capital buffers (EUR, thousand):

Countries	Original exposure value pre conversion factors	Specific credit risk adjustments (for provisions)	Exposure value	Exposure risk-weighted value
Australia	606	606	0	0
Barbados	12	0	6	6
Belgium	24	0	24	24
Bulgaria	804	47	451	451
Belize	2 897	976	1 449	1 449
Canada	201	0	105	105
Switzerland	3 666	0	3 658	745
China	32 484	0	32 484	6 497
Cyprus	5 342	0	4 130	4 130
Czech Republic	95	0	95	95
Germany	57 843	1 160	52 683	15 848
Denmark	3 561	0	3 561	712
Dominica	9	0	6	6
Estonia	13	0	7	0
Great Britain	31 008	10 008	11 825	11 611
Georgia	3 232	0	3 232	3 040
Hong Kong	6 445	0	6 444	1 290
Israel	144	0	97	97
Japan	979	0	979	196
Luxemburg	1 016	0	1 016	203
Latvia	170 418	10 106	162 160	41 986
Monaco	165	0	91	91
the Marshall Islands	7	0	4	4
Malta	276	0	275	275
Panama	8 349	2 363	4 110	4 031
Russia	12 008	0	12 008	6 007
Seychelles	11	0	5	5
Turkey	30 961	0	30 961	9 110
Ukraine	38 951	0	31 732	18 571
United States	31 527	2 902	28 608	5 989
British Virgin Islands	10 821	828	9 222	9 043
Total	**453 877**	**28 997**	**401 428**	**141 620**

Remuneration Policy

On remuneration policy and practice

The aim of the Bank's Remuneration Policy is to determine the basic principles of remuneration in accordance with the Bank's development strategy, the Bank's direction of operation and its risk profile.

The Bank's Council develops and approves the basic principles of the Remuneration Policy, is responsible for the Policy's implementation and monitoring of compliance therewith, whereas the Bank's Board is responsible for ensuring compliance with the basic principles of the Remuneration Policy.

In 2014, the Bank’s remuneration structure envisaged only the fixed part of remuneration, i.e. basic salary.

In 2014, employment relationships were terminated with 20 employees. The largest compensation for the termination of the legal employment relationships was EUR 11,480.

Information on staff remuneration in 2014

Name of the heading	Council	Board	Investment services	Servicing of private persons and small and medium commercial entities	Asset management	Corporate support function	Internal control function	Other types of activity
Number of employees at the end of the year	5	4	2	18	0	18	8	89
Total remuneration, EUR	137406	293450	95382	343585	0	403155	186904	1236283
Including: variable part of remuneration	0	0	0	0	0	0	0	0

Information on employees that have an impact on the staff remuneration risk profile, 2014 (EUR)

	Name of the heading	Council	Board	Investment services	Servicing of private persons and small and medium commercial entities	Asset management	Corporate support function	Internal control function	Other types of activity
	Number of employees at the end of the year that have an impact on the institution’s risk profile:	5	4	2	18	0	18	8	89
	including number of employees in the highest management positions that have an impact on the risk profile	0	0	0	0	0		3	0
Fixed part of remuneration	Total fixed part of remuneration:	137 406	293 450	95 382	343 585		403 155	186 904	1 236 283
	including cash and other payment means	7 469	9 781	566	4 528		4 811	1 527	16 234
	including shares and related instruments								
	including other instruments								
Variable part of remuneration	Total variable part of remuneration:								
	including cash and other payment means								
	including shares and related instruments								
	including other instruments								
Variable part of deferred remuneratio	including deferred part of cash and other payment means								

n	including deferred part of shares and related instruments								
	including deferred part of other instruments								
	Total variable part of unpaid deferred remuneration allocated before the reporting year:								
	including the part to which irrevocable parts have been obtained								
	Total variable part of deferred remuneration paid out in the reporting year								
Adjustment of the variable part of remuneration	Adjustment of the variable part of remuneration during the reporting year that concerns the variable part of remuneration allocated in the previous years								
Guaranteed variable part of remuneration	Number of persons receiving the guaranteed variable part of remuneration (sign-on payments)								
	Amount of guaranteed variable part of remuneration (sign-on)								
Compensation for termination of legal employment relationships	Number of employees that received a compensation for termination of legal employment relationships		1						
	Amount of compensation for termination of legal employment relationships paid in the reporting year		11 480						
	Amount of the largest compensation for a single person for termination of legal employment relationships		11 480						
Benefits related to retirement	Number of employees that receive benefits related to retirement								
	Amount of benefits related to retirement								