



## **Pilar III - Information Disclosure year 2015**

### **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;
- breach 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:

Risk transactions by branches	31.12.2014		31.12.2015		The average extent in 2015	
	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	1 691	464	1 825	518	1 758	491
Production, processing industry	5 760	135	9 515	564	7 637	349
Trade	30 389	7 859	30 558	10 301	30 474	9 080
Transport	19 684	4 279	17 563	3 806	18 624	4 042
Financial services	4 737	1 840	5 297	2 684	5 017	2 262
Real estate operations	21 367	4 714	23 478	7 615	22 422	6 165
Construction	6 221	3 632	6 584	4 470	6 403	4 051
Accommodation and food services	2 657	1 595	1 595	1 595	2 126	1 595
Other services	1 649	0	2 364	0	2 006	0
Physical persons	3 659	2 905	3 617	3 020	3 638	2 963
The total extent of the risk transactions	97 813	27 423	102 396	34 573	100 105	30 998

Overdue (>90 days) risk transactions by branches	31.12.2014		31.12.2015		The average extent in 2015	
	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	464	464	1 050	518	757	491
Production, processing industry	135	135	1 567	564	851	349
Trade	3 231	3 179	2 793	2 774	3 012	2 977
Transport	9 162	4 279	7 100	2 141	8 131	3 210
Financial services	0	0	0	0	0	0
Real estate operations	10 800	3 108	12 175	5 677	11 487	4 392
Construction	4 904	3 632	5 338	4 470	5 121	4 051
Accommodation and food services	1 595	1 595	1 595	1 595	1 595	1 595
Physical persons, overdrafts	1 944	1 937	1 942	1 942	1 943	1 939
The total extent of the risk transactions	32 236	18 329	33 559	19 681	32 898	19 005

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:

Risk transactions by the most important geographical regions*, EUR	31.12.2014	The special savings for the principal amount	31.12.2015		The average extent in 2015	
	The residue of the credit		The residue of the credit	The special savings for the principal amount	The residue of the credit	The special savings for the principal amount
BG Bulgaria	189	47	753	27	471	37
CN China	911	0	122	0	516	0
DE (Germany)	372	372	542	372	457	372
GE Georgia	2 099	0	0	0	1 050	0
LV (Latvia)	54 680	10 195	62 122	13 497	58 401	11 846
MC Monaco	17	0	0	0	8	0
RU Russia	2	0	6	0	4	0
UA (Ukraine)	39 543	16 808	38 203	20 676	38 873	18 742
US USA	0	0	648	0	324	0
Other	1	0	0	0	1	0
The total extent of the risk transactions	97 813	27 423	102 396	34 573	100 105	30 998

Risk transactions by the most important geographical regions*, EUR	31.12.2014	The special savings for the principal amount	31.12.2015		The average extent in 2015	
	The residue of the credit		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	372	372	372	372	372	372
Latvia	17 184	8 589	22 917	11 403	20 051	9 996
Ukraine	14 680	9 368	10 270	7 905	12 475	8 637
The total extent of the risk transactions	32 236	18 329	33 559	19 681	32 898	19 005

## 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 2012, 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:

<i>Risk transaction category</i>	<i>Nominated ECRA</i>
Claims against the central governments and central banks (CG and CB)	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	FitchRatings; Standard&Poor's Ratings Services; 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 losses 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 2015, the Bank's calculated capital adequacy ratio was 23.26% (on 31 December 2014, it was 26.57%) 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 2015, the Financial and Capital Market Commission recalculated the Bank's individual capital adequacy ratio and set it at 15.6%. The Bank observes and meets this individual capital adequacy requirement.

## Capital adequacy evaluation results as on 31.12.2015

The capital necessary to cover risks, thous. EUR

	Minimum regulatory capital requirements	Bank's evaluation of the necessary capital
Credit Risk	10 983	10 983
Market Risks	2 462	2 462
Currency Risk	195	195
Tradable Debt Instruments, securities	2 267	2 267
Operational Risk	2 258	2 258
Other significant risks for which the minimum regulatory capital requirements have not been defined		10 955
Capital Reserve		1 570
<b>Total</b>	<b>15 703</b>	<b>32 004*</b>

\*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
45 673	45 673
Capital deficit/surplus in accordance with the Bank's evaluation	13 669

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 mitigations	Collateral (simple method)	The risk transactions after the credit risk mitigations	The risk weighted assets of the risk transactions
<b>Claims against the central governments or central banks</b>	<b>113 538</b>	<b>0</b>	<b>113 538</b>	<b>0</b>
0% risk degree	113 538	0	113 538	0
<b>Claims against the institutions</b>	<b>92 490</b>	<b>0</b>	<b>92 490</b>	<b>19 334</b>
20% risk degree	89 703	0	89 703	17 941
50% risk degree	2 787	0	2 787	1 393
<b>Claims against the commercial societies</b>	<b>133 730</b>	<b>42 629</b>	<b>105 742</b>	<b>74 069</b>

0% risk degree	0	0	34 637	0
20% risk degree	0	0	11	2
100% risk degree	98 390	14 605	65 148	65 148
150% risk degree	35 340	28 025	5 946	8 919
<b>High risk transactions</b>	<b>12 202</b>	<b>2 800</b>	<b>11 912</b>	<b>13 668</b>
0% risk degree	0	0	2 800	0
100% risk degree	0	0	0	0
150% risk degree	12 202	2 800	9 112	13 668
<b>Overdue risk transactions</b>	<b>8 734</b>	<b>71</b>	<b>8 221</b>	<b>10 161</b>
0% risk degree	0	0	71	0
100% risk degree	4 129	0	4 129	4 129
150% risk degree	4 605	71	4 021	6 032
<b>Other claims</b>	<b>21 171</b>	<b>0</b>	<b>21 171</b>	<b>19 137</b>
0% risk degree	2 034	0	2 034	0
20% risk degree	0	0	0	0
100% risk degree	19 137	0	19 137	19 137
<b>Capital securities</b>	<b>920</b>	<b>0</b>	<b>920</b>	<b>920</b>
<b>100% risk degree</b>	<b>920</b>	<b>0</b>	<b>920</b>	<b>920</b>
<b>Total</b>	<b>382 784</b>	<b>45 500</b>	<b>353 994</b>	<b>137 288</b>

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 2015	Average risk weighted assets of the risk transactions in 2015	The risk weighted assets of the risk transactions in 2014	Average risk weighted assets of the risk transactions in 2014
<b>Claims against the central governments or central banks</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
0% risk degree	0	0	0	0
<b>Claims against the institutions</b>	<b>19 334</b>	<b>33 938</b>	<b>44 438</b>	<b>37 632</b>
20% risk degree	17 941	29 778	32 706	31 482
100% risk degree	1 393	4 160	11 732	6 150
<b>Claims against the commercial societies</b>	<b>74 069</b>	<b>92 192</b>	<b>68 018</b>	<b>102 289</b>
0% risk degree	0	0	0	0
20% risk degree	2	2	1	1
100% risk degree	65 148	80 873	49 823	57 580
150% risk degree	8 919	11 317	18 194	44 708
<b>Speculative risk transactions</b>	<b>13 668</b>	<b>15 946</b>	<b>19 102</b>	<b>22 990</b>
150% risk degree	13 668	15 946	19 102	22 990
<b>Overdue risk transactions</b>	<b>10 161</b>	<b>8 698</b>	<b>7 152</b>	<b>7 353</b>

100% risk degree	4 129	2 829	2 903	5 010
150% risk degree	6 032	5 869	4 250	2 343
<b>Capital securities</b>	<b>920</b>	<b>230</b>	<b>0</b>	<b>0</b>
100% risk degree	<b>920</b>	<b>230</b>	<b>0</b>	<b>0</b>
<b>Other claims</b>	<b>19 137</b>	<b>19 576</b>	<b>2 910</b>	<b>3 620</b>
0% risk degree	0	0	0	0
20% risk degree	0	28	54	50
100% risk degree	19 137	19 548	2 856	3 570
<b>Total</b>	<b>137 288</b>	<b>170 350</b>	<b>141 620</b>	<b>173 883</b>

## Leverage ratio

<b>Leverage ratio calculation as on 31.12.2015:</b>	<b>EUR, thousand</b>
Securities financing transactions (SFT) exposure according to Article 220 of the CRR	
SFT exposure according to Article 222 of the CRR	
Derivatives: market value	263
Derivatives: add-on mark-to-market method	1 028
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	1 574
Other assets	635 197
Tier 1 capital – fully phased-in definition	33 781
Tier 1 capital – transitional definition	33 781
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) of the CRR – transitional definition	0
Regulatory adjustments — Tier 1 capital — fully passed-in definition; of which	0
Regulatory adjustments regarding own credit risk	0
Regulatory adjustments — Tier 1 capital — transitional definition	-255*
Leverage ratio using the fully phased-in definition of Tier 1 capital, %	5.14
Leverage ratio using the transitional definition of Tier 1 capital, %	5.14

### \* non-material assets

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 2014, in 2015, the Bank's deposit portfolio has increased by 7.6% and amounted to EUR 584 million at the end of the year, whereas the amount of assets increased by 7.27% and amounted to EUR 636.6 million on 31 December 2015.

The Bank's credit portfolio, which consists of the issued credits and credit obligations, as on 31 December, 2015 was EUR 92 million. In the review period, the clients settled their obligations in the amount of EUR 7.3 million; at the same time, the Bank issued new credits in the amount of EUR 8.6 million and signed agreements regarding the issue of new credits in the amount of EUR 7.7 million.

In the year 2015, significantly – by 44.5 % - increased the Bank's volume of investment portfolio, which on December 31, 2015 reached EUR 289 million. Such an important increase of the volume of the investment portfolio took place owing to investments in state short-term and medium term bonds with high credit rating.

As compared to 2014, the amount of own funds did not undergo a significant change, and, in the end of 2015, it amounted to EUR 45.7 million (on December 31, 2014 – 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	681	676	5	5
Barbados	13	0	7	7
Belgium	25	0	25	25
Bulgaria	804	27	754	754
Belize	3 801	1 088	1 241	920
Canada	99	0	49	49
Switzerland	2 860	0	2 848	582
China	15 495	0	15 495	3 099
Cyprus	3 855	879	2 944	2 944
Czech Republic	98	0	98	79
Germany	15 968	3 766	8 372	3 809
Denmark	3 688	0	3 688	738
Dominica	10	0	5	5
Estonia	13	0	3	0
Great Britain	40 201	10 931	20 814	10 677
Georgia	12 309	0	12 309	12 309
Hong Kong	4 611	0	477	96
Israel	53	0	27	27
Japan	1 040	0	1 040	208
Latvia	204 591	11 036	194 018	60 849
Monaco	184	0	92	92

The Marshall Islands	25	0	21	21
Malta	1	0	0	0
Panama	7 627	2 792	4 678	55
Russia	592	0	592	592
Seychelles	122	12	108	108
Turkey	14 991	0	14 991	14 991
Ukraine	38 714	98	30 867	11 277
United States	34 036	2 917	31 095	6 497
Virgin Islands	12 537	2 148	7 221	6 452
Poland	108	0	108	22
Total	419 152	36 370	353 992	137 289

## 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.

Employing new employees, members of the board, there are evaluated their factual knowledge, skills as well as competences necessary for the concrete job position.

There's no separate risk management committee in the Bank as well as director, which, at the same time, forms a part of the Board.

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

In the year 2015 the Board was increased till 4 members of the Board; in its turn, work relationships were cancelled with 26 employees; no one of them had a job position influencing the risk profile.

### **Information on staff remuneration in 2015**

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	3	7	0	17	8	128
Total remuneration, EUR	130316	370386	96079	100723	0	502138	219839	1867247
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, 2015 (EUR)**

	<b>Name of the heading</b>	<b>Council</b>	<b>Board</b>	<b>Investment services</b>	<b>Servicing of private persons and small and medium commercial entities</b>	<b>Asset management</b>	<b>Corporate support function</b>	<b>Internal control function</b>	<b>Other types of activity</b>
	Number of employees at the end of the year that have an impact on the institution's risk profile:	5	4	3	7	0	17	8	29
	including number of employees in the highest management positions that have an impact on the risk profile	0	0	0	0	0	0	0	0
<b>Fixed part of remuneration</b>	Total fixed part of remuneration:	130316	370386	96079	100723	0	502138	219839	1867247
	including cash and other payment means		1239	395	1591		4419	1634	23719
	including shares and related instruments								
	including other instruments								
<b>Variable part of remuneration</b>	Total variable part of remuneration:								
	including cash and other payment means								
	including shares and related instruments								
	including other instruments								
<b>Variable part of deferred remuneration</b>	including deferred part of cash and other payment means								
	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								

<b>Adjustment of the variable part of remuneration</b>	Adjustment of the variable part of remuneration during the reporting year that concerns the variable part of remuneration allocated in the previous years									
<b>Guaranteed variable part of remuneration</b>	Number of persons receiving the guaranteed variable part of remuneration (sign-on payments)									
	Amount of guaranteed variable part of remuneration (sign-on)									
<b>Compensation for termination of legal employment relationships</b>	Number of employees that received a compensation for termination of legal employment relationships									
	Amount of compensation for termination of legal employment relationships paid in the reporting year									
	Amount of the largest compensation for a single person for termination of legal employment relationships									
<b>Benefits related to retirement</b>	Number of employees that receive benefits related to retirement									
	Amount of benefits related to retirement									