

Balance sheet

AS "Reģionālā investīciju banka"

December 31, 2020

(last day of the reporting period)

| No | Position | 31.12.2020 Bank unaudited | 31.12.2020 Group unaudited | 31.12.2019 Bank audited | 31.12.2019 Group audited |
|------|---|---------------------------------|----------------------------------|-------------------------------|--------------------------------|
| 1. | Cash and balances due from central banks | 67 749 254 | 67 749 254 | 113 348 256 | 113 348 256 |
| 2. | Balances due from credit institutions | 11 686 979 | 11 686 979 | 21 098 669 | 21 098 669 |
| 3. | Financial assets designated at fair value through profit or loss | 13 394 913 | 13 394 913 | 31 058 064 | 31 058 064 |
| 4. | Financial assets at fair value through other comprehensive income | 46 670 465 | 46 670 465 | 412 205 | 412 205 |
| 5. | Financial assets at amortised cost | 97 801 079 | 94 153 178 | 88 549 556 | 84 006 470 |
| 5.1 | of which: loans | 97 801 079 | 94 153 178 | 88 549 556 | 84 006 470 |
| 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 | 6 100 000 | 0 |
| 9. | Tangible assets | 13 092 753 | 13 092 753 | 13 250 539 | 13 250 539 |
| 10. | Intangible assets | 437 088 | 437 088 | 450 545 | 450 545 |
| 11. | Tax assets | 0 | 0 | 0 | 0 |
| 12. | Other assets | 5 139 777 | 17 359 646 | 12 042 437 | 24 372 701 |
| 13. | Non-current assets and disposal groups classified as held for sale | 0 | 0 | 0 | 0 |
| 14. | Total assets (1.+...+13.) | 262 072 308 | 264 544 276 | 286 310 271 | 287 997 449 |
| 15. | Balances due to central banks | 0 | 0 | 0 | 0 |
| 16. | Balances due to credit institutions | 5 400 | 5 400 | 0 | 0 |
| 17. | Financial liabilities designated at fair value through profit or loss | 0 | 0 | 0 | 0 |
| 18. | Financial liabilities measured at amortised cost | 224 831 095 | 224 012 471 | 249 058 243 | 248 604 120 |
| 18.1 | of which: deposits | 208 447 070 | 207 628 446 | 231 161 823 | 230 707 700 |
| 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 | 1 007 486 | 1 007 486 | 1 373 293 | 1 373 293 |
| 22. | Tax liabilities | 0 | 0 | 0 | 0 |
| 23. | Other liabilities | 271 123 | 273 411 | 451 527 | 1 646 196 |
| 24. | Liabilities included in disposal groups classified as held for sale | 0 | 0 | 0 | 0 |
| 25. | Total liabilities (15.+...+24.) | 226 115 104 | 225 298 768 | 250 883 063 | 251 623 609 |
| 26. | Equity and reserves | 35 957 204 | 39 245 508 | 35 427 208 | 36 373 840 |
| 27. | Total equity and reserves, and liabilities (25.+26.) | 262 072 308 | 264 544 276 | 286 310 271 | 287 997 449 |
| 28. | Off-balance sheet items | | | | |
| 29. | Contingent liabilities | 9 550 225 | 9 550 225 | 5 242 484 | 5 242 484 |

| | | | | | |
|-----|-------------|------------|------------|------------|------------|
| 30. | Commitments | 13 722 190 | 13 722 190 | 32 006 398 | 32 006 398 |
|-----|-------------|------------|------------|------------|------------|

Profit and Loss Account

December 31, 2020

(last day of the reporting period)

| No | Position | 12 months 2020 Bank unaudited | 12 months 2020 Group unaudited | 12 months 2019 Bank audited | 12 months 2019 Group audited |
|-----|--|--|---|--------------------------------------|---------------------------------------|
| 1. | Interest income | 5 689 045 | 5 522 663 | 7 734 139 | 7 575 945 |
| 2. | Interest expense (-) | -2 059 576 | -2 065 096 | -2 501 878 | -2 501 878 |
| 3. | Income from dividends | 10 854 | 10 854 | 4 197 | 4 197 |
| 4. | Commission income | 3 521 243 | 3 520 979 | 4 197 670 | 4 197 457 |
| 5. | Commission expense (-) | -356 591 | -356 723 | -455 129 | -455 234 |
| 6. | Net gains or (-) losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss (+/-) | 0 | 0 | 97 596 | 97 596 |
| 7. | Net gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss (+/-) | 756 118 | 756 118 | 909 519 | 909 519 |
| 8. | Net gains or (-) losses from hedge accounting (+/-) | 0 | 0 | 0 | 0 |
| 9. | Exchange differences [gain or (-) loss], net (+/-) | -4 989 | -4 989 | 170 333 | 170 333 |
| 10. | Net gains or (-) losses on derecognition of non financial assets (+/-) | 441 474 | 441 474 | 2 322 | 2 322 |
| 11. | Other operating income | 430 626 | 453 012 | 400 683 | 1 273 847 |
| 12. | Other operating Expenses (-) | -453 004 | -453 004 | -500 482 | -500 482 |
| 13. | Administrative expense (-) | -7 619 775 | -7 721 389 | -7 694 484 | -7 814 251 |
| 14. | Depreciation (-) | -367 690 | -367 690 | -519 574 | -519 574 |
| 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 (-/+) | -75 202 | -75 202 | -588 | -588 |
| 17. | Impairment or (-) reversal of impairment (-/+) | 940 748 | 944 939 | 1 302 254 | 1 329 285 |
| 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 (+/-) | 853 281 | 605 946 | 3 146 578 | 3 768 494 |
| 22. | Corporate income tax | -138 603 | -139 596 | -149 521 | -149 521 |
| 23. | Profit/losses for the period (+/-) | 714 678 | 466 350 | 2 997 057 | 3 571 832 |
| 24. | Other comprehensive income for the period (+/-) | 38 551 | 38 551 | 223 233 | 223 233 |

Key ratios of the Consolidated group and the Bank

December 31, 2020

(last day of the reporting period)

| Position | Bank 31.12.2020 | Consolidated group 31.12.2020 | Bank 31.12.2019 | Consolidated group 31.12.2019 |
|----------------------------|--------------------|----------------------------------|--------------------|----------------------------------|
| Return on Equity (ROE) (%) | 1.96 | 1.41 | 8.67 | 10.31 |
| Return on Assets (ROA) (%) | 0.27 | 0.21 | 1.15 | 1.39 |

Group Consolidation
December 31, 2020

(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 | 66.38% | 66.38% | MS |

* PLS-supporting company

** MS-subsidiary company

I. Summary Report on Equity Capital and Capital Adequacy Ratio Calculations
December 31, 2020

(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 | 40 606 199 | 44 148 931 |
| 1.1. | Tier 1 capital (1.1.1.+1.1.2.) | C 01.00 1.1. | 38 822 414 | 42 365 146 |
| 1.1.1. | Common equity Tier 1 capital | C 01.00 1.1.1. | 38 822 414 | 42 365 146 |
| 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. | 1 783 785 | 1 783 785 |
| 2. | Total Risk Exposure Amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.) | C 02.00 1. | 161 128 914 | 162 248 338 |
| 2.1. | Risk Weighted Exposure Amounts for Credit, Counterparty Credit and Dilution Risks and Free Deliveries | C 02.00 1.1. | 133 659 351 | 134 302 150 |
| 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. | 2 946 250 | 2 946 250 |
| 2.4. | Total Risk Exposure Amount for Operational Risk | C 02.00 1.4. | 24 523 313 | 24 999 938 |
| 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. | 24.09 | 26.11 |
| 3.2. | Surplus(+)/Deficit(-) of Common equity Tier 1 capital (1.1.1.-2.*4,5%) | C 03.00 2. | 31 571 613 | 35 063 971 |
| 3.3. | Tier 1 capital ratio (1.1./2.*100) | C 03.00 3. | 24.09 | 26.11 |
| 3.4. | Surplus(+)/Deficit(-) of Tier 1 capital (1.1.-2.*6%) | C 03.00 4. | 29 154 679 | 32 630 246 |
| 3.5. | Total capital ratio (1./2.*100) | C 03.00 5. | 25.20 | 27.21 |
| 3.6. | Surplus(+)/Deficit(-) of Total capital (1.-2.*8%) | C 03.00 6. | 27 715 886 | 31 169 064 |
| 4. | Combined buffer requirements (4.1.+4.2.+4.3.+4.4.+4.5.) | C 04.00 27. | 4 028 223 | 4 056 208 |
| 4.1. | Capital conservation buffer | | 4 028 223 | 4 056 208 |
| 4.2. | Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State | | 0 | 0 |

| | | | | |
|------|--|----------------|-------|-------|
| 4.3. | Institution specific countercyclical capital buffer | | 0 | 0 |
| 4.4. | Systemic risk buffer | | 0 | 0 |
| 4.5. | Other Systemically Important Institution buffer | | 0 | 0 |
| 5. | Capital adequacy ratios, including adjustments | | | |
| 5.1. | Adjustments to asset value due to prudential filters | C 04.00 28. | 0 | 0 |
| 5.2. | Tier 1 common capital ratio with adjustment specified in row 5.1 | C 03.00 7 | 24.09 | 26.11 |
| 5.3. | Tier 1 capital ratio with adjustment specified in row 5.1 | C 03.00 9. | 24.09 | 26.11 |
| 5.4. | Total capital ratio with adjustment specified in row 5.1 | C 03.00 11. | 25.20 | 27.21 |

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, 2020

(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 | 36 523 058 | 40 065 790 |
| 1.1.A | Tier 1 capital, if IFRS 9 transition arrangements were not applied | 34 739 273 | 38 282 005 |
| 1.1.1.A | Common equity Tier 1 capital, if IFRS 9 transitional arrangements were not applied | 34 739 273 | 38 282 005 |
| 2.A | Total risk exposure amount, if IFRS 9 transitional arrangements were not applied | 156 714 820 | 157 839 466 |
| 3.1.A | Common equity Tier 1 capital ratio, if IFRS 9 transitional arrangements were not applied | 22.17 | 24.25 |
| 3.3.A | Tier 1 capital ratio, if IFRS 9 transitional arrangements were not applied | 22.17 | 24.25 |
| 3.5.A | Total capital ratio, if IFRS 9 transitional arrangements were not applied | 23.31 | 25.38 |

AS "Reģionālā investīciju banka" does not apply temporary period in accordance with the Article 468 of EU Regulation No. 575/2013.

Liquidity Coverage Ratio Calculation December 31, 2020

(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 | 122 387 352 | 122 387 352 |
| 2. | Net Liquidity Outflow | 46 882 285 | 46 720 850 |
| 3. | Liquidity coverage ratio (%) | 261.05 | 261.95 |

Expected Losses Split by Stages According to IFRS 9 "Financial Instruments" December 31, 2020

(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 | 2 357 755 | 258 997 | 7 582 800 | 2 325 837 | 258 997 | 7 582 800 |
| of which for standby credit facilities | 295 698 | 0 | 3 674 | 295 698 | 0 | 3 674 |
| of which for guarantees | 0 | 0 | 0 | 0 | 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

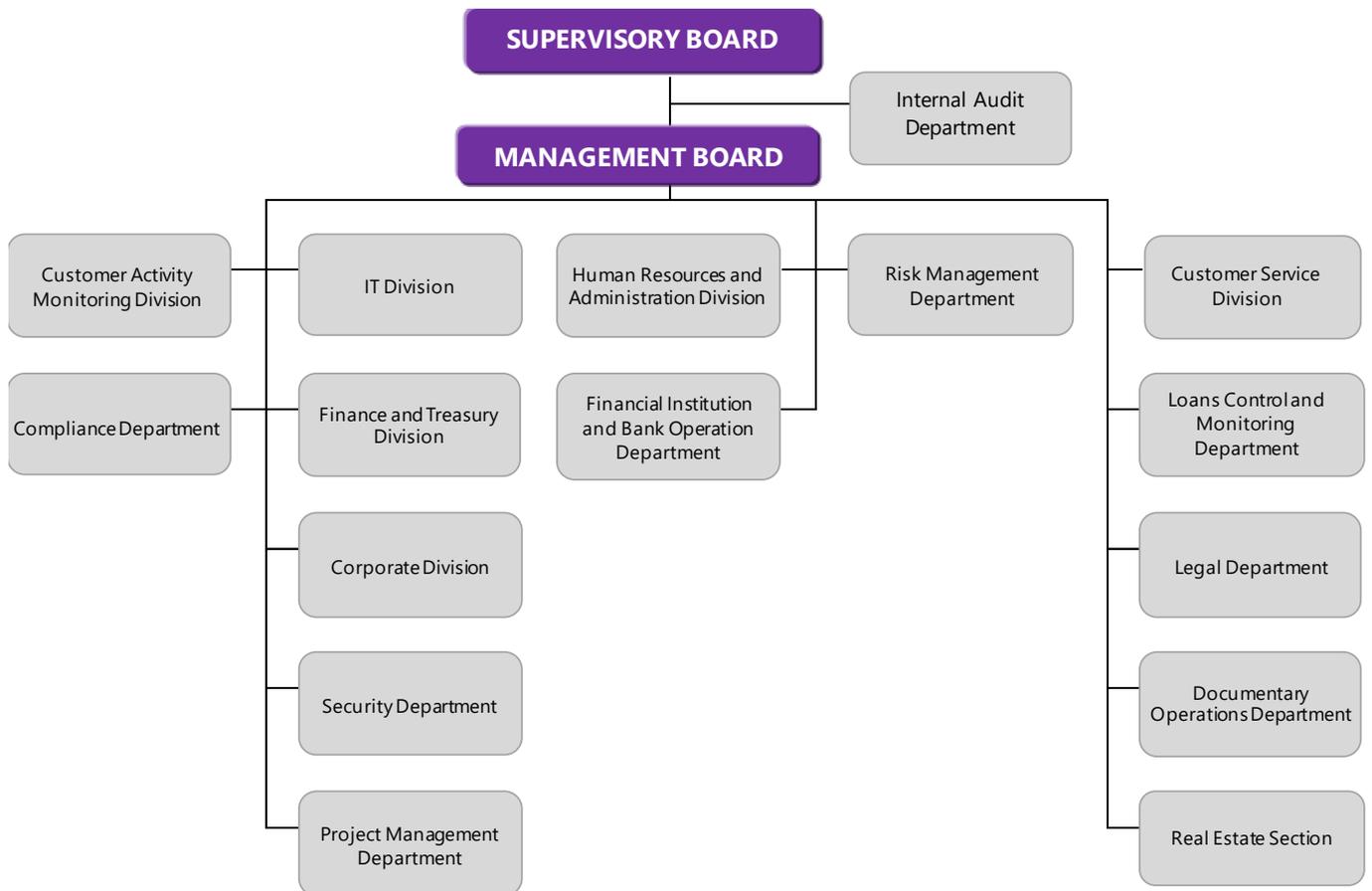
| Position | Name |
|-----------------------|----------------------|
| Chairman of the Board | Aleksandrs Jakovlevs |
| Member of the Board | Andrii Homza |
| Member of the Board | Alda Odina |
| Member of the Board | Dace Gaigala |
| Member of the Board | Vita Matvejeva |

Shareholders of the Bank

| Shareholder | Shares (%) |
|---|------------|
| SIA "SKY Investment Holding" | 44,00% |
| Yuriy Rodin | 20.00% |
| AB „Pivdennyi“ | 13.76% |
| Mark Bekker | 10.57% |
| Other shareholders (with less than 10% of shares) | 11,67% |

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



Strategy and goals of activity

AS "Reģionālā investīciju banka" (hereinafter – 'the Bank' or 'RIB') is a specialised European lending bank, founded and registered in Latvia, with more than 15 years of experience in the field of international finance.

The Bank's strategy is to be a stable and efficient specialised European bank that offers highly - qualified consultations and a range of products and services currently in demand in the market in the field of lending and business financing.

Bank's products are oriented towards legal entities – Latvian/EU small and medium enterprises ('SMEs'), as well as individuals – employees, managers, and beneficiaries of the companies serviced by the Bank.

The primary goals of the Bank's activity are:

- offering consultations on matters concerning the attraction of financing and in the field of lending, as well as offering related 'classical' banking products to customers;
- ensuring the high quality and speed of service, observing such principles as openness, flexibility, innovation, competence, confidentiality, and security;
- creating a stable, highly-profitable, and balanced customer base in terms of residence and risks, which complies with the highest standards of the Latvian banking sector in the field of anti-money laundering and counter-financing of terrorism ('AML/CFT');
- forming a team of highly-qualified employees with a high level of professionalism, necessary expertise, and common corporate values;
- continuously optimising all the processes of the Bank, developing a sustainable business model, achieving planned efficiency and profitability indicators.

Risk Management

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 31.12.2020, financial assets measured at amortised cost amount to EUR 91 153 178 , balances due from credit institutions amount to EUR 11 686 979, Financial assets at fair value through other comprehensive income amount to EUR 46 670 465.

Loan portfolio breakdown by overdue periods as on 31.12.2020:

| | 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 | 0 | 192 843 | 3 | 7 581 712 | 82 531 549 | 90 306 107 | 9 150 550 |
| Loans to individuals | 1 442 848 | 0 | 0 | 191 732 | 541 430 | 2 176 010 | 1 005 248 |
| Total | 1 442 848 | 192 843 | 3 | 7 773 444 | 83 072 979 | 92 482 117 | 10 155 798 |

The amount of credits secured by deposits is EUR ~ 1.1 million (1% of the credit portfolio).

The Bank's exposure to credit risk is also supervised and mitigated, ensuring corresponding registration of collaterals and credit guarantees on behalf of the Bank. Fair value of these guarantees and collaterals is regularly reviewed.

Collateral is a property or rights that may serve as an alternative source of Loan repayment in the event if the Customer fails to fulfil its obligations.

As a collateral the Bank accepts the assets that comply with the following criteria:

- market value of assets, that is determined by independent valutors in the collateral appraisal and its changes are predictable within all the period of loan agreement. Attention is drawn to the market value of assets and to the fast forced sale value;
- assets are liquid, that is, they can be realized in a relatively short term at the price, which is close to the fast forced sale value (or market value);
- there is legal and actual opportunity to control these assets in order to prevent abuse by a borrower or by an owner of assets;
- the Bank's rights on these assets have legal priority over other creditors of the owner of assets (or creditors' rights with more privileged position compared to the Bank's rights, in total for an insignificant amount compared to the collateral value), allowing legal priority of Pivdennyi Bank as an exception.

Only certain types of assets are accepted as a collateral, and limits are set for every type of collateral in respect of maximum allowed loan amount against this collateral.

Types of collateral that are most commonly accepted:

- term deposit at the Bank
- real estate
- production facility of industrial nature
- land (depending on geographic location, communications, cadastral value, etc.)
- unused passenger cars
- unused trucks, tractor machinery
- used passenger cars under 7 years old and trucks under 9 years old, tractor machinery under 5 years old
- other cars and tractor machinery
- vessels
- stores (goods in a customs warehouse or otherwise controlled goods and goods in owner's warehouse)
- technological equipment and machinery
- other fixed assets of the company
- accounts receivable (as an aggregation of property)
- securities, capital shares, bills
- guarantees

Value of real estate is determined according to independent experts' opinion and by adjusting this valuation based on the Bank's experience and normative documents. Market value of stores (goods in a customs warehouse or

otherwise controlled goods) and of stores (goods held at the owner's warehouse) is considered to be publicly available price, the formation mechanism of which is clear and acceptable for the Bank. Market value of technological equipment and machinery is determined according to the net book value of equipment, if asset accounting methods applied by the Customer comply with common practice, if possible obtaining experts' opinion as well.

With a breakdown by loan collateral types, the major part is represented by:

- commercial real estate mortgages EUR 44.1 million (48%);
- other mortgage EUR 22 million (24%).

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 31.12.2020 amounted to EUR 1.9 million, i.e., 4.6 % of the Bank's equity.

20% change in USD rate by +/-31 thousand EUR will influence foreign exchange position in US dollars as of December 31, 2020.

As on 31.12.2020, 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, 2020: changes of economic value constitute -/+325 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 83.3% as on 31.12.2020.

Concentration Risk

For limiting the concentration risk the Bank determines the limits for investment in various types of assets, instruments and markets, as well as other limits.

Country risk is one of the most significant concentration risks. Country risk – country partner risk – is an ability to suffer losses if the Bank's assets are placed in the country in which, due to the economic and political factors, the Bank may be exposed to problems with returning its assets within the prescribed term and volume. The reasons for non-fulfilment of liabilities by the partners and issuers are mainly the currency devaluation, unfavourable changes in legislation, establishment of new restrictions and barriers and other factors, including force majeure.

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

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

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

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

Basic elements of the risk control:

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

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

In the 4th quarter of 2020, the Bank complied 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 | 55 105 564 | 131 | 55 105 695 | 91,7% | 0 | 0 | 0 | 0,0% |
| A1 to A3 | 4 892 911 | 59 485 | 4 952 397 | 8,2% | 20 175 358 | 3 924 | 20 179 282 | 36,9% |
| Baa1 to Baa3 | 0 | 0 | 0 | 0,6% | 6 409 995 | 157 | 6 410 152 | 11,7% |
| Ba1 to Ba3 | 0 | 0 | 0 | 0,0% | 369 | 10 | 369 | 0,0% |
| B1 to B3 | 7 286 | 0 | 7 286 | 0,0% | 13 741 763 | 11 451 | 13 753 214 | 25,2% |
| below B3 | 0 | 0 | 0 | 0,0% | 0 | 0 | 0 | 0,0% |

| | | | | | | | | |
|------------------|------------|----------|------------|-------------|----------------|----------|----------------|-------------|
| | 60 005 762 | 59 617 | 60 065 378 | 100% | 54 069 248 | 26 983 | 54 096 231 | 99,1% |
| No rating | 0 | 0 | 0 | 0,0% | 518 479 | 0 | 518 479 | 0,9% |
| | 60 005 762 | 59 617 | 60 065 378 | 100% | 54 587 727 | 26 983 | 54 614 710 | 100% |

8.6% of requirements to credit institutions or EUR 4 699 229 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 | Vērtspapīri | | | |
|------|---|-------------------|--------------------|-------------------|-------------|
| | | Book value | Accumulated income | Total | % |
| | | 1 | 2 | (1+2) | 4 |
| 1. | USA | 9 847 436 | 7 991 | 9 855 427 | 73,58% |
| 1.1. | including Central government securities | 8 148 178 | 0 | 8 148 178 | 73,58% |
| 2. | Latvia | 1 105 791 | 46 128 | 1 151 919 | 8,60% |
| 2.1. | including Central government securities | 1 105 791 | 46 128 | 1 151 919 | 8,60% |
| 3. | Netherlands | 591 658 | 1 876 | 593 534 | 4,43% |
| 3.1. | including Central government securities | 0 | 0 | 0 | 0,00% |
| 4. | United Kingdom | 588 508 | 428 | 588 936 | 4,40% |
| 4.1. | including Central government securities | 0 | 0 | 0 | 0,00% |
| 5. | Belgium | 303 579 | 1 886 | 305 465 | 2,28% |
| 5.1. | including Central government securities | 0 | 0 | 0 | 0,00% |
| 6. | France | 303 252 | 189 | 303 442 | 2,28% |
| 6.1. | including Central government securities | 0 | 0 | 0 | 0,00% |
| 7. | Denmark | 300 866 | 986 | 301 852 | 2,25% |
| 7.1. | including Central government securities | 0 | 0 | 0 | 0,00% |
| 8. | Sweden | 286 920 | 131 | 287 052 | 2,14% |
| 8.1. | including Central government securities | 0 | 0 | 0 | 0,00% |
| 9. | Kazakhstan | 7 286 | 0 | 7 286 | 0,05% |
| 9.1. | including Central government securities | 0 | 0 | 0 | 0,00% |
| | Total* | 13 335 296 | 59 615 | 13 394 913 | 100% |

* except for VISA shares (total amount of shares is EUR 222 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.

In the 4th quarter of 2020, operational risk losses amounted to about 480.5 thousands EUR, of which 473.1 thousands EUR was a fine imposed by the regulator for detected improvements needed in the field of AML/CTF risk management.

<https://www.ribbank.com/en/about/financial-documents>

Derivative instruments

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

Reported data of 2019

<https://www.ribbank.com/en/about/financial-documents>