LPB BANK PUBLIC FINANCIAL STATEMENT

3rd quarter 2021

OVERALL INFORMATION

Joint Stock Company "LPB Bank" (until December 15, 2017 – JSC "Latvijas pasta banka") (hereafter – the Bank) Reg. Nr.50103189561 was registered on 5 September, 2008 in Republic of Latvia. The juridical address of the Bank is Brivibas street 54, Riga, LV-1011.

These public quarterly financial statements are prepared in accordance with the Financial and Capital Market Commissions guidelines with the purpose to inform the society about financial condition of the Bank.

BANK'S STRATEGY AND GOALS

Bank's strategy is based on an idea of development the bank specializing in one direction, working with certain range of clients and developing relevant and interesting products and related services' technologies for these clients.

Bank's vision – become a convenient and reliable bank, which is able to adapt quickly to customer's needs, while developing and improving the Bank's risk management system.

Bank's mission – provide a set of quality and relevant banking services for customer.

Main values of the Bank:

- **Speed** - obviously important outcome is the selected rate of speed. However, to be the best, not necessarily be the fastest. Moving forward, the Bank does not forget about the quality of its work and its customers' satisfaction.
- **Curacy** - sound financial management requires strategy and special precision. To this end, the Bank relies not only on its own expertise, but also to secure the support of its partners. Accurate and successful maneuver pledge is a professional view on the edge.
- **Experience** - acquiring knowledge and skills, the Bank obtained invaluable experience. Experience opens up new perspectives, broaden horizons and gives the Bank the right impetus to growth and prosperity.
- **Confidence** - the Bank is confident about its chosen path, so each of the Bank's decision is informed and specific. The world around the Bank, the commercial environment is constantly changing. Confidence is the Bank's reliable landmark in choosing the best solutions for the development and investment.
- **Flexibility** - the Bank is able to rapidly respond to change and adapt to them. Bank's success is based on trust in the company's values, understanding of customer needs and flexible approach to new business conditions.
- **Energy** - translated from the ancient Greek energy activity, strength and vigor. It is a movement that is necessary in order to achieve its objectives. The Bank knows where to direct its energy and how to achieve the results, avoiding possible obstacles.
- **Balance** - thoughtful, balanced action allows firmly stand on its feet in every situation. To catch the right wave is a great achievement, but to maintain a balance and stay - is a victory. Balance allows the Bank to move forward, accelerating the way to new goals.
- **Progress** - real progress can be made by those who do not obey easily and accurately evaluate the risks. On this basis, the Bank has made cooperation with customers. It is a partnership. One partner's success brings success also for the other.

- **Teamwork** - the trip alone - it is a challenge and ambition. Only in conjunction with a reliable team one can quickly and without loss to achieve the goal. Quality, timing and efficiency have high importance in the work of the Bank. By sharing the responsibility between team members, the Bank has obtained good winds, moving it toward success.
- **Professionalism** - a professional first and foremost is a personality, serious, competent and responsible person. Exactly such people make up a strong team. Therefore, the Bank seeks to grow, improve, top off its professionalism and become stronger.
- **Purposefulness** - even the highest goal that may seem unattainable, there is only a set of sequential steps. The key is to see this goal and applied to assess and allocate resources towards. The Bank selects targeted movement.
- **Options** - the stage of the project or the closing does not mean the end of the story, but rather the beginning. These are new opportunities and prospects. Every new year, the Bank expects the new plans, full of enthusiasm and hope, as well as carefully storing all valuable, what is created and made in previous years.

Taking into the account the current and future economic situation in the Latvia and the benefits and risks in the region of the Bank's interest, as well as the Bank's existing and potential human and financial resources, **the Bank pursues the following strategy**:

- The priority action direction is FinTech, in particular the acquiring. The Bank's service is based on Mastercard and Visa requirements and standards. The Bank has a Mastercard Acquiring License for Europe and a Visa Acquiring License for Europe thus Bank ensures and plans to provide services to e-commerce throughout Europe, in addition to setting up and using own processing center
- In developing priority actions with FinTech companies, the Bank cooperates and plans to cooperate and offer its services to licensed payment institutions, following the best practices in Customer research.
- Continue to expand the provision of services in Latvia and abroad, by developing the communication of the Bank's new Brand and the name "LPB Bank" with a basic communication message as "A Dynamic, Innovative and Purposeful Bank that maintains respect for traditions and is a reliable, durable and valuable partner for every Customer in realizing his business goals".
- Actively attract potential customers through classic and digital marketing channels.
- Placement of leverage in:
  - financial instruments;
  - crediting of legal entities with maintaining moderately conservative level of credit risk, in particular – crediting of current assets and transporting flows.
- Priority regions - Latvia, EEA countries, NATO member states, OECD member states and other countries, that do not increase a reputation risk for the Bank.

BANK'S SHAREHOLDERS

	Voting shares	Authorized and paid-in share capital (%)	Authorized and paid-in share capital EUR`000
Ltd "Mono" (Latvia)	13 000 000	100%	13 000

INFORMATION ON THE BANK'S MANAGEMENT

SUPERVISORY COUNCIL AS OF 30 SEPTEMBER, 2021

Name, Last name	Position	Date of appointment	Release date
Biomins Kajems	Chairman of the Council	13/10/2008	
Mihails Uļmans	Deputy Chairman of the Council	20/09/2013	14/06/2021
Boriss Ulmans	Deputy Chairman of the Council	14/06/2021	
Aleksandr Plotkin	Council Member	14/10/2015	
Boriss Ulmans	Council Member	29/09/2020	14/06/2021
Julija Kozlova	Council Member	14/06/2021	

MANAGEMENT BOARD AS OF 30 SEPTEMBER, 2021

Name, Last name	Position	Date of appointment
Robert Christian Schoepf	Chairman of the Board	06/11/2019
Arnis Kalveršs	Board Member	05/09/2008
Jurijs Svirčenkovs	Board Member	29/04/2014
Antons Kononovs	Board Member	03/10/2018
Baiba Preise	Board Member	29/04/2019

BANK'S FINANCIAL STATEMENTS

BALANCE SHEET AND OFF-BALANCE SHEET ITEMS

Balance sheet items	30.09.2021 (unaudited)	31.12.2020 (audited)
Cash and balances with the Bank of Latvia	54 589	50 457
Due from credit institutions	6 822	3 100
Financial assets at fair value through profit or loss	1 297	1 324
- *derivatives*	*36*	*199*
- *shares*	*1 261*	*1 125*
Financial assets at fair value through other comprehensive income	65 014	57 805
Financial assets at amortized cost	84 820	111 109
- *loans and receivables due from customers*	*45 651*	*67 202*
- *debt securities*	*39 169*	*43 907*
Property, plant and equipment	6 326	6 293
Intangible assets	333	336
Tax assets	-	-
Other assets	4 106	7 052
Non-current assets and disposal groups classified as held for sale	-	150
Total assets	**223 307**	**237 626**
Liabilities to central banks	-	-
Liabilities to credit institutions	-	-
Financial liabilities at fair value through profit or loss	-	-
Financial liabilities at amortized cost	158 405	183 071
- *deposits from customers*	*158 405*	*183 071*
Impairment	119	118
Other liabilities	27 252	21 320
Total liabilities	**185 776**	**204 509**
Equity and reserves	37 531	33 117
Total liabilities, equity and reserves	**223 307**	**237 626**
Off-Balance Sheet items	**2 051**	**2 565**
Contingent liabilities	959	914
Due to customers	1 092	1651

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Items	Nine-month period ended 30.09.2021 (unaudited)	Nine-month period ended 30.09.2020 (unaudited)
Interest income	3 506	3 575
Interest expense	(856)	(672)
Dividend income	34	14
Commissions and fee income	20 071	13 201
Commissions and fee expense	(12 577)	(7 970)
Net gain/(loss) on financial assets not at fair value through profit or loss	67	984
Net gain/(loss) on financial assets at fair value through profit or loss	(191)	1 132
Net gain on foreign exchange	2 814	1 350
Other operating income	598	183
Other operating expenses	(873)	(771)
Administrative expenses	(6 168)	(5 729)
Amortization/ depreciation	(248)	(286)
Provisions for doubtful debts	(1 322)	(276)
Profit/(loss) from non-current assets and disposal groups classified as held for sale	30	-
Profit before tax	**4 885**	**4 735**
Corporate income tax	(1)	(1)
Profit for the period	**4 884**	**4 734**
Other comprehensive income / (expense)	(469)	112

INVESTMENTS IN FINANCIAL ASSETS

	30.09.2021 (unaudited)		31.12.2020 (audited)	
	Carrying amount	% of the Bank's own funds	Carrying amount	% of the Bank's own funds
Central government's debt securities	**26 983**	***x***	**34 111**	**x**
Latvia	9 885	*31.15*	15 906	*49.70*
Lithuania	4 172	*13.14*	4 132	*12.91*
Saudi Arabia	4 006	*12.62*	2 573	*8.04*
Other countries	8 920	*28.11*	11 500	*35.94*
Credit institutions debt securities	**13 862**	***x***	**13 907**	**x**
USA	8 231	*25.94*	8 236	*25.74*
Other countries	5 631	*17.74*	5 671	*17.72*
Other financial institution debt securities	**28 902**	***x***	**28 757**	**x**
USA	13 939	*43.92*	16 337	*51.05*
Republic of Côte d'Ivoire	5 034	*15.86*	4 521	*14.13*
Luxembourg	5 090	*16.04*	5 161	*16.13*
Other countries	4 839	*15.25*	2 738	*8.56*
Non-financial institutions debt securities	**34 606**	***x***	**25 200**	**x**
USA	6 322	*19.92*	4 410	*13.78*
Estonia	3 538	*11.15*	3 573	*11.16*
Germany	7 361	*23,19*	7 245	*22.64*
Other countries	17 385	*54.78*	9 972	*31.16*
Financial investments, total	**104 353**	***x***	**101 975**	**x**
Impairment	(170)	*x*	(263)	x
Financial investments, net	**104 183**	***x***	**101 712**	**x**

EXPECTED CREDIT LOSS PROVISIONS DIVIDED BY STAGES

Financial assets	Stage 1		Stage 2		Stage 3	
	30.09.2021 (unaudited)	31.12.2020 (audited)	30.09.2021 (unaudited)	31.12.2020 (audited)	30.09.2021 (unaudited)	31.12.2020 (audited)
Due from central bank and credit institutions	59 306	51 811	-	-	-	-
Impairment	*(2)*	*(1)*	-	-	-	-
Financial at fair value through other comprehensive income, gross	62 685	50 583	2 432	7 353	-	-
Impairment	*(93)*	*(40)*	*(10)*	*(91)*	-	-
Financial assets at amortized cost, gross:	50 345	59 363	20 275	50 931	18 739	4 023
Impairment	*(85)*	*(113)*	*(43)*	*(2 263)*	*(4 411)*	*(832)*
- loans and receivables due from customers, gross	11 109	27 951	20 275	38 304	18 739	4 023
Impairment	*(18)*	*(85)*	*(43)*	*(2 159)*	*(4 411)*	*(832)*
- debt securities, gross	39 236	31 412	-	12 627	-	-
Impairment	*(67)*	*(28)*	-	*(104)*	-	-

KEY RATIOS OF THE BANK

Item	Reporting period	Preceding reporting year the same period
Return on Equity (ROE) (%)	18.50	20.58
Return on Assets (ROA) (%)	2.63	3.22

RISK MANAGEMENT STRATEGY

The Bank organizes risk management according to the requirements of the regulations of the European Parliament, the Law of the Republic of Latvia on Credit Institutions and FCMC regulations, as well as following the Bank's strategy and other documents governing the Bank's operations. The Bank's risk management policy details the Bank's risk management objectives, goals and principles as well as related instruments. The Bank's risk management policy is based on the principle of continuing profitability or acceptable loss and is aimed at achieving an appropriate balance between risks assumed by the Bank and returns.

The policy prescribes that various risk mitigation instruments should be used, their selection depending on the risk type.

The Bank's risk management objective is as follows:

- To establish and maintain such a system of risk identification and management which would allow minimization of the negative effect the risks may produce on the Bank's operations and performance.
- To identify and determine the acceptable risk level which would facilitate achievement of the Bank's strategic goals, i.e., Bank had set, that average risk level shall not exceed moderate risk level (description and methodology of measuring is included in internal documentation of the Bank).
- To define the levels of responsibility of the Bank's risk management system and their respective functions.
- To define the risk management structure and methods.
- To ensure the Bank's statutory compliance.

As a result of the regular internal capital adequacy assessment, the Bank has established that essential risks inherent in its current and planned business for the capital planning purposes are as follows: credit risk, residual risk, concentration risk, country risk, counterparty credit risk, foreign exchange risk, position risk or market price risk, settlement risk, interest rate risk, liquidity risk, operational risk, information technology risk, compliance risk, reputational risk, money laundering and terrorism and proliferation financing risk, sanctions risk, business model risk, leverage risk, model risk and systemic risk. As part of the capital adequacy assessment process, credit value adjustment (CVA) risk was also assessed as a risk that the capital requirement should be calculated under certain circumstances.

RISK MANAGEMENT STRUCTURE

The Council of the Bank is responsible for establishing and effective functioning of the risk management system and approving the relevant risk management policies and strategies.

The Board of the Bank has the responsibility for implementing risk management strategies and policies approved by the Council.

Bank`s Chief Risk Officer:

- Leads a comprehensive risk control function.
- Ensures monitoring and improvement of the Bank's risk management system.
- Ensures the Bank's business strategy and service which are essential to the Bank, development of new services or changes to the services offered by the Bank, Bank's structure, the overall risk profile, as well as the restrictions and limits compliance with Bank's risk strategy for regular evaluation of the non-compliance

reporting of the Bank Council and the Board and other officers in accordance with the internal policies.

- Provides a comprehensive and clear information on the Bank's overall risk profile, all relevant risks and risks compliance with the risk management strategy of regular communication to the Council and the Board and other officers according to the internal policies.
- Advises and provides support to the Council and the Board of the Bank to design operational strategy and support banking risks related decision-making.

Bank's Business Continuity Assurance Committee regularly identifies and examines risks of business continuity.

Bank`s Credit Committee reviews lending issues and makes decisions on any matter relating to the activities of the Bank's lending process.

Asset and Liability Committee:

- Monitors, plans and manages the Bank's liquidity.
- Monitors, plans and manages the Bank's interest rate risk.
- Monitors, plans and manages the Bank's exposure to market risks.
- Monitors, plans and manages the Bank's credit risk (including counterparty credit risk).
- Monitors, plans and manages the structure of the Bank's balance sheet and off-balance.
- Monitors and manages the Bank's growth.
- Monitors and manages debt collection and cessation processes.
- Approves opening and closing of the Bank's correspondent accounts.
- Determines the limits on investments in financial instruments of the Bank portfolio.
- Determines the country risk limits.
- Determines the Bank's tariffs.
- Reviews and evaluates the quality of financial assets of the exposures issued.

The Risk Control Department identifies significant risks the Bank is exposed to, including for the capital planning purposes, and formulates the relevant risk management policies and procedures, ensures monitoring of compliance with the risk management policies and procedures, including the limits and restrictions set, as well as reports information about the risks inherent in the Bank's business to the Bank's Risk director, Business Continuity Assurance Committee, the Asset and Liability Committee, Council and the Board on a regular basis, thereby allowing permanent assessment of risks affecting the Bank's ability to achieve its goals and, if necessary, making decisions on the relevant corrective actions.

The Resource Department is responsible for managing the Bank's assets and liabilities and the overall financial structure as well as ensuring the daily management of liquidity risk, interest rate risk management, currency and market risks management, as well as the Bank's balance sheet structure and growth management, financial and credit resources analysis and planning of the acquisition in accordance with Bank's strategic objectives.

The key goal of the Compliance Control Department of the Bank is identification, measurement, and management of operational compliance risk.

In accordance with the Bank's internal regulatory documents, the obligations and tasks of the Department of Prevention of Money Laundering and Terrorist Financing (AML) are to conduct initial due diligence of potential customers of the Bank, to carry out control and supervision of the bank's customers' transactions in the real time (online screening), to ensure compliance with national and international sanctions, to detect suspicious transactions and to perform investigation of potential SARs, and to ensure a risk-based approach due diligence of the Bank's customers and their transactions.

In turn, the AML Risk Management Committee's tasks are to take all necessary measures to ensure the Bank's compliance and the implementation of standards of the best practice in the Bank's operational activities and to assess possible compliance' risks of the Bank and to recommend measures to prevent identified risks, and to ensure procedures for enhanced supervision and monitoring of the customers' transactions and activities.

The Bank's Internal Audit Department carries out the regular review and assessment of the Bank's operational compliance with its risk management strategies, policies and procedures, as well as the Bank's risk management system's efficiency and communicates the review results to the Council of the Bank.

The heads of the Bank's structural units and other employees of the Bank are aware of their duties and responsibility related to the routine risk management and, within the boundaries of their competence, report the compliance with the limits and restrictions set to the Bank's Risk Control Department as well as participate in the risk identification, effect assessment, and materiality determination process.

RISK MEASUREMENT AND REPORTING SYSTEMS

The Bank performs quantitative risk assessment on the basis of the standardized and basic indicator approaches referred to in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 as well as the simplified approaches referred to in Regulations No. 209 on the Internal Capital and Liquidity Adequacy Assessment Process issued by the Financial and Capital Market Commission on 03 November 2020. The Bank also performs stress testing.

The level of the Bank's exposure is chiefly controlled by using the early warning system designed by the Bank, which encompasses the limits approved by the Bank and defines the parameters of each risk relevant for the moderate risk exposure defined in the Bank's operational strategy. The aggregate risk exposure is determined as the weighted average of all components. The Risk Control Department regularly summarizes, analyses and presents its opinion to the Bank's Risk director, the Asset and Liability Committee, the Board and the Council accompanied with explanatory information on each specific risk and the aggregate risk exposure. Any instances when the individual or aggregate risk exposure exceeds the required moderate level should be reported by the Risk Control Department immediately to the Bank's Board, however, if the overall risk level approaches the high risk level, the Risk Control Department is obliged to immediately convene the Bank's Business Continuity Assurance Committee.

RISK MITIGATION

For the purposes of risk mitigation, the Bank uses the following methods:

- **Risk acceptance**. The Bank admits that it is exposed to such risks but does not take any actions to minimize their effect because those are insignificant and the elimination costs would exceed the respective benefits.
- **Risk avoidance**. The Bank conducts an analysis before engaging in any new transactions and chooses to avoid excessively risky transactions or actions.
- **Changing risk probability**. The Bank applies this method together with the relevant risk management strategies, Bank's procedures, and the early warning system in respect of the following risks: credit risk, operational risk, market price risk, interest rate risk, currency risk, liquidity risk, IT risk, money laundering and terrorism financing risk.
- **Changing potential risk consequences**. The Bank uses credit enhancements and currency risk hedging instruments as well as establishes a business continuity system.
- **Risk sharing**. The Bank uses insurance and syndicated transactions; in selecting this method of risk mitigation, the Bank is aware that it does not change the overall exposure to transaction and operational risks, affecting only the portion attributable to the Bank.

CONCENTRATION RISK

Concentration risk arises from large exposures to individual customers or groups of related customers or customers whose creditworthiness is determined by one common risk factor (industry, geographical location, currency, credit enhancement (homogenous collateral or one collateral provider)).

The concentration risk management policy covers the Bank's credit portfolio and other assets, memorandum items, as well as the deposits attracted by the Bank and balances due to credit institutions.

The core elements of concentration risk management include risk assessment, setting limits for individual counterparties as well as industry, geographical and market concentrations and monitoring exposures in relation to such limits.

As additional assessment of concentration risk the Bank regularly conducts stress testing.

CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its borrowers (debtors) or counterparties fail or refuse to settle their contractual obligations to the Bank. Credit risk is inherent in the Bank's transactions which give rise to the Bank's claims against another person and which are reported by the Bank in the statement of financial position or as memorandum items. Credit risk arises as soon as the Bank's funds are issued, invested or transferred to other parties for use based on the contractual provisions.

The objective of managing credit risk is to determine the maximum acceptable exposure to credit risk (including counterparty credit risk) and ensure the compliance with the set limits in the normal course of business.

At present the Bank is involved in the following transactions giving rise to credit risk:

- Cash placements with other banks.

- Loans and credit lines to customers.
- Guarantees issued to third parties and other contingent liabilities for the benefit of customers if they may demand settlement of obligations.
- Securities transactions.
- Dealing.

The credit risk management system is composed of the following components: approval of methods used to measure credit risk related to counterparties, borrowers and issuers, setting restrictions for loan types and investments in the securities included in the Bank's portfolio and fixing limits for lending by amount and maturity, regular assessment of assets and memorandum items, as well as the regular stress testing.

For decision-making on the loans - the issuance, any amendments to the loan, the Bank has following decision making (authority) levels (from the lowest):

- Individual.
- Credit committee
- The Board.

The upper limits for decision making levels are determined by the Bank`s council.

The Bank believes that its exposure to credit risk arises mainly from loans, balances due from credit institutions and the financial instruments hold at amortized cost portfolio. The maximum exposure of the Bank's assets and memorandum items is shown in the credit risk concentration analysis.

The Bank places limits on the amount of risk for individual counterparties (groups of related counterparties) as well as for industry, geographical, the level of risk and market concentrations. The exposure to any single counterparty is further restricted by sub-limits. The credit risk concentration is analyzed by estimating the large exposure ratio to the Bank's Tier 1 capital. According to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, the Bank treats as high the credit exposure if the exposure value is 10% or more of the Bank's Tier 1 capital. Any credit exposure to a single customer or a group of related customers may not exceed 23% of the Bank's Tier 1 capital. If a customer is a credit institution or investment firm or group of connected clients, which is composed of one or more credit institutions or investment firms, and the host country of such customer is the European Union or other comparable country (according to 2014/908/EU: Commission Implementing Decision of 12 December 2014 on the equivalence of the supervisory and regulatory requirements of certain third countries and territories for the purposes of the treatment of exposures according to Regulation (EU) No 575/2013 of the European Parliament and of the Council Text with EEA relevance) then total exposure may not exceed 95 percent of the Bank's Tier 1 capital . If such a customer is registered in a country that does not meet the above conditions, the exposure may not exceed 23 per cent of the Bank's Tier 1 capital. During the reporting period the Bank has complied with the requirements described in this paragraph.

Credit quality of financial assets is managed by the Bank by employing debtors' (borrowers') financial analysis techniques, analysis of the counterparty's reputation and

historical cooperation with the counterparty as well as by monitoring international ratings granted to counterparties.

The type and amount of collateral depends on an assessment of the credit risk of a customer or a group of related customers. The collateral types and valuation parameters are defined in the Credit Policy and in the procedures of Credit Control and Issuance. The main collateral types include mortgage, commercial pledge, deposits and securities. The Bank also accepts guarantees as additional (secondary) collateral.

According to IFRS 9 the Bank's financial assets are classified in three stages, where such financial assets, credit risk of which has not significantly increased compared to the initial recognition, are classified in the 1st stage, and such financial assets, credit risk of which has significantly increased compared to the initial recognition, but which have no default observed, are classified in the 2nd stage, and such financial assets, for which signs of default are detected, are classified in the 3rd stage.

SIGNS OF A SIGNIFICANT INCREASE IN CREDIT RISK, FOR WHICH DEFAULT IS NOT OBSERVABLE

Signs of default

- A delay of more than 90 days in the performance of the counterparty's obligations (such as payment of principal amount or interest).
- Significant financial difficulties of the counterparty.
- The Bank grants such advantages to the counterparty for economic or legal reasons related to the borrower's financial difficulties, which the Bank would not otherwise have considered.
- The counterparty has been declared insolvent or has been informed of its legal protection process, or similar restructuring or protection of other types of financial liabilities. The counterparty is dead, missing or has ceased operations.
- A financial asset is an asset in the recovery process.
- Financial asset has been acquired or issued at a deep discount that reflects an existing impairment.
- A combination of several other events or other event signs that may characterize a counterparty default.

LIQUIDITY RISK

Liquidity risk represents the Bank's exposure to significant loss in the event that the Bank does not have a sufficient amount of liquid assets to meet legally justified claims or overcome unplanned changes in the Bank's assets and/or market conditions on a timely basis.

A liquidity crisis may be caused by unexpected events, such as prolonged outflow of cash from the accounts opened with the Bank without a corresponding cash inflow. This process may be a consequence of the loss of trust, or a national crisis like a currency crisis. The Bank is basically exposed to liquidity risk when its cash flows are not balanced in terms of their maturity due to the Bank's activities involving borrowings, loans, capital and other items of assets and liabilities.

Liquidity problems may be caused also by the lack of liquidity of the financial market.

The objective of liquidity management is to achieve that the Bank's assets are placed in a manner enabling the Bank to meet legally justified claims of its creditors at any time.

The liquidity risk management methods (core elements) are as follows:

- Compliance with Liquidity coverage ratio requirements.
- Net stable funding ratio regulatory compliance.
- Compliance with Specific liquidity requirements.
- Setting limits for deposits from customers.
- Monitoring of adherence to the limits fixed in the liquidity risk management strategy.
- Employing the early warning system.
- Conducting liquidity stress tests and analysis of results obtained.
- Drawing a liquidity contingency plan.

To maintain its liquidity position, the Bank:

- Assesses and plans the maturity structure of its assets and liabilities on a regular basis.
- Maintains sufficient liquid assets to ensure that financial liabilities can be met.
- Ensures that the liquidity ratio is at least 60% (i.e., liquid assets to current liabilities ratio).
- Ensures a negative difference between the amount of liquid assets and the amount of current liabilities not exceeding 100% of the Bank's own funds.
- Ensures the Liquidity coverage ratio not less than 110%.
- Ensures the Net stable funding ratio not less than 105%.
- Performs regular stress testing and assesses the adequacy of the liquidity reserve.

According to Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions, minimum determined liquidity coverage ratio is 100%. The Bank`s liquidity coverage ratio was:

No.	Item	30.09.2021 (unaudited)	31.12.2020 (audited)
1.	Liquidity reserves	117 969	116 713
2.	Total net cash outflows	65 020	73 481
3.	**Liquidity coverage ratio (%)**	**181%**	**159%**

REPORT ON THE INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS (ILAAP)

Preparing a report on the liquidity adequacy assessment process is one of the components of liquidity risk management.

At least once a year, the Bank prepares a report on the liquidity adequacy assessment process in accordance to Regulations No. 209 on the Internal Capital and Liquidity

Adequacy Assessment Process issued by the Financial and Capital Market Commission on 03 November 2020.

The purpose of the report on the liquidity adequacy assessment process is to provide as complete information as possible to the Board and the Council of the Bank, as well as to the Financial and Capital Market Commission on the liquidity adequacy assessment process at the Bank. The report is designed to identify shortcomings in the liquidity adequacy assessment process and assess the adequacy of the liquidity buffer.

Based on the results of the liquidity adequacy assessment process, the management of the Bank may decide, if necessary, to take corrective action in the liquidity management process and/or to improve liquidity buffer adequacy.

The last report by the Bank on the liquidity adequacy assessment process concluded that the Bank's liquidity management process was adequately managed and that, according to the Bank's stress tests, the Bank's liquidity reserves are sufficient also in stressed situations.

MONEY LAUNDERING AND TERRORISM AND PROLIFERATION FINANCING RISK AND SANCTION RISK

Money laundering and terrorist financing and proliferation risk is the impact and the likelihood that the Bank may be involved in money laundering or terrorist and proliferation financing in connection with the Bank's financial services, customer base, customer operations geography, as well as product and service delivery channels. Sanctions risk is the impact and likelihood that the Bank may be used to violate or circumvent sanctions.

The Bank's development strategy, money laundering and terrorism and proliferation financing risk prevention and sanction risk management policy and related requirements and implementation of follow-up at the Bank are run by Money Laundering and Terrorism Financing Prevention Department, in collaboration with other Bank departments. The Bank's Money Laundering and Terrorism Financing Prevention Department also monitors changes in the applicable laws and regulations and the best practice in this policy area and, if necessary, make changes to the Bank's internal regulations.

Money laundering and terrorist and proliferation financing risk and sanction risk management at the Bank is implemented in three levels of protection, thereby ensuring that the management involves all the Bank departments and employees for whom such an obligation, directly or indirectly arising from the Bank's internal regulations rules.

The Bank complies also with the prohibitions imposed by OFAC sanctions and prevents transactions that are in conflict with these prohibitions. The Bank fully enforces OFAC sanctions in respect of transactions and financial services provided in US dollars and in any other currency. The Bank ensures that its internal control system is sufficient and appropriate to comply with OFAC sanctions.

The Bank's strategic objective of money laundering and terrorist and proliferation financing and sanctions risk management is to maintain a good reputation and stability in relations with customers, business partners and society as a whole, to cooperate and to provide financial services to reliable customers and business partners whose activities are understood to provide adequate the balance between the acceptable level of risk and the profit in order to minimize the potential negative impact of the risk on the Bank's financial position and operations.

MARKET RISK

Market risk is the risk that the Bank will incur a loss as a result of the mark-to-market revaluation of assets, liabilities and memorandum items caused by changes in market values of financial instruments, commodities and commodity derivatives due to changes in foreign exchange rates, interest rates and other factors. Market risks include currency risk, position risk and commodity risk.

The Bank does not form a trading portfolio, nor is it exposed to commodity risk, market risks is limited to currency risk and interest rate risk in the banking book.

Since the Bank has made Fair value through other comprehensive income (FVTOCI) financial instruments portfolio of more than 10% of its total assets, during performing the internal capital adequacy assessment the Bank assesses that thus the position risk is substantial for the Bank.

CURRENCY RISK

Currency risk represents the Bank's exposure in the event that changes in foreign exchange rates have an adverse effect on the Bank's income/ expense (and, consequently, the Bank's own funds) and economic value. Currency risk is the risk of loss due to the opposite fluctuations of foreign exchange rates. The transactions include items reported as both assets and memorandum items.

The risk of incurring loss arises from the revaluation of foreign currency positions into the national currency. When the Bank has an open foreign currency position, the revaluation process results in a profit or loss, which is the difference arising from the revaluation into the national currency of assets, liabilities and capital denominated in foreign currencies.

The objective of managing currency risk is to reduce the adverse effect of changes in foreign exchange rates by minimizing the open currency position.

The Bank has approved the following internal limits of open foreign currency positions:

- Each currency – 5 per cent of the Bank's Tier 1 capital.
- All currencies – 10 per cent of the Bank's Tier 1 capital.

Considering the current level of the Bank's business, the Bank is not striving to maintain the open foreign currency position to earn profits from speculative transactions.

In order to assess compliance of the Bank's actual position with the limits set by the Bank and the situation on the currency market, the Bank regularly conducts stress testing.

POSITION RISK

Position risk is the risk of loss because of debt securities or equity securities position revaluation. Position risk can be viewed as specific and general risk.

Specific risk is the risk of loss if the debt securities or capital securities price varies due to factors related to the issuer of securities or in case of derivative related to a person who has issued securities that is the underlying asset of derivative.

The general risk is the risk of loss if the security's price varies due to factors that are associated with changes in interest rates (debt securities) or with extensive changes in the capital market (equity case), which are not associated with a particular securities issuer.

Bank's Fair value through other comprehensive income (FVTOCI) financial instruments portfolio risk positions are managed by setting the stop loss limit for each financial instrument and requires evaluation the usefulness of selling of a financial instrument, if the potential loss of sales reaches 25% of its purchase price.

In determining the stop loss limit, the Bank limits the probability to suffer excessive losses from financial instruments impairment.

SETTLEMENT RISK

Settlement risk is the risk to which the Bank is exposed to outstanding transactions in foreign currencies, securities or commodities, with the exception of repurchase transactions, securities or commodities lending or borrowing. Settlement risk comprise of settlement / delivery risk and free deliveries risk.

The Bank settlement / delivery risk and free deliveries of risk capital requirement calculates only for the period if the risk registered in the Bank's information system meets the definition of the risk characteristics of the relevant event or events. At the end of reporting period, the respective events are not recorded, as a result of which it would be necessary to maintain the capital requirement for settlement/ delivery risk.

INTEREST RATE RISK

Interest rate risk represents the Bank's exposure in the event that changes in interest rates have an adverse effect on the Bank's income/ expense (and, consequently, also own funds) and economic value. **Sources of interest rate risk are as follows:**

- Reprising risk, which is a risk of incurring a loss due to changes in interest rates and timing differences in the remaining or repricing maturities of assets, liabilities and memorandum items.
- Yield curve risk, which is a probability of a loss due to unexpected changes in the slope and shape of the yield curve.
- Basis risk, which is a probability of a loss from changes in interest rates of financial instruments having similar repricing schedules but different base rates.
- Optionality risk, which is a risk of incurring a loss if a financial instrument directly (options) or indirectly (loans with a prepayment facility, demand deposits, etc.) provides for a possibility of choice for the Bank's customers.

The objective of managing interest rate risk is to minimize the effect of interest rate risk on the Bank's assets and liabilities and income.

To assess interest rate risk, the Bank analyses and plans the repricing maturity structure on a regular basis, calculates the reduction in the Bank's economic value due to adverse changes in interest rates and defines the capital requirement for interest rate risk.

The assessment of the Bank's exposure to interest rate risk is based on the following key principles:

- The effect produced by changes in interest rates on the Bank's financial performance and economic value is analyzed as follows:
  - Assessment of interest rate risk from the income perspective – analysis of the effect of changes in interest rates on net interest income and other income and expense items related to interest rates in the short term;
  - Assessment of interest rate risk from the economic value perspective – analysis of the effect of changes in interest rates on the Bank's economic value in the long term. The term economic value denotes the present value

of net future cash flows, which is determined by discounting future cash flows by the current market interest rate.

- The Bank establishes the current interest rate risk level as well as identifies situations when the Bank's exposure to interest rate risk is or may be excessively large.
- All significant interest rate risks associated with assets, liabilities and memorandum items - repricing risk, yield curve risk, basis risk, and optionality risk – are assessed. Interest rate risk is assessed and managed by gap analysis and the duration analysis and using simulation approaches.

Simulation approaches demonstrate potential changes in the Bank's economic value. The changes in economic value are assessed by interest rate changes at +/- 200 basis points, as well as sudden and unexpected changes in interest rates in any of the six stress scenarios, set out in European Banking Authority Guideline EBA/GL/2018/02 of 19 July 2018 "Guidelines on the management of interest rate risk arising from non-trading book activities".

The Bank also determines the effect of interest rate risk on the Bank's profit or loss and the Bank's own funds based on the parallel increase in interest rates by 1 per cent (or 100 basis points) and assuming that interest rates change in the mid-year.

Bank's Risk Control Department prior to an investment in financial instruments (excluding financial derivatives) carries out the analysis of potential effects of exposure to interest rate term structure and the Bank's economic value.

Credit Department during the preparation of business project uses the Bank's interest rate-setting guidelines to determine the interest rate. Loan interest rate is set so as to cover all loan-related costs and compensate the risk undertaken by the Bank, namely:

- Interest payments on borrowed funds or payment of fees for other exposures.
- Loan servicing costs.
- The potential losses (risk premium).
- Ensure a profit.

The loan interest rate (compensation) for a particular exposure depends on the individual risk of a loan.

In order to assess impact of adverse changes in interest rates to the Bank's profitability and economic value during the strained market situation, the Bank conducts regular interest rate risk stress testing.

OPERATIONAL RISK

Operational risk is the risk of a loss resulting from incomplete or non-compliant internal processes, people and systems or from external events. Operational risk is defined as the risk of a reduction in the Bank's income (or incurring of additional costs) and reduction of own funds due to different people mistakes, the system error, including, information systems, errors or interruptions of operations, lack of legal documentation of transactions, non-observance of clients' interests, internal and external fraud, damage to tangible assets. . Namely, information technology risks and legal risks are evaluated within the framework of operational risk.

The objective of managing operational risk is to identify the sources of risk, determine risk management methods in order to reduce the potential loss that could be caused by an operational risk event.

All personnel are responsible for operational risk identification, and **operational risk management elements are:**

- Identification of operational risk.
- Operational risk self-assessment.
- Operational risk monitoring.
- Operational risk control and minimization.
- Operational risk stress testing.

If the risk event losses exceed 500.00 EUR (in case of e-commerce – 1’000.00 EUR) or frequency of one type of incidents is greater than 5 cases per week, the Bank’s Risk director and Board member responsible of Risk Control Department is immediately informed about such cases.

If the total amount of operational risk losses recorded in operational risk events and losses database takes more than 1.5% of Bank's own funds, the Risk Control Department shall evaluate the need for additional capital to maintain for covering unexpected operational risk losses.

BUSINESS MODEL RISKS

Business model risk is the risk that changes in business environment and the Bank's failure to timely respond to these changes, or imprudent / unjustified bank long-term strategy or business model, the Bank's failure to provide the necessary resources for implementation of the strategy or viable and sustainable business model may adversely affect the Bank's profit, own funds and liquidity.

The Bank's business model risk management policy is focused on developing of such a business model risk management system that would allow the Bank to respond timely to changes in business environment and in adopting the necessary decisions.

To manage the business model risk, the Bank establishes an appropriate strategic planning system, in which it analyzes and evaluates the viability of its business model (profitability over a period of 12 months), sustainability (profitability over the next three years), and viability and sustainability exposure to significant risks.

Bank's business model risk management also includes the adequacy control of resources necessary for implementation the strategy and planning the impact of the strategy on the Bank's income, expenditure and Bank’s capital planning.

Bank's strategic planning is based on the conservative, pessimistic macroeconomic assumptions.

Strategic planning is done at the same time examining the various possible scenarios for the Bank's operations through the Bank's existing internal and external information on the countries in which the Bank performs or intends to carry out its activities, macroeconomic developments, the Bank's operations that affect the potential development of the sector, affecting the operation of the Bank's sectoral potential development of possible changes in compliance laws, regulations and standards, activities of competitors and other factors that may affect the Bank's objectives.

Bank's business strategy is to determine:

- The operational objectives, including projected financial position, activities, target markets, target customers.
- Risk strategy, including determine the risks that the Bank wants to take on, the risk tolerance level, actions to ensure compliance with acceptable risk level.
- Capital adequacy strategy, including determine the capital needed to cover the risks planned by the Bank, capital adequacy targets and the sources to raise capital.

The Risk Control Department performs the comparison of parameters used in strategic planning and projected financial results with actual performance.

The Bank's business model risk level assessment is performed within the framework of the annual operational risk self-assessment.

The amount of capital requirement to cover the business model risk is determined in the framework of the internal capital adequacy assessment process once a year.

SYSTEMIC RISK

Systemic risk is a risk of disruption of the financial system, which may have a significant adverse impact on the financial system and the real economy. This is the risk that inability of one system participant to meet its obligations will cause failing of other participants or financial institutions to meet its obligations in due course. Such a situation may lead to significant liquidity or credit problems, but it might endanger the stability of financial market in whole.

Systemic risk is managed within the strategy and business risk management policy and reflected in the scenarios of the credit risk and the overall stress tests.

COUNTRY RISK

Country risk or national partner risk is the risk of loss if the Bank's assets are located in a country whose economic and political factors changes may have erase the problems for the Bank to recover its assets timely and in full scope. Partners and the issuer defaults causes are mainly currency devaluation, adverse changes in legislation, new restrictions and barriers and other factors, including force majeure.

The goal of country risk management is to reduce operational risks by placing assets in such a way as to limit the risk of positions and transactions that are located outside the Latvian Republic border.

Each country, through which residents the Bank decides to carry out risk transactions, it provides maximum country risk limits.

Country risk limits are allocated to all transactions with residents of foreign countries.

The Risk Control Department regularly monitors the legal, social and political situation of the Bank's interest countries. The maximum national exposure limits can be translated and validated in cases where new information has emerged about the changes.

COMPLIANCE RISK

Compliance risk is the risk that the Bank may incur losses or it may be legally obliged or against it may be penalized or may worsen its reputation as the Bank fails to comply with or violate compliance laws, regulations and standards.

The responsibilities of Bank's Compliance Department include:

- Identification, assessment and documentation of Compliance risk, including ensuring that, before commencing a new activity (including the introduction of new financial services or significant changes to existing financial services, introduction of new procedures, approval of new customers or business partners) the Compliance risk associated with that activity is identified and assessed - whether the Bank will comply with compliance laws, rules and standards.
- In cooperation with the responsible structural units of the Bank, identify Compliance risks related to the application of new regulatory enactments (including international legal acts, international initiatives, standards, agreements, decisions, etc.) and develop basic principles for implementation of requirements that are binding to the Bank in its internal regulatory documents.
- Providing advice and support to the Bank's employees to ensure that they comply with compliance laws, rules and standards in the performance of their duties.

RESIDUAL RISK

Residual risk is the risk that the credit risk mitigation techniques used by the Bank prove less effective than expected.

Eligible types of collateral, the order of priority and specific loan to value, as well as other conditions are specified in the Bank's lending strategy and in the Bank's Lending programs. If the lending strategy and Lending programs do not set levels for the loan to value then they are approved by the Board.

REPUTATIONAL RISK

Reputation risk is the risk that the Bank's customers, business partners, shareholders, supervisory authorities and other stakeholders may form a negative opinion about the Bank as a result of any of its acts or omissions and this could adversely affect the Bank's ability to maintain existing or establish new business relationships with its customers and other business partners, as well as adversely affect the Bank's access to finance. Reputational risk events may increase the Bank's other risks (credit risk, liquidity risk, market risk, etc.), and may adversely affect the Bank's profits, the amount of capital and liquidity.

Because of reputation risk is inherently linked to all the Bank's risks, it is daily responsibility of all employees within their respective jurisdiction.

Bank identifies as a major reputational risk causing areas:

- Compliance activities.
- Customer service standards and service quality.
- Information technology security.
- Money laundering and terrorist financing and proliferation prevention risk and sanction risk management.

Within the Bank's business continuity process, the Bank plans internal and external communication channels and their potential contents.

The assessment of the Bank's reputation risk level is performed within the framework of an annual operational risk assessment.

The amount of capital requirement to cover the reputation risk is determined on an annual basis within the internal capital adequacy assessment process

LEVERAGE RISK

Leverage risk is the risk arising from the Bank's vulnerability, caused by actual or potential leverage of its funding structure, which may be resulted as unforeseen corrective actions with regard to Bank's development strategy, including the sale of assets caused by the financial hardship, which could result in losses or value adjustments of residual assets.

Increase of leverage the risk may arise as a result of shrinking Bank' Tier 1 capital due to losses, as well as excessive accumulation of the exposures in comparison with the amount of Tier 1 capital. Leverage risk is characterized by the leverage ratio and the mismatch between assets and liabilities.

Leverage will be calculated on the reporting reference date by dividing the Bank's Tier I capital to the exposure value of all assets which are not deducted in determining Tier I capital, derivative instruments, increases for securities financing counterparty credit risk and off-balance sheet exposure amount and expressed as a percentage.

CAPITAL MANAGEMENT

The primary objective of the Bank's capital management is to ensure that the Bank complies with externally imposed capital requirements (i.e., European Parliament, Financial and Capital Market Commission's regulations and IFRS) and that the Bank maintains healthy capital ratios and own funds, both in terms of elements and composition, to an extent sufficient for covering significant risks inherent in the Bank's current and planned operations.

Capital adequacy standards refers to the sufficiency of the Bank's capital resources to cover credit risk, operational risk, settlement risk, credit value adjustments risk (*CVA*) and market risks.

To calculate minimum Capital Requirements according to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, **the Bank applies**:

- **A standardized approach** for credit risk, counterparty credit risk (except in the case of derivatives), market risk, credit value adjustment (*CVA*) risk and settlement/delivery risk.
- **Initial risk exposure method** – to determine the amount of counterparty credit risk (in the case of derivatives).
- **The basic indicator approach** for operational risk.
- **A simple method** for credit risk mitigation (in the case of financial collateral).

In assessing its overall internal capital adequacy, the Bank calculates the capital adequacy for the following risks:

- **Credit risk** – the Bank has estimated that to cover credit risk in 2020 – 2022 the Bank shall maintain capital of at least in line with the results of pessimistic scenario of the stress test.
- **Market risks**:
  - Foreign exchange risk; the Bank has estimated that to cover foreign exchange risk in 2021 – 2023, the amount of capital should be maintained in accordance with the scenario that gives the highest result (0.68% of the Bank's own funds);
  - The capital needed to cover the settlement risk assessed according to the approach described by the Regulation (EU) No 575/2013 of the European Parliament and of the Council as of 31.12.2020 was 0 euro, and the Bank assesses that there is no need to maintain capital to cover the settlement risk;
  - The Bank regularly, once a month examines, how market risk is affected by the financial instruments market liquidity. All instruments of FVTOCI financial instruments portfolio were traded in liquid markets. Bank takes into account the fact that in the next three years, the Bank do not intend to increase the volume of FVTOCI financial instruments portfolio, portfolio maturity and quality; it is assumed that the new investments will be carried in financial instruments with similar maturity and quality.
- **Operational risk** – determining the amount of capital required the Bank takes into account the calculation done in line the basic indicator approach referred to in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, the results of the internal operational risk assessment, as well as stress test results and information that is gathered from data basis of operational risk events.
- **Interest rate risk** in the banking book – the Bank has estimated that in order to cover interest rate risk in the banking book in 2021 – 2023, the amount of capital should be maintained in accordance with the scenario that gives the highest result (13.34% of the Bank's own funds).
- **Concentration risk** – the Bank applies the simplified approach according to Regulations No. 209 on the Internal Capital and Liquidity Adequacy Assessment Process issued by the Financial and Capital Market Commission on 03 November 2020 to determine the relevant adequate capital. **Loan portfolio concentration risk analysis is carried out for:**
  - Individual concentrations;
  - Industry concentration;
  - Collateral concentration;
  - Currency mismatch.

  The total amount of capital needed to cover concentration risk is determined by summing all the individual results of the calculations. During the individual analysis, the Bank evaluates the entire loan portfolio exposure concentration, as well as financial instruments hold at amortized cost portfolio, FVTOCI financial instruments portfolio and exposures of monetary financial institutions.

- **Money laundering and terrorist financing and proliferation prevention risk** (including sanction risk) – in accordance to Regulations No. 209 on the Internal Capital and Liquidity Adequacy Assessment Process issued by the Financial and

Capital Market Commission on 03 November 2020 the Bank applies the simplified method for determining the amount of capital required and the internal model, selecting the largest of the results of the calculation.

- **Liquidity risk** – the amount of capital required to cover liquidity risk is based on the liquidity risk stress testing results. In cases where the results of liquidity stress testing scenarios show a hypothetical non-compliance with any of external requirements of a liquidity, the amount of additional expenses that the Bank estimated to comply to external liquidity requirements is the amount of additional capital needed to cover the liquidity risk.
- **Other risks:**
  - Reputation risk – by application of a reputation risk assessment model, it is set to maintain a capital requirement of 0.30% of the Bank's own funds;
  - Business model risk – by application of a business model risk assessment model, it is set to maintain a capital requirement of 2% of the Bank's own funds;
  - The rest risks, the Bank determine the amount of capital required to cover the rest risks in accordance with the simplified method described in Regulations No. 209 on the Internal Capital and Liquidity Adequacy Assessment Process issued by the Financial and Capital Market Commission on 03 November 2020, namely the capital to cover the rest risks is determined as 5% of the total minimum capital requirements. The rest risks that would require an additional amount of capital, the Bank in accordance with the relevant risk assessment determined: residual risk, country risk, compliance risk, leverage risk, model risk, systemic risk, information technology risk.

The total capital adequacy is calculated as a total of all separate capital requirements. In addition to determining the amount of capital required to cover the risks, the Bank determines the recommended capital buffer to ensure that the Bank's capital is sufficient for potential adverse developments in the Bank's operations and to ensure that the Bank's capital is sufficient throughout the economic cycle, i.e. during the economic upturn the Bank establishes a capital reserve to cover losses that may occur during the economic downturn. The recommended capital buffer is determined on the basis of the overall stress testing results.

The regulations of the European Parliament and of the Council require that Latvian banks maintain a capital adequacy ratio based on financial statements prepared under IFRS as adopted by the EU of 8% of risk-weighted assets.

The Bank's eligible capital exceeds the adequate capital to cover all significant risks defined during the capital adequacy assessment process, as well as the Bank capital target set in 2021 as of 16%.

The Bank applies the capital definition and the procedure for capital calculation laid down in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, which is incorporated in the Bank's procedure for calculating own capital and own capital requirements relevant for the Bank's instruments. Namely, the eligible capital comprises Tier 1 items, i.e. paid-in share capital, reserve capital, retained earnings, including current year's profit which is not subject to dividend distribution, less negative fair value revaluation reserve of available-for-sale financial assets, intangible assets, losses for the current year, value adjustments due to the

requirements for prudent valuation and the amount of insufficient coverage for non-performing exposures.

Internal capital adequacy assessment is governed by a Bank's internal regulations named the Internal Capital and Liquidity Reserve Adequacy Assessment Procedure.

SUMMARY REPORT OF CALCULATION OF OWN FUNDS AND CAPITAL ADEQUACY RATIOS

	Items	30.09.2021 (unaudited)	31.12.2020 (audited)
1.	**Own funds** (1.1.+1.2.)	**31 737**	**32 002**
1.1.	TIER 1 capital (1.1.1.+1.1.2.)	31 737	32 002
1.1.1.	*Common equity TIER 1 capital*	31 737	32 002
1.1.2.	*Additional TIER 1 capital*	**-**	-
1.2.	TIER 2 capital	**-**	-
2.	**Total risk exposure amount** (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	**127 382**	**129 878**
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	101 812	101 735
2.2.	Total risk exposure amount for settlement/delivery	-	-
2.3.	Total risk exposure amount for position, foreign exchange and commodities risks	215	1 816
2.4.	Total risk exposure amount for operational risk	25 351	26 320
2.5.	Total risk exposure amount for credit valuation adjustment	4	7
2.6.	Total risk exposure amount related to large exposures in the trading book	-	-
2.7.	Other risk exposure amounts	-	-
3.	**Capital ratios and capital levels**		
3.1.	CET 1 capital ratio (1.1.1./2.*100)	24.91%	24.64%
3.2.	Surplus (+)/deficit (-) of CET 1 capital (1.1.1.-2.*4.5%)	26 005	26 157
3.3.	TIER 1 capital ratio (1.1./2.*100)	24.91%	24.64%
3.4.	Surplus (+)/deficit (-) of TIER 1 capital (1.1.-2.*6%)	24 094	24 209
3.5.	**Total capital ratio (1./2.*100)**	**24.91%**	**24.64%**
3.6.	Surplus (+)/deficit (-) of total capital (1.-2.*8%)	21 546	21 612
4.	**The total capital reserve requirement** (4.1.+4.2.+4.3.+4.4.+4.5.)	**3 210**	**3 269**
4.1.	Capital conservation buffer	3 185	3 247
4.2.	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State	-	**-**
4.3.	Institution specific countercyclical capital buffer	25	22
4.4.	Systemic risk buffer	-	-
4.5.	Other Systemically Important Institution buffer	-	**-**
5.	**Capital indicators, taking into account adjustments**		
5.1.	Asset value adjustment amount due to the prudential purposes	-	-
5.2.	Common equity TIER 1 capital ratio, taking into account 5.1. row of the correction amount	24.91%	24.64%
5.3.	TIER 1 capital ratio, taking into account 5.1. row of the correction amount	24.91%	24.64%
5.4.	**The total capital ratio, taking into account 5.1. row of the correction amount**	**24.91%**	**24.64%**

The Bank does not apply the transitional period for the implementation of the IFRS 9 set out in Article 473a of EU Regulation 575/2013.

The Bank does not use the temporary treatment provided in Article 468 of Regulation No. 575/2013 for unrealized gains or losses on financial assets measured at fair value through other comprehensive income in response to the COVID-19 pandemic due to own funds, capital and leverage ratios significantly exceed its requirements.

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