

## Information Disclosure on the Operation of AS “Latvijas pasta banka” in 2016

### General Information

Joint-stock company “Latvijas pasta banka” (hereinafter referred to as - the Bank) was registered in the Republic of Latvia on 5 September 2008 with the unified registration number 50103189561. Bank’s legal address is Brivibas iela 54, Riga, LV-1011.

This information is prepared pursuant to the Financial Capital and Market Commission Regulation No. 126 “Regulations on Core Principles of Remuneration Policies” of 2 July 2014 and in compliance with the requirements of Article 450 of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013.

Information on the inherent risks of the Bank’s operation and goals, methods, and policies for the management thereof, as well as on the compliance with the equity capital requirements and the internal capital adequacy assessment is available in the publication Financial Report of AS “Latvijas pasta banka” for 2016

([http://www.lpb.lv/files/Documents/Financial%20statements/2016/LPB\\_ENG\\_2016\\_public.pdf](http://www.lpb.lv/files/Documents/Financial%20statements/2016/LPB_ENG_2016_public.pdf)).

### Leverage Ratio

Leverage ratio is a ratio established as Tier 1 capital ratio against risk non-weighted exposure grand total (including off-balance sheet transactions) as a percentage and it provides additional protection against risks related to models’ and assessment errors in calculation of the capital requirements as well as minimizes possible losses of the Bank that might be caused due to excessive trusting in external financing sources.

The Bank calculates the leverage ratio basing on data as at the end of the reporting period. Pursuant to international standards of financial reports, fiduciary assets are not recognized in the balance- sheet; thus, they are not included in the total exposure value measure when calculating the leverage ratio.

(thous. euro)

	Position description	Applicable sum
1	Total assets as per published financial reports	204 744
2	Adjustments for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustments for fiduciary assets recognized on the balance-sheet pursuant to the applicable accountancy framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-
4	Adjustments for derivative financial instruments	55
5	Adjustments for securities financing transactions (SFTs)	-
6	Adjustments for off-balance-sheet items (i. e., conversion to credit equivalent amounts off-balance-sheet exposures)	1 582
{ES-6a}	(Adjustments for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-

{ES-6b}	(Adjustments for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(521)
<b>8</b>	<b>Leverage ratio total exposure measure</b>	<b>205 860</b>
	Position description	<b>CRR leverage ratio exposures</b>
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets but including collateral)	204 743
2	(Asset amounts deducted in determining Tier 1 capital)	(521)
<b>3</b>	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)</b>	<b>204 222</b>
<b>Derivatives exposures</b>		
4	Replacement cost associated with all derivatives transactions (i. e. net of all eligible cash variation margins)	1
5	Add-on amounts of PFE associated with all derivatives transactions (mark-to-market method)	55
{ES-5a}	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
<b>11</b>	<b>Total derivatives exposures (sum of lines 4 to 10)</b>	<b>56</b>
<b>SFT exposures</b>		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
{ES-14a}	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b(4) and 222 of Regulation (EU) No 575/2013)	-
15	Agent transaction exposures	-
{ES-15a}	(Exempted CCP leg of client-cleared SFT exposure)	-
<b>16</b>	<b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>	<b>-</b>
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposures at gross notional amount	4 259
18	(Adjustments for conversion to credit equivalent amounts)	(2 677)
<b>19</b>	<b>Other off-balance sheet exposures (sum of lines 17 and 18)</b>	<b>1 582</b>
<b>(Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)</b>		
{ES-19a}	(Intragroup exposures (solo basis) exempted in accordance with Article 429(14) of Regulation (EU) No 575/2013 (on and off balance items))	-
{ES-19b}	(Exposures exempted in accordance with Article 429(14) of Regulation (EU) No 575/2013 (on and off balance items))	-

Capital and total exposure measure		
20	Tier 1 capital	27 646
21	Leverage ratio total exposure measure (sum of lines3, 11, 16, 19, ES-19a and ES-19b)	205 860

Leverage ratio		
22	Leverage ratio	13.43 %
Choice on transitional arrangements and amount of derecognised fiduciary items		
ES-23	Choice on transitional arrangements for the definition of the capital measure	Implemented in full
ES-24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-

**Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**

		CRR leverage ratio exposures
ES-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which	204 743
ES-2	Trading book exposures	-
ES-3	Banking book exposures, of which:	-
ES-4	Covered bonds	-
ES-5	Exposures treated as sovereigns	50 683
ES-6	Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns	2 371
ES-7	Institutions	45 447
ES-8	Secured by mortgages of immovable properties	8 345
ES-9	Retail exposures	1 737
ES-10	Corporate	61 428
ES-11	Exposures in default	4 628
ES-12	Other exposures (e. g. equity, securitizations, and other non-credit obligation assets)	30 104

		Free format
Row		
1.	Description of the processes used to manage the risk of excessive leverage	The Bank manages its leverage ratio in scope of the Risk Management Policy. The Bank has specified that the leverage ratio shall be controlled quarterly and its target value shall be 3 % at least. The Board of the Bank receives information about the leverage ratio dynamics on regular bases; and, in case of necessity, it can decide on adjustments for development of the leverage ratio by increasing the Tier 1 capital or limiting the increase of exposures value.
2.	Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	Leverage ratio increase in 2016 was affected by the slight decrease of the Bank's assets compared to 2015 and the Bank's Tier I capital increase. Such change resulted that the leverage ratio at the end of 2016 is 13.43%, which has increased significantly compared to 2015, when it was 6.35%. Inclusion of the audited profit for the first and second half-year of 2016 into the Bank's Tier capital facilitated the increase of the Bank's own capital.

### Specific countercyclical capital buffer requirement

The specific countercyclical capital buffer is intended for securing the Bank with sufficient capital base during economic growth to provide its ability to absorb losses during recession, namely,

it serves for the Bank as a buffer to maintain the Bank's crediting ability even under adverse economic circumstances.

The Bank calculates the countercyclical capital buffer requirement as weighted average of countercyclical buffer requirement that is applied in countries, with residents of which the Bank performs transactions subjected to credit risk. The Bank calculates the countercyclical capital buffer requirement basing on data as at the end of the reporting period.

**Geographic location of respective exposures (thous. euros)**

	Credit transactions asset positions		Total capital requirements				Specific weights of total	Countercyclical capital buffer norm (%)
	SP	Internal models	Incl. General credit assets	Incl. Trading book assets	Incl. Securitization assets	Total		
Countries:								
AUSTRIA	1 705		0			0	0.00	0.00
BELGIUM	119		0			0	0.00	0.00
BULGARIA	1 035		1 035			1 035	1.48	0.00
CHINA	1 912		955			955	1.37	0.00
ESTONIA	5 234		5 196			5 196	7.44	0.00
FINLAND	1 059		1 059			1 059	1.52	0.00
GEORGIA	1 360		15			15	0.02	0.00
GERMANY	2 005		2 005			2 005	2.87	0.00
INDIA	1 944		1 944			1 944	2.78	0.00
ISRAEL	1 356		1 356			1 356	1.94	0.00
KAZAKHSTAN	623		30			30	0.04	0.00
LATVIA	61 020		39 446			39 446	56.51	0.00
POLAND	6 843		4 110			4 110	5.89	0.00
RUSSIAN FEDERATION	8 351		1 110			1 110	1.59	0.00
SLOVAKIA	2 252		2 252			2 252	3.22	0.00
TURKEY	2 467		1 748			1 748	2.5	0.00
UKRAINE	137		47			47	0.07	0.00
UNITED ARAB EMIRATES	4 152		1 495			1 495	2.14	0.00
UNITED KINGDOM	1 839		1 605			1 605	2.3	0.00
UNITED STATES	5 534		4 412			4 412	6.32	0.00
<b>Total:</b>	<b>110 947</b>		<b>69 820</b>			<b>69 820</b>	<b>100.00</b>	

**Amount of countercyclical capital buffers specific to the credit institution (thous. euro)**

Total exposure value	<b>110 947</b>
Countercyclical capital buffer norm specific to the credit institution	<b>0.00 %</b>
Requirements to countercyclical capital buffers specific to the credit institution	<b>0</b>

## **Remuneration Policy and Practice**

When determining the personnel remuneration, the Bank applies the principle of efficiency, flexibility, fairness, and transparency.

The level of remuneration at the Bank is established by balancing the desired and the possible level of amount.

The Council of the Bank approves the Bank's Personnel Policy and Remuneration Policy, which establishes the powers of Bank's structural units with regard to personnel management and remuneration system at the Bank. Remuneration of the Board and Manager of Internal Audit Department is determined by the Council of the Bank. Policies are reviewed not less than once a year, in order to ensure their topicality and compliance with changes in the Bank's operation and external conditions affecting Bank's operation, or after making amendments to the conformity laws, regulations and standards that regulate remuneration policy. Amendments in policies, if such are necessary, are approved by the Council of the Bank.

The life quality of Bank's employees is ensured and employees are motivated with financial (like, remuneration and benefits) and non-financial (like, training and raising of qualification) methods, as well as career development possibilities.

The principle of remuneration efficiency is applied by motivating employees to reach the Bank's goals and to use the resources efficiently.

The Bank's current remuneration system provides only for a fixed remuneration, without a variable component of remuneration that would depend on the work results.

Five employees holding an office that affects the Bank's risk profile terminated the employment legal relationships with the Bank during the reporting period.

During the reporting period, there were no employees at the Bank whose remuneration was equal to or exceeded EUR 1 million in the reporting period.

## Report on Personnel Remuneration

From 01 January until 31 December 2016

(Reporting Period)

**Table 1. Information on personnel remuneration**

	Council	Board	Investment services <sup>1</sup>	Service of natural persons or small or medium-sized businesses <sup>2</sup>	Asset management <sup>3</sup>	Corporate support <sup>4</sup>	Internal control <sup>5</sup>	Other types of operation <sup>6</sup>
<b>Number of employees at the end of the reporting period</b>	3	3	5	68	4	102	10	-
<b>Profit / (loss) after taxes</b>	11 256 442							
<b>Total remuneration</b>	718	207 928	177 445	1 070 037	74 675	1 586 863	175 277	-
including variable component of remuneration	-	-	-	-	-	-	-	-

**Table 2. Information on employees affecting the Bank's risk profile**

	Council	Board	Investment services <sup>1</sup>	Service of natural persons or small or medium-sized businesses <sup>2</sup>	Asset management <sup>3</sup>	Corporate support <sup>4</sup>	Internal control <sup>5</sup>	Other types of operation <sup>6</sup>	
<b>Number of employees affecting the Bank's risk profile at the end of the reporting period</b>	3	3	1	9	2	27	4	-	
including number of higher management employees affecting the risk profile	3	3	1	2	2	7	3	-	
<b>Fixed component of remuneration</b>	<b>Total fixed component of remuneration</b>	718	207 928	28 328	216 523	55 552	520 660	114 152	-
	including cash and other means of payment	718	207 928	28 328	216 523	55 552	520 660	114 152	-
	including shares and the related instruments								
	including other instruments <sup>7</sup>								
<b>Variable component of remuneration</b>	<b>Total variable component of remuneration</b>								
	including cash and other means of payment								
	including shares and the related instruments								
	including other instruments <sup>7</sup>								
<b>Variable part of deferred remuneration</b>	<b>Total variable component of deferred remuneration, which has been deferred in the reporting period</b>								
	including deferred cash and other means of payment								

	including deferred shares and the related instruments								
	including deferred other instruments <sup>7</sup>								
	<b>Total unpaid variable component of deferred remuneration, which has been allocated before the reporting period</b>								
	including the component with regard to which irrevocable rights have been acquired								
	including the component with regard to which irrevocable rights have not been acquired								
	<b>Total variable component of deferred remuneration paid during the reporting period</b>								
<b>Adjustments to variable component of remuneration</b>	<b>Adjustments to variable component of remuneration applied during the reporting period, which is related to the variable component of remuneration allocated in previous periods</b>								
<b>Variable component of guaranteed remuneration</b>	<b>Number of receivers of variable component of guaranteed remuneration (sign-on payments)</b>								
	<b>Amount of variable component of guaranteed remuneration (sign-on)</b>								
<b>Compensation for termination of employment legal relationships</b>	<b>Number of employees who have received compensation for termination of employment legal relationships</b>	-	-	-	-	-	-	-	-
	<b>Amount of compensation paid out for termination of employment legal relationships during the reporting period</b>	-	-	-	-	-	-	-	-
	<b>Amount of the biggest compensation for termination of employment legal relationships paid out to one person</b>								



<b>Benefits related to retirement</b>	<b>Number of employees who receive benefits related to retirement</b>	-	-	-	-	-	-		
	<b>Amount of benefits related to retirement</b>		-	-					

<sup>1</sup> consulting on business finances, transactions with financial instruments sold or not sold in regulated market, as well as services related to trade and sale of financial instruments

<sup>2</sup> crediting of natural persons and businesses

<sup>3</sup> management of individual investment portfolios, management of investments in investment funds that comply with the requirements of Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)

<sup>4</sup> all functions that are related to the Bank as a whole, for example, management of IT personnel

<sup>5</sup> internal audit, function of operation conformity control and function of risk control

<sup>6</sup> employees whose professional activity cannot be related to the above-mentioned operations; the Bank shall add an additional explanation to the report by indicating the type of activity of the professional activities of these employees

<sup>7</sup> instrument that complies with the requirements of Paragraph 18.2.2. of the Financial Capital and Market Commission Regulation No. 126 “Regulations on Core Principles of Remuneration Policies” of 2 July 2014