



LPB Bank public financial statement

Q3 2023



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 the development of individual financial solutions and developing relevant and interesting products and related services' technologies for 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. To become a Bank that supports Latvian FinTech companies and at the same time creates and maintains a product ecosystem for European FinTech companies.

Bank's mission – provide a range of high-quality services based on the Bank's IT technologies that meet customer needs, focusing on accepting payment cards on the Internet and FinTech companies.

Values of the Bank:

- An internal culture that includes setting the tone from the top and promotes mutually respectful and supportive relationships, open communication between all organizational units.
- Investments in employee education and development. Sharing knowledge with other market participants both in Latvia and outside.

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
- Developing the priority direction of activity with regard to FinTech development in the Bank and cooperation 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.
- 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.
- Environmental sustainability, social sustainability and governance sustainability.

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, 2023

Name, Last name	Position	Date of appointment	Release date
Biomins Kajems	Chairman of the Council	13.10.2008	
Boriss Ulmans	Deputy Chairman of the Council	14.06.2021	
Julija Kozlova	Council Member	14.06.2021	
Jefims Gasels	Council Member	28.04.2022	27.09.2023

MANAGEMENT BOARD AS OF 30 SEPTEMBER, 2023

Name, Last name	Position	Date of appointment	Release date
Robert Christian Schoepf	Chairman of the Board	06.11.2019	
Antons Kononovs	Board Member	03.10.2018	
Jurijs Svirčenkovs	Board Member	29.04.2014	31.08.2023
Baiba Preise	Board Member	29.04.2019	
Alda Odiņa	Board Member	12.07.2022	
Jefims Gasels	Board Member	27.09.2023	

BANK'S FINANCIAL STATEMENTS**BALANCE SHEET AND OFF-BALANCE SHEET ITEMS**

Balance sheet items	30.09.2023 (unaudited)	31.12.2022 (audited)
Cash and balances with the Bank of Latvia	37 060	17 251
Due from credit institutions	2 687	2 557
Financial assets at fair value through profit or loss	745	668
- <i>derivatives</i>	-	-
- <i>shares</i>	745	668
Financial assets at fair value through other comprehensive income	38 074	47 956
Financial assets at amortized cost	80 803	87 664
- <i>loans and receivables due from customers</i>	45 387	46 730
- <i>debt securities</i>	35 416	40 934
Property, plant and equipment	6 257	6 314
Intangible assets	547	236
Tax assets	-	-
Other assets	2 140	2 348
Non-current assets and disposal groups classified as held for sale	593	-
Total assets	168 906	164 994
Liabilities to central banks	-	-
Liabilities to credit institutions	-	-
Financial liabilities at fair value through profit or loss	-	11
Financial liabilities at amortized cost	131 714	118 660
- <i>deposits from customers</i>	131 281	118 415
Impairment	236	234
Other liabilities	4 384	15 305
Total liabilities	136 334	134 210
Equity and reserves	32 572	30 784
Total liabilities, equity and reserves	168 906	164 994
Off-Balance Sheet items	1 308	4 590
Contingent liabilities	341	420
Due to customers	967	4 170

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Items	Nine-month period ended 30.09.2023 (unaudited)	Nine-month period ended 30.09.2022 (unaudited)
Interest income	3 997	2 803
Interest expense	(622)	(621)
Dividend income	9	25
Commissions and fee income	11 184	10 930
Commissions and fee expense	(6 441)	(7 181)
Net gain/(loss) on financial assets not at fair value through profit or loss	(75)	(252)
Net gain/(loss) on financial assets at fair value through profit or loss	132	701
Net gain on foreign exchange	1 352	3 768
Other operating income	209	572
Other operating expenses	(742)	(841)
Administrative expenses	(8 079)	(6 700)
Amortization/ depreciation	(329)	(320)
Provisions for doubtful debts	199	221
Profit/(loss) from non-current assets and disposal groups classified as held for sale	-	-
Profit before tax	794	3 105
Corporate income tax	(5)	(1)
Profit for the period	789	3 104
Other comprehensive income / (expense)	999	(4 203)

INVESTMENTS IN FINANCIAL ASSETS

	30.09.2023 (unaudited)		31.12.2022 (audited)	
	Carrying amount	% of the Bank's own funds	Carrying amount	% of the Bank's own funds
Central government's debt securities	25 606	x	26 864	x
Latvia	9 905	33.53	9 889	35.35
Lithuania	4 110	13.91	4 070	14.55
Saudi Arabia	3 926	13.29	3 843	13.74
Other countries	7 665	25.94	9 062	32.40
Credit institutions debt securities	13 682	x	14 677	x
USA	8 197	27.74	8 160	29.17
Other countries	5 485	18.56	6 517	23.30
Other financial institution debt securities	6 428	x	8 806	x
Luxembourg	4 604	15.58	4 563	16.31
Other countries	1 824	6.17	4 243	15.17
Non-financial institutions debt securities	27 909	x	38 778	x
USA	5 714	19.34	5 643	20.17
Germany	6 227	21.08	6 075	21.72
Lithuania	3 685	12.47	4 660	16.66
Other countries	12 283	41.57	22 400	79.42
Financial investments, total	73 625	x	89 125	x
Impairment	(135)	x	(235)	x
Financial investments, net	73 490	x	88 890	x

KEY RATIOS OF THE BANK

Item	Reporting period (unaudited)	Preceding reporting year the same period (unaudited)
Return on Equity (ROE) (%)	3.22	12.20
Return on Assets (ROA) (%)	0.65	2.02

EXPECTED CREDIT LOSS PROVISIONS DIVIDED BY STAGES

Financial assets	<i>Stage 1</i>		<i>Stage 2</i>		<i>Stage 3</i>		<i>Purchased or originated credit-impaired</i>	
	30.09.2023 (unaudited)	31.12.2022 (audited)	30.09.2023 (unaudited)	31.12.2022 (audited)	30.09.2023 (unaudited)	31.12.2022 (audited)	30.09.2023 (unaudited)	31.12.2022 (audited)
Due from central bank and credit institutions	36 621	16 185	2 414	3 189	-	1	-	-
<i>Impairment</i>	-	-	(778)	(1 017)	-	(1)	-	-
Financial at fair value through other comprehensive income, gross	36 515	43 561	1 651	4 579	-	-	-	-
<i>Impairment</i>	(74)	(103)	(18)	(81)	-	-	-	-
Financial assets at amortized cost, gross:	49 235	62 181	19 841	15 675	15 286	14 031	463	-
<i>Impairment</i>	(92)	(102)	(3)	(21)	(3 464)	(4 100)	(463)	-
- loans and receivables due from customers, gross	14 810	22 246	18 807	14 625	15 286	14 031	463	-
<i>Impairment</i>	(49)	(53)	(3)	(19)	(3 464)	(4 100)	(463)	-
- debt securities, gross	34 425	39 935	1 034	1 050	-	-	-	-
<i>Impairment</i>	(43)	(49)	-	(2)	-	-	-	-

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, Bank of Latvia 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, counterparty credit risk, settlement risk, residual risk, concentration risk, country risk, business model risk, systemic risk, leverage risk, foreign exchange risk, position risk, interest rate risk, liquidity risk, operational risk, reputational risk, compliance risk, money laundering and terrorism and proliferation financing risk, sanctions risk, model risk, Sustainability risk and information technology risk. As part of the capital adequacy assessment process, settlement 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.

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, market risk, including interest rate risk management, currency 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, assessment and management of the 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 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 risk monitoring 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 average of all risk levels. 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. In the event that the total risk level or the level of any individual risk approaches or reaches the level of a significant risk should be reported by the Risk Control Department immediately to the Bank's Asset and Liability Committee, however, if the overall risk level approaches the high risk level, the Risk Control Department is obliged to immediately convene meeting of the Bank's Board.

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 risk monitoring system in respect of the following risks:
 - credit risk (including counterparty risk, settlement risk, residual risk, concentration risk, country risk, sustainability risk and part of model risk),
 - operational risk (including reputational risks, compliance risk, business model risk (including systemic risk), sustainability risk and IT risk,
 - market risk (including currency risk, position risk, interest rate risk, part of model risk un sustainability risk,
 - money laundering and terrorism and proliferation financing risk and sanction risk (including part of model 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 held 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 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. The Bank has determined that any credit exposure to a single customer or a group of related customers may not exceed 23% of the Bank's Tier 1 capital (the statutory maximum exposure is 25%). 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 (country mentioned Commission Implementing Decision (EU) 2021/1753 of 1 October 2021 on the equivalence of the supervisory and regulatory requirements of certain third countries and territories for the

purposes of the treatment of exposures in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council) then total risk exposure may not exceed 95 percent of the Bank's Tier 1 capital (the statutory maximum exposure is 100%). If such a customer is registered in a country that does not meet the above conditions, the risk 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, and in determining the quality of financial assets, the Bank also takes into account aspects such as the sustainability of the counterparty, the borrower, the issuer and the transaction itself, namely environmental, social responsibility and business ethics (ESG) factors, including the international ESG ratings.

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

The Bank considers the following as significant credit risk increase for risk transactions:

- A delay of more than 30 days in the performance of the counterparty's obligations (such as payment of principal amount or interest).
- Non-use of the allocated funds for the purposes specified in the agreement.
- Default of a person related to the Bank's counterparty that affects the counterparty's ability to meet their credit obligations to the Bank.
- Significant decline in the market price or a credit rating or financial assets.
- And other event signs that may indicate a significant increase in credit risk of the counterparty.

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.

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.

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 IT 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.

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.
- Setting limits for deposits from customers.
- Monitoring of adherence to the limits fixed in the Bank's liquidity risk management strategy.
- the risk monitoring system.
- Conducting liquidity stress tests and analysis of results obtained.
- Bank's 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 a negative value of liquidity position not exceeding 100% of the Bank's own funds.
- Ensures liquid assets (after applying discounts in the calculation of the Liquidity coverage ratio) in the amount of at least 30% of total assets.
- Ensures the Liquidity coverage ratio not less than 110%.
- Ensures the Net stable funding ratio not less than 110%.
- Ensures a survival horizon (the period of time for which the Bank is able to meet the contractually determined net outflows of cash, without attracting additional resources) not less than three months.
- Ensures the share of the loan portfolio in total assets no higher than 60%.
- Ensures the ratio of the loan portfolio to customer deposits no higher than 70%.
- 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 ratios as of 30.09.2023 and 31.12.2022 were:

No.	Item	30.09.2023 (unaudited)	31.12.2022 (audited)
1.	Liquidity reserves	75 052	53 391
2.	Total net cash outflows	50 945	37 459
3.	Liquidity coverage ratio (%)	147%	143%

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 Bank of Latvia 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 and products, 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 follows changes in the laws and regulations in the force in the Republic of Latvia and best practices in the field of operation of this policy, and, if necessary, on the basis thereof or on its own initiative, proposes the necessary or appropriate measures to ensure the compliance and effectiveness of internal control measures, including by proposing and developing changes to this policy and other internal regulations of the Bank documents and processes.

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 requirements of the Bank's internal regulations.

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.

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 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, the Bank limits the probability to suffer excessive losses from financial instruments impairment.

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 Banks's 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. According to the regulations of the Financial and Capital Market Commission No. 190 "Regulatory regulations for interest rate risk management, calculation of reduction of the economic value and preparation of interest rate risk term structure report" 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. The impact on the Bank's own funds is assessed taking into account possible changes in the Bank's portfolio of financial assets available for sale.

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, IT 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. 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 5'000.00 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.

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 (incl. profitability over a period of 12 months), sustainability (incl. 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 development strategy is to determine:

- The operational objectives, including projected financial position, activities, target markets, target customers.
- Risk strategy, including determine the risk appetite, the risk tolerance level, risk capacity and actions to ensure compliance with acceptable risk level.
- Capital adequacy maintenance strategy, including determination of the amount of required capital to cover the risks related to the Bank's planned operations, the desired level of capital (targets of the capital adequacy indicator), the plan for achieving it and sources of capital increasing.

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

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 business model risk management policy and reflected in the scenarios of the overall stress tests.

COUNTRY RISK

Country 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 the subject to legal obligations or it may be penalized or its reputation may worsen if the Bank fails to comply with or violates 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.

SUSTAINABILITY RISK

Sustainability or ESG (environmental, social and governance) **risk** – events or conditions that occur in the field of environment, social or governance and the occurrence of which may cause an actual or potentially negative impact on the counterparty or issuer or affect the value of the asset. Sustainability risk can express through other financial or non-financial risks (including, but not limited to, market risk, liquidity risk, credit risk, operational risk).

The Bank is aware that regardless of the fact that some ESG risks may materialize in the distant future, they require risk management today. The Bank has identified that it is mainly exposed to ESG factors indirectly, i. e. through customers and business partners, as well as directly through the Bank's operations. Thus, being aware of the indirect exposure to ESG risk, the Bank determines in its risk management both the identification and assessment of ESG risk factors and the desired amount of assets that correspond to a sustainable investment or loan, while the Bank measures the direct exposure to ESG risk as part of the annual risk significant determination process. ESG risk is currently managed within the framework of other risks.

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

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 measure to the exposure value measure 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, Bank of Latvia, 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 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 2023 – 2025 the Bank shall maintain capital according to the scenario that gives the highest result (9.00% of the risk-weighted value of the Bank's risk transactions).
- **Market risks:**
 - Foreign exchange risk; the Bank has estimated that to cover foreign exchange risk in 2023 – 2025, the amount of capital should be maintained in accordance with the scenario that gives the highest result (0.80% of the Bank's own funds);
 - Settlement risk; 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 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012. As of 31.12.2022 it was 0 euro, and the Bank assesses that there is no need to maintain capital to cover the settlement risk;
 - Position 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 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 2023 – 2025, the amount of capital should be maintained in accordance with the scenario that gives the highest result (14.90% 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 held 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. Taking into account the mutual correlation between AML and sanctions risks, the Bank maintains the calculated capital requirement for AML risk as well as for sanction risk.
- **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 0.8% 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 1.5% 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, Sustainability 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 adequacy ratio target for year 2023 set at 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 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 Adequacy Assessment Procedure.

SUMMARY REPORT OF CALCULATION OF OWN FUNDS AND CAPITAL ADEQUACY RATIOS

	Items	30.09.2023 (unaudited)	31.12.2022 (audited)
1.	Own funds (1.1.+1.2.)	29 545	27 973
1.1.	TIER 1 capital (1.1.1.+1.1.2.)	29 545	27 973
1.1.1.	<i>Common equity TIER 1 capital</i>	29 545	27 973
1.1.2.	<i>Additional TIER 1 capital</i>	-	-
1.2.	TIER 2 capital	-	-
2.	Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	121 253	133 455
2.1.	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	92 143	103 441
2.2.	Total risk exposure amount for settlement/delivery	-	-
2.3.	Total risk exposure amount for position, foreign exchange and commodities risks	1 684	2 585
2.4.	Total risk exposure amount for operational risk	27 426	27 426
2.5.	Total risk exposure amount for credit valuation adjustment	-	3
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)	24.37%	20.96%
3.2.	Surplus (+)/deficit (-) of CET 1 capital (1.1.1.-2.*4.5%)	24 089	21 968
3.3.	TIER 1 capital ratio (1.1./2.*100)	24.37%	20.96%
3.4.	Surplus (+)/deficit (-) of TIER 1 capital (1.1.-2.*6%)	22 270	19 966
3.5.	Total capital ratio (1./2.*100)	24.37%	20.96%
3.6.	Surplus (+)/deficit (-) of total capital (1.-2.*8%)	19 845	17 297
4.	The total capital reserve requirement (4.1.+4.2.+4.3.+4.4.+4.5.)	3 310	3 469
4.1.	Capital conservation buffer	3 031	3 336
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	279	133
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	24.37%	20.96%
5.3.	TIER 1 capital ratio, taking into account 5.1. row of the correction amount	24.37%	20.96%
5.4.	The total capital ratio, taking into account 5.1. row of the correction amount	24.37%	20.96%

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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