M2M BANK EUROPE

Information disclosure – Pillar III 2014

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I INTRODUCTION

Bank M2M Europe AS (further - Bank) complying with the provisions of the Credit Institutions law and 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 discloses information about inherent risks and their management methods, compliance with capital requirements and internal capital adequacy assessment.

II RISK MANAGEMENT

1. ORGANIZATION OF RISK MANAGEMENT

Risk management is a part of Bank's system of internal control that is established in accordance with the best practice principles and FCMC Regulations No.233 „On Establishment of the Internal Control System" regarding organization of risk control function and its synergy with compliance and internal audit functions.

The Risk Management Strategy guidelines are set out in the Bank's internal documents, that determines inherent risks, respective risk management mechanisms and approaches, capital adequacy assessment process; organizational structure or risk management and capital adequacy management; allocation of responsibilities for risk management.

The Bank performs risk and capital management in order to ensure achievement of the objectives with clear and acceptable level of risk, reducing the risk of adverse effects on the Bank's financial position, at the same time providing the necessary cost-efficiency taking into account capital adequacy and capital requirements set by the EU Regulation.

The Bank has set up a management information system to ensure Bank's management with possibility to understand and timely assess the risk profile of the Bank, take effective decisions and evaluate their effects. All units of the Bank are involved in Risk management process, but the Bank ensures an independent risk assessment, control and monitoring.

The Bank's Council determines risk strategy, monitors its implementation, as well as determines and approves respective risk management policies.

The Board ensures fulfillment of respective risk management policies and risk management process in the Bank.

Comprehensive risk control function's management is performed by the Risk Director, who sets up the Bank's risk management system, ensures the monitoring and necessary improvements.

The internal audit department performs independent monitoring of risk management system, as well as evaluation of its adequacy and effectiveness.

Risk control units provide development of a risk management process, determine risk identification methods, analyze the transaction volumes and report about significant risks.

2. SIGNIFICANT RISKS

2.1. The significant risk management

The Bank considers that the material risks inherent in the activities of the Bank are as follows:

- Credit Risk, including Concentration Risk;
- Market Risks, including:
  - Currency Risk;
  - Interest Rate Risk;
  - Financial Instruments Price Risk.
- Liquidity Risk;
- Operational Risk;
- MLTF Risk;
- Other risks: Compliance and Reputation Risk, Strategic Risk.

Below the Bank discloses information about each above mentioned significant risks - definition, management strategies and/or policies, control functions and organizational structure, measurement, evaluation, reporting systems, control and mitigation techniques.

The results of all risk assessment are given in the section on the internal capital adequacy assessment.

2.2. Credit Risk, including Concentration Risk

Credit risk is the risk of incurring losses in the event that the Bank's business partner is unable or refuses to fulfil its obligations towards the Bank in accordance with provisions of the relevant agreement.

The Bank has approved "Credit risk management policy" whose aim is to create effective credit risk management system in the overall risk management system, by choosing credit risk management strategy that lowers credit risk losses to the acceptable level.

Bank's lending core principles rely on clear Bank's practice and related regulatory rules, suit to Bank's operating profile and complexity and are defined taking into account Bank's employees, IT and technical resources. These principles are defined in Bank's internal document "Lending policy".

Lending is not the primary product of the Bank and the Bank does not create a big loan portfolio.

Total credit losses should not exceed 5% of the Bank's capital per year.

For reduction of the credit risk, the Bank will ensure permanent supervision of the credit risk concentration; methodology of evaluation of counterparties; regular assessment of the credit risk of a borrower/counterparty, stress testing. In order to mitigate credit risk arisen from crediting operations the Bank uses collaterals and routinely assesses the value of the collaterals.

Bank's departments prepare and settle deals (operations) with respect to Bank's internal procedures and rules in credit risk management. Bank's accounting and back-office departments ensure accounting of deals exposed to credit risk. Separate department in the Bank performs independent credit risk assessment at the deals' preparation and monitoring stages, independently evaluates assets credit quality and necessary credit risk losses provisions calculation, as also ensures constant credit risk control process.

The credit risk management system of the Bank consists of the following elements:

- Analysis of balance and off-balance sheet items of the Bank in order to identify positions exposed to credit risk;
- Assessment of financial standing and solvency of each and every counterparty (banks, issuers of securities, borrowers) and regular review and actualization of assessment;
- Setting of different restrictions for risk deals with counterparty, based on assessment of financial standing and solvency of it;
- Setting of different credit risk indication limits and restrictions for portfolios of financial instruments;
- Regular and independent control of credit risk indication limits and restrictions;
- Assessment of value of credit risk, based on available data on probability of default;
- Stress - testing of credit risk, using different scenarios, in order to assess the potential losses resulted from adverse effect of various events.

To mitigate credit risk Bank uses collateral as one of the tools. In order to determine an appropriateness of collateral, criteria are set on collateral, and the collateral is accepted, using the conservative approach, as well, ensuring low credit to collateral ratio.

The value of collateral for credit risk assessment is performed according to the following scheme:

- evaluation of independent valuator is submitted to the Bank;
- internal Bank's evaluation of collateral is performed;
- if there is a significant difference between Independent valuation & Internal Bank's valuation, Independent valuation is adjusted.

2.3. Market Risk

Market risk is the risk of incurring losses or decreasing of Bank's future income due to changes in the interest rates, currency rates and financial instruments prices. To achieve moderate market risk levels, the internal limits of the Bank for open positions in one currency and total open positions are determined and controlled. To assess the investment portfolio risk, Bank applies indicators of sensitivity, Value-at-Risk and Expected Shortfall methodologies and stress – testing methodology as well; different risk restriction limits (regarding securities' prices sensitivity toward changes of risk factors, different limits on concentration) are set to portfolios of securities and some securities' positions. To reduce the interest rate risk, Bank maintains the structure of assets and liabilities that are sensitive to fluctuations of interest rates in accordance with the level of the interest rate risk acceptable for the Bank; Bank may use derivative instruments to hedge the risks as well.

The market risks management system of the Bank consists of the following elements:

- Identification of Bank's balance sheet positions and off-balance positions that are exposed to market risks, analysis of market data to identify market risks factors;
- Definitions of the Bank's financial results and ratios exposure to changes in market risks factors;

- Modeling of Market risks factors using internal methodologies to evaluate possible Market risks factors variations and its' impact on Bank's financial results and ratios. Evaluation of Market risks with parametrical methods;
- Modeling of Market risks factors using stress scenarios. Hypothetical and historical drastic changes in Market risks factors and their impact on Bank's financial results and ratios are evaluated;
- Setting limits and restrictions for market risks minimization – limits for currency positions, limits for size of securities portfolios, limits for bonds duration, portfolio duration, market risks losses etc.;
- Independent and regular market risks limits control;
- Hedging of market risks with financial instruments and Bank's positions management activities.

2.4. Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to satisfy legally relevant liabilities promptly and without considerable losses, and will not be able to overcome unplanned changes of the resources of the Bank and/or market circumstances as well because of a lack of sufficient amount of liquid assets.

Bank's internal regulations determine Liquidity Management qualitative and quantitative objectives (Bank's allowable level of liquidity risk); Liquidity risk assessments; funding structure (gaps) management, including identifying, measuring and control frameworks; preparation of guidelines for action plan for the for potential liquidity crisis; creation of a management information system of liquidity and liquidity risk management; principles of preparation of reviews and submission for monitoring purposes; duties and responsibilities in the field of Bank's liquidity and liquidity risk management.

The liquidity risk management system of the Bank consists of the following elements:

- Analysis of Bank's assets and liabilities by maturity, stability and liquidity levels;
- Definition of Banks's liquid assets and calculation of required liquid assets amount to match liabilities;
- Definition of Banks's liquidity ratios, including early warning risk indicators. Regular evaluation and control of liquidity ratios and defined limits;
- Cash flow planning;
- Evaluation of possible liquidity risk losses under stress scenarios' assumptions;

In order to identify adverse trends affecting liquidity, analyze and assess its Liquidity risk mitigation measures, the Bank establishes an early warning indicator (quantitative and qualitative)system that can help identify the vulnerabilities of the Bank's liquidity position and the necessity to attract additional financing.

Early warning indicators are set and are a part of the Bank's Liquidity Crisis Management Action Plan.

The Bank maintains a high level of liquidity, providing liquidity ratio (FCMC methodology) above 60%. As part of Liquidity risk reduction the Bank performs cash flow planning; ensure sufficient liquid funds to ensure the ability to meet financial obligations; develop a liquidity crisis management action plan for the proper management of liquidity in case of market problems.

2.5. Operational risk

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, which do not comply with the requirements of the external and internal legal regulations, the Banks's employees' and system activities, defects of internal processes, third parties' activities or from other external events as well, including legal risk, but excluding strategic and reputation risk.

The aim of the management of the operational risk is to keep the operational risk on the economic reasonable minimum level, to ensure stability of the Bank's activities and commercial profit in the long term. The management of the operational risk goes through all the Banks's organizational structure and is realized in each unit of the Bank and its subsidiaries, that is why the management of the risk is based on overall comprehension of each employee of the Bank on processes he conducts and the risks inherent in these processes (high risk awareness), and on sound risk culture as well.

In order to mitigate operational risk, Bank uses the expert method and self-assessment; implementation of quantitative indicators of operational risk; usage of database of risk events; stress – testing and scenario analysis.

Identifying any operational risk, the Bank takes a decision on whether such risk is to be accepted, necessary and reasonable steps are taken to limit or cease to perform the operational risk-related activities.

Such decisions are taken in respect of the Bank specified risk appetite levels. The Bank provides regular monitoring of the identified operational risk and operational risk loss.

The operational risk management system of the Bank consists of the following elements:

- Operational risk is evaluated before implementing new business projects or making changes in current businesses, for example, in new outsourcing projects or in development of new products, services and technologies;
- Regular operational risk self-assessment in all Bank's processes, products and/or departments – this is identification and evaluation of possible operational risk events, evaluation of control systems and analysis of required risk limiting measures. Self-assessment queries and/or specific surveys and discussions with responsible employees are used;
- Definition of operational risk indicators – statistical, financial and other indicators that describes different operational risk types and levels and its' changes;
- Limits for losses acceptable levels – defining risk appetite and ensuring limits' control;
- Evaluation of operational risk, using registered and analyzed operational risk events, losses, risk sources and other relevant information;
- Business continuity plan – management of operational risk that arises from events such as disasters or catastrophes that the Bank can't control and that affect the Bank directly or indirectly. Special attention is drawn to events that harm or limit access to Bank's material or financial assets, information systems or telecommunication infrastructure – that is, events that can stop employees from work process, cause Bank's work process interruption and significant financial losses.

Main elements of Operational risk mitigation include:

- Separation of duties;

- Documented levels of authority;
- “Four eyes” principle in deals execution process (final execution of a deal should be approved at least by two independent employees or departments);
- Not allowing possibilities to make a deal single-handedly for unlimited amounts (errors or fraud);
- Insurance (with analysis of additional risks that car arise from insurance – juridical or counterparty risks);
- Investments in data processing and IT security technologies etc.

2.6. Money laundering and terrorism financing risk

Money laundering and terrorism financing risk is the risk that the Bank can be involved into money laundering or terrorism financing (MLTF).

The Bank has developed and approved "Money Laundering and Terrorism Financing Prevention Policy", which aims to identify the key principles and elements of internal control system, that are focused on ensuring compliance with external legislation and to minimize the usage of Bank's financial services for MLTF purposes, providing for that adequate resources and performing employee training. The Bank has established an internal control system for anti-money laundering and counter-terrorist financing in full compliance with relevant requirements of legislation, taking into account international best practices.

Bank performs each client's identification and due diligence in accordance with the respective level of MLTF risk. Depending on the level of MLTF risk the Bank gather necessary information about nature of client’s personal or economic activity, planed volumes of activity in the accounts, the source of funds and the nature of the transactions. The Bank has established client monitoring unit, which performs: each Banks potential client’s research and risk assessment prior establishment of the business relationships, transaction monitoring during course of the business relationship, as well as performs accurate and timely execution of statutory obligations with the competent authorities of the Republic of Latvia. Each client has its relationship manager who is directly responsible for customer identification, due diligence measures, reporting to the client monitoring unit on suspicious or unusual transactions. Client monitoring unit is supervised by the board member responsible for the efficiency of the Bank’s anti-money laundering and terrorism financing activities.

The MLTF risk management system of the Bank consists of the following elements:

- Client identification and due diligence measures, including process of performance of identification, due diligence, enhanced due diligence, establishment and maintenance of business relationships with politically exposed persons, termination of business relationships;
- document and information retention;
- reporting to FIU;
- establishment of business relationships with respondent banks;
- employee training and testing.

Main elements of MLTF risk mitigation include:

- analyze of fulfillment of the requirements prescribed in internal regulations to identify gaps in the existing system or employee performance;
- regular employee anti money laundering and terrorism financing training ;
- improvement of the Bank's internal regulatory documents and training or responsible employees for the Banks MLTF risk management according to national legislation,

international requirements, as well as examples of good practice MLTF risk management and, where appropriate, evaluate the professional competence and quality of work results

2.8. Compliance and Reputation Risk

Compliance and reputation risk is the risk that the Bank is not subject to or in violation of the compliance legislation, losses may occur or may be imposed on the legal obligations or penalties may be applied or may degrade the reputation.

Bank has developed and implemented the "compliance policy" with the aim, of subject to compliance with the requirements in the legislation, to improve the Banks's capabilities and competitive position in the market; to strengthen confidence in the Bank; to protect Bank's reputation, to lower the cost of capital; to reduce litigation and sanctions enforcement risks.

The Bank has established a separate and independent, with business transactions unrelated structure unit that performs compliance function.

The management of Compliance and Reputation Risk includes:

- follow up on changes in external legislation and their timely implementation in to internal regulations and practices;
- active participation in task committees and discussions of Association of Latvian Commercial Banks and FCMC concerning compliance issues;
- evaluation of efficiency of internal regulations and their correspondence with performed practices and compliance with external regulations;
- analysis and evaluation of activity indicators for proactive actions on issues that can raise Compliance risks;
- evaluation of client's complains;
- employee training on Compliance risk management.

2.9. Strategic Risk

Strategic risk is the risk that the changes in the business environment and the Bank's failure to respond to these changes timely, or inappropriate/unsubstantiated activities of the Bank's long-term strategy, or if the Bank's inability to provide the necessary resources for the implementation of the strategy could adversely affect Bank's income/expense (and the amount of equity capital).

The main aim of the assessment of the Strategic risk is to evaluate the risks arising from the Bank's failure to determine business strategy appropriate for respective business environment; unconsidered / unreasonable strategy; Bank's failure to ensure the implementation of the Strategy.

The Bank has determined an operational development strategy, which is regularly reviewed and updated.

The Bank performs its business development planning for at least the next three years, taking into account the EU Regulation requirements and key strategic goals and objectives set by the Banks Council, that are basis for the Banks Board to exercise planning (strategic, long-term and short term) process of the Bank. The Bank has established a special unit that controls the execution of the strategy and informs the Bank's Board about its execution.

Planning activities within the framework of development, Bank carries out analysis of the external environment, competitiveness of the Bank, its position in the financial market, macroeconomic circumstances, with the purpose to determine the likelihood that an event in a business environment, in which Bank carries out its activities and/or intends to take action in the future, will have a negative impact on Bank's ability to achieve its strategic objectives (to implement the strategy) and/or threaten Bank's future operations. Evaluating and predicting of Bank's asset and liability structure is based on results of analysis of selected indicators of development activities and the business environment.

The Bank prepares and analyzes various business development scenarios. As a result of their evaluation optimal scenarios are elected.

III CAPITAL MANAGEMENT

3.1. OVERALL INFORMATION ABOUT CAPITAL ADEQUACY ASSESSMENT PROCESS

Capital adequacy assessment by in accordance with Basel III/CRD IV package is described in the Bank's annual report for year 2014 http://www.bankm2m.com/en/about-bank/in-reporting/

Since the Group (Bank and its subsidiary M2M Asset Management IPAS) applies the full consolidation method in accordance with International Financial Reporting Standards, then, according to the EU Regulation 575/2013 consolidated capital requirements are calculated on the basis of the Group's consolidated financial position, i.e. on the Group's consolidated financial statements.

3.2. CAPITAL COMPOSITION

'000 EUR		As on 31.12.2014	
		Group	Bank
1	Total capital (1.1 + 1.2)	20 053	20 582
1.1	Tier 1 capital (1.1.1.-1.1.7.)	10 781	11 310
1.1.1	Paid-in capital	27 920	27 920
1.1.2	Share premium	28	28
1.1.3	Previous periods retained profit / loss	(15 424)	(15 427)
1.1.4	reserve capital and other reserves, revaluation reserves	(664)	(664)
1.1.5	Profit / loss of the current year	153	(103)
1.1.6	Intangible assets	(444)	(444)
1.1.7	Goodwill	(788)	-
1.2	Tier 2 capital	9 272	9 272
1.2.1	Subordinated debt (the unamortized portion)	9 272	9 272

3.3. CAPITAL REQUIREMENTS

Group's and Bank's exposure categories:

'000 EUR	Risk deals weighted exposures on 31.12.2014	
	Group	Bank
Exposures to central governments or central banks	1 387	1 387
Exposures to institutions	17 774	17 446
Exposures to corporates	51 138	51 437
Exposures associated with particularly high risk	8 889	8 889
Other items	3 246*	4 885

*Group: incl. deferred tax assets (113 t.), which is less than 10% of the Tier 1 capital and are subject to a 250% risk weight

The Group and the Bank calculate capital requirements in accordance with the EU Regulation 575/2013:

- Credit risk is calculated using the standardized approach (SP) and risk weight is applied based on the exposure class and exposure credit quality. Credit quality is determined based on FitchRatings, Standard & Poor's Ratings Services and Moody's Investors Service credit assessments;
- For valuation of OTC derivatives and long settlement transactions the market value method is used to determine exposure value;
- For credit risk mitigation Financial Collateral Simple Method is used;
- CVA calculation by standardized method is used for Credit value adjustments (CVA) for risk capital requirement calculation;
- Operational risk is calculated using the Basic Indicator Approach.

Market risk:

'000 EUR		Risk deals exposure on 31.12.2014	
		Group	Bank
1	Market position, foreign exchange and commodity risks total capital requirements according to the Standardized approach (1.1-1.3)	1 654	1 640
1.1	Foreign Exchange risk*	418	404
1.2	Specific risk**	618	618
1.3	Overall risk**	618	618

* Standardized approach
** Equity position's specific risk and overall risk exposure values

3.4. INTERNAL CAPITAL ADEQUACY ASSESSMENT

The Group and the Bank in order to ensure all relevant risk coverage by capital permanently controls the internal capital adequacy. Internal capital adequacy assessment is based on the potential loss, which is calculated utilizing the stress test scenario assumptions.
Various types of stress scenarios are used in internal capital adequacy assessment process. Scenario selection criteria are based on the seriousness of the consequences of possible events and compliance with the Group's business profile. The main types of stress scenarios are:

- Historical scenarios are identified by major fluctuations in market factors;
- Hypothetical scenarios which assume a potential fluctuations in market with amplitude comparable to historical events. Assumptions of the ECB and the IMF stress test methods have been widely used in the hypothetical scenarios;
- Sensitivity scenarios which evaluate large fluctuations in individual risk factors or simplified risk factor movements.

Additionally necessary capital for planned development of the Group and the Bank is evaluated.
Capital planning is done together with the Bank budgeting process. Bank conducts capital planning for at least the subsequent three years and determines the desired level of capital (capital adequacy target), including:

- Plans capital adequacy based on the Bank's Board approved financial plan for the next financial year and the financial projections for at least 2 consecutive years;
- Develops the capital adequacy target plan, including a capital increase sources (increase of

capital by issuing new shares; attraction of subordinated capital; previous year's retained earnings or, with the FCMC permission - audited profit for the current year) and expected additional costs for raising of additional capital;

- Prepares a capital adequacy maintenance plan in exceptional circumstances (in case the capital adequacy ratio may drop in accordance with established early warning indicator for capital adequacy reduction - response criteria).

The Group's and the Bank's capital adequacy assessment is based on three fundamental criteria by which a conclusion is made on sufficient or insufficient capital amount:

- Necessary capital for covering risks (CCR) is calculated using CAAPR (FCMC Capital Adequacy Assessment Process Regulations) simplified methods - Group equity capital must be greater than the calculated necessary capital required to cover risk;
- Future capital requirement is estimated (FCR) in case of materially adverse scenario, two years development scenario is used and evaluation is performed taking into account planned changes in equity - Group equity capital, including planned changes in equity, should be greater than the estimated capital required in the future;
- Capital adequacy ratio is estimated according to the Group's planned development scenarios - Group capital, including the planned changes in equity should be sufficient to maintain the capital adequacy ratio assigned to the Bank by FCMC.

Internal Capital Adequacy Assessment results are evaluated in the following stages:

1. A comparison of the Group's equity and capital for covering risks (CCR) is performed. According to the comparison results, it is concluded that the Group's equity is sufficient to cover the risks in current situation.
2. A comparison of the Group's equity held, along with the planned changes in equity over the next two-year period, with the estimated total amount of Future capital requirement (FCC) is performed. According to the comparison results, it is concluded that the Group's equity is sufficient for the planned incurred risks in future exposures and operations.
3. The capital reserve of the Group is calculated as the maximum amount of two variables: 10% of the minimum regulatory capital requirements and the difference between the total amount of Future capital requirement (FCC) and capital for covering risks (CCR).

Additionally capital planning measures are being made: comparison of Group capital, along with the planned changes in capital over the next three years, with the required amount of capital in order to ensure compliance with the capital adequacy ratio in the next three years is performed.

IV REMUNERATION POLICY AND PRACTICE

Information prepared in accordance with EU Regulation 575/2013 and requirements of FCMC „On Principles of Remuneration Policy" Nr. 126, and in accordance with the principles of physical persons data security.

The principles of Bank's remuneration policy are established and executed in accordance with the Bank's development strategy and values that corresponds to the Bank's business model and the risk profile.

The Supervisory Council takes decision and is responsible for setting the remuneration policy framework and principles, and for review of the policy framework on a regular basis to ensure compliance thereof with the Bank's current priorities as well as with changes in external factors.

The Supervisory Council sets the Remuneration for members of the Board, Internal Audit, Risk Director and positions where the fixed part of the salary is equal to or larger than the minimum base salary set for any Member of the Board.

No remuneration committee established at the Bank taking into account the volumes of Bank's activity, level of their complexity, specific of operations and its organizational structure.

The remuneration at the Bank is determined with objectives:

- Attract to the Bank well-motivated high-level professionals who will ensure critical competences for the development of Bank's business.
- Contribute to the achievement of Bank's objectives, to recognize high performance culture and professional development by providing appropriate assessment and remuneration for quality of work and the results achieved.
- Strengthen the loyalty of those employees who contribute to the Bank's operational efficiency, achievement of strategic objectives, and minimization of risks through compliance with the Bank's standards of ethics and professional conduct and by ensuring the consistency with the interests of the Bank's management and its shareholders.

The principles of setting remuneration at the Bank are that:

- Do not promote risk taking over the Bank's risk level predefined in the Bank's normative document *"The strategy of risk management and capital adequacy*".
- Do not limit the Bank's ability to ensure capital adequacy.
- Corresponds to the Bank's values, ethical standards, long-term interests, goals of development strategy, as well as ensures efficient practice of risk management.
- Are not contradictory to the principles of interest defense of clients and other related parties.

The variable part of remuneration is determined by taking into account the performance of the Bank's strategic goals and operational plans in accordance with the risk management principles determined by the Bank. Decision on the variable part of remuneration has to be based on the Bank's budget for the next financial year as approved by the Supervisory Council at the end of each financial year, criteria of performance assessment, the system used to calculate the variable part of remuneration, as well as the Bank's internal regulations governing the management of conflicts of interest.

The calculations of the amount of the variable part of remuneration have to be based on achieved amount and quality of the predefined goals in accordance with the requirements for the Bank's risk management, liquidity and capital adequacy.

The variable part of remuneration is related to the results of performance assessment and depends on the unit and position segment in which the employee is working:

For the positions influencing the risk profile and business support positions, the variable part of remuneration is be paid once a year in accordance with the results of performance assessment in the relevant year.

Payments of the variable part of remuneration for positions influencing the risk profile positions will be deferred as follows:

- as to the substantial variable part of remuneration which accounts for 35 % – 60 % (exclusive) of the remuneration set for an employee for the remuneration reporting year, the pay-out of no less than 40 per cent will be deferred for 3 years;

- as to the extra high amount of variable part of remuneration which accounts for 60 %and more of the remuneration set for an employee for the remuneration reporting year, the pay-out of no less than 60 per cent will be deferred for 3 years.

The deferred amount of the variable part of remuneration is calculated and paid out taking into account the long-term perspective and assessment of the medium-term objectives achieved, as well as related risks and the sustainability of results.

The variable component of remuneration for the relevant period of time will not be granted in case:

- the overall operational objectives of the Bank for the relevant year of operation have not been met;
- a disciplinary action has been inflicted on an Employee at the time of setting the Variable Part of Remuneration.

Employees will not be entitled to receive the Variable Part of Remuneration if they terminate their employment upon the employer's initiative or terminate their job agreement with the Bank for any other reason.

Information about the remuneration* of the Group's positions influencing the risk profile (000' EUR)**:

000' EUR		No of employees	Total remuneration	Incl. variable remuneration
Group	Senior management positions	11	664	-
	Staff whose professional activities have a material impact on Group risk profile	5	258	-

During year 2014 Group terminated employment relationship with 1 (one) employee of position influencing the Group's risk profile ***.

During year 2014 Group did not have staff with remuneration which is equal to or greater than 1 million euro.

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* Remuneration indicated without employer's social tax.

** In accordance with the principles of person's data protection information about information split by type of activity and paid variable remuneration is not disclosed.

*** In accordance with the principles of person's data protection information about the largest compensation for one person is not disclosed.