

# 2022 CORPORATE GOVERNANCE STATEMENT BY BLUOR BANK AS

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This corporate governance statement is provided by BluOr Bank AS, registration No. 40003551060, subordinated bond issue ISIN code: LV0000802569 (hereinafter referred to as the Bank), based on the requirement of Section 56.2 of the Latvian Financial Instrument Market Law.

**Key elements of the internal control and risk management system which are applied in preparation of financial statements.**

As a credit institution registered in the Republic of Latvia, the Bank complies with and builds an internal control system based on laws and regulations that are mandatory for its operation, including regulations of the European Union, laws, regulations and other regulatory enactments of the Republic of Latvia, as well as the regulation approved by the Council of the Financial and Capital Market Commission "Regulation on the Establishment of the Internal Control System"<sup>1</sup> and "Guidelines on Internal Governance" of the European Banking Authority. In its activities, the Bank also complies with the recommendations made by competent authorities, professional organisations and auditors, and best practices in the field of establishing an internal control system and corporate governance.

The establishment of the internal control system of the Bank and the Group (subsidiaries of the Bank that are part of the Bank and consolidation group) is based on the objective of ensuring, first of all, that the management of the Bank and the Group has reasonable confidence that the assets of the Bank and of the Group are secured against losses and unauthorized possession and use, operational risks of the Bank and the Group are constantly identified and managed, the capital of the Bank and the Group in terms of size, elements and their share is sufficient to cover the risks inherent in the operation of the Bank and the Group, the transactions are carried out in accordance with the procedures specified by the Bank and the Group, the Bank and the Group operate reasonably, cautiously and efficiently, in full compliance with the requirements of laws and regulations.

Secondly, the internal control system of the Bank and the Group is constantly being improved, taking into account changes in the external environment, regulations, professional recommendations, guidelines and other circumstances that may affect the activities of the Bank and the Group, their results and reputation.

*Basic elements of the internal control system of the Bank and the Group:*

- Determination of the development strategy of the Bank and the Group, planning of activities for each year and for the future;
- Day-to-day organisation, structure and distribution of powers of the Bank and the Group as defined in internal regulatory documents and decisions;
- Identification and management of significant risks incurred by the Bank and the Group, including measurement, assessment, control and reporting of risks;
- Capital adequacy assessment process;
- Accounting;
- Management information system;
- Protection of assets and information systems;
- Regular review, evaluation and improvement of the internal control system in accordance with changes in the activities of the Bank and the Group and external conditions affecting the activities of the Bank and the Group;
- Remuneration system;
- Ensuring compliance;
- Outsourcing management;
- Management of new financial services or significant changes to existing financial services.

*The Bank's Council and Board* are responsible for the proper organisation of the activities of the Bank and the Group, the establishment, effective functioning and continuous improvement of the comprehensive internal control system. The Board is responsible for the establishment, implementation, management and improvement of the internal control system, while the Council supervises how the Board of the Bank ensures the establishment and effective functioning of the internal control system.

*The Chief Risk Officer* performs a comprehensive risk control function in the Bank and the Group, monitors and improves the risk management system and coordinates the activities of the Bank's structural units related to risk management.

*The Bank's Internal Audit Service* is the third line of defence that performs independent assessment of the quality and effectiveness of risk management processes of the Bank and the Group, identifying inconsistencies and providing proposals and recommendations for the improvement of the risk management system of the Bank and the Group.

In 2022, *the Audit Committee* was operating in the Bank, while at the end of 2022, the Bank created two more committees – the Risk Committee, the Nomination and Remuneration Committee.

The Audit Committee is an institution that is part of the organizational structure of the Bank, which supervises the preparation of the annual financial report (Bank and Group financial statements) and its audit process, which is independent in its activities and aims to ensure the protection of shareholders' interests with regard to the preparation of the annual report, its audit and the operational efficiency of the internal control, risk management and internal audit system, insofar as it is concerned with ensuring the reliability and objectivity of the annual report, as well as to ensure the selection process of candidates for sworn auditors of the Bank and the Group and to monitor compliance of the sworn auditor of the Bank and the Group with the requirements of independence and objectivity specified in applicable laws and regulations.

The internal control system of the Bank and the Group is based on the principle that the functions of internal control (risk control function, compliance control function and internal audit function) are independent of those activities and processes of the Bank and the Group that it controls.

<sup>1</sup> <https://likumi.lv/ta/id/319274-ieksejas-kontroles-sistemas-izveides-normativie-noteikumi>

#### *Accounting and preparation of financial statements*

The Bank and the Group have established such accounting in order to ensure that all accounting records are kept in accordance with the regulatory requirements, developing and documenting accounting policies and binding internal regulatory documents, indicating how the accounting reflects the transactions of the Bank and the Group, their views, control, evaluation and preparation of reports.

The bank and the Group prepare financial statements in accordance with the laws and regulations of Latvia and international accounting standards in such a way that they provide complete and truthful information about the operational results, financial situation and cash flow of the Bank and the Group.

#### *Risk management*

The purpose of creating a bank, like any commercial company, is to generate income and profit by providing financial services to its clients and cooperating with partners, and its principal activity is associated with risks. Risk management is a set of measures designed to reduce the likelihood of the Bank and the Group incurring losses or compromising reputation, as well as to ensure the preservation of the value of the assets of the Bank and the Group.

The risk management process includes risk identification and management, including measurement, evaluation, control and risk reporting.

The risk management process in the Bank and the Group is documented by developing and approving appropriate strategies, policies, procedures, methodologies or other internal regulatory documents to regulate the identification and management of all material risks inherent in the Bank and the Group's activities, including the processes necessary to measure, assess, control and report on risks. Internal regulatory documents cover all areas of the Bank's activities, definition of roles, duties and responsibilities of employees, officials and responsible structural units involved in risk identification and management.

The Bank develops, documents and implements the appropriate risk management policies and control procedures for risks identified by the Bank as relevant to its and the Group's activities, defining the following:

- Methods and regularity of risk measurement (risks that can be quantified, e.g. credit risk, market risks) and assessment (for non-quantifiable risks, such as reputational risk, strategy risk);
- Appropriate risk control procedures, including determining restrictions and limits of the maximum allowable amounts of risks in accordance with the Bank's risk strategy, risk limitation methods, control procedures to reduce quantifiable risks, which take into account the Bank's activities, financial situation, capital base, strategic objectives of the Bank and the Group, and other relevant factors;
- Procedure by which the Bank's Council, Board, Chief Risk Officer and heads of structural units, as well as the Risk Committee (from 2023), regularly receive information on the risks inherent in the Bank and the Group's activities, their extent and trends, on the impact of risks on the size and capital adequacy of the Bank and the Group, as well as other information necessary for making decisions;
- Risk management policy and control procedure, including the established restrictions and limits, compliance control procedures;
- Distribution of duties, powers and responsibilities in risk management, including the duty of structural units performing business functions to identify and manage the risks arising as a result of their activities (first line of defence), the obligation of the risk control function and compliance control function to carry out further in-depth, independent and comprehensive identification, measurement, assessment, analysis and monitoring of relevant risks, report regularly to the Bank's Council or to the relevant Council-level committees (at the same time ensuring that the Bank's Council is always informed about the most important aspects) on the results of the assessment and carry out the management of relevant risks within the functions (second line of defence), as well as the obligation of the internal audit function to independently monitor the actions of the abovementioned structural units of the Bank in risk management (third line of defence).
- When measuring, assessing and monitoring the significant risks inherent in the Bank and the Group's activities, the Bank applies analytical methods appropriate to the specifics and complexity of its activities and those of the Group, including stress testing, which is used by the Bank to assess both the material risks and interaction of risks with each other.

For additional information on the Bank and the Group, the results of their activities, as well as information on significant risk management policies, see the Bank's and the Group's financial statements prepared for 2022, which are available on the website <https://www.bluorbank.lv>.