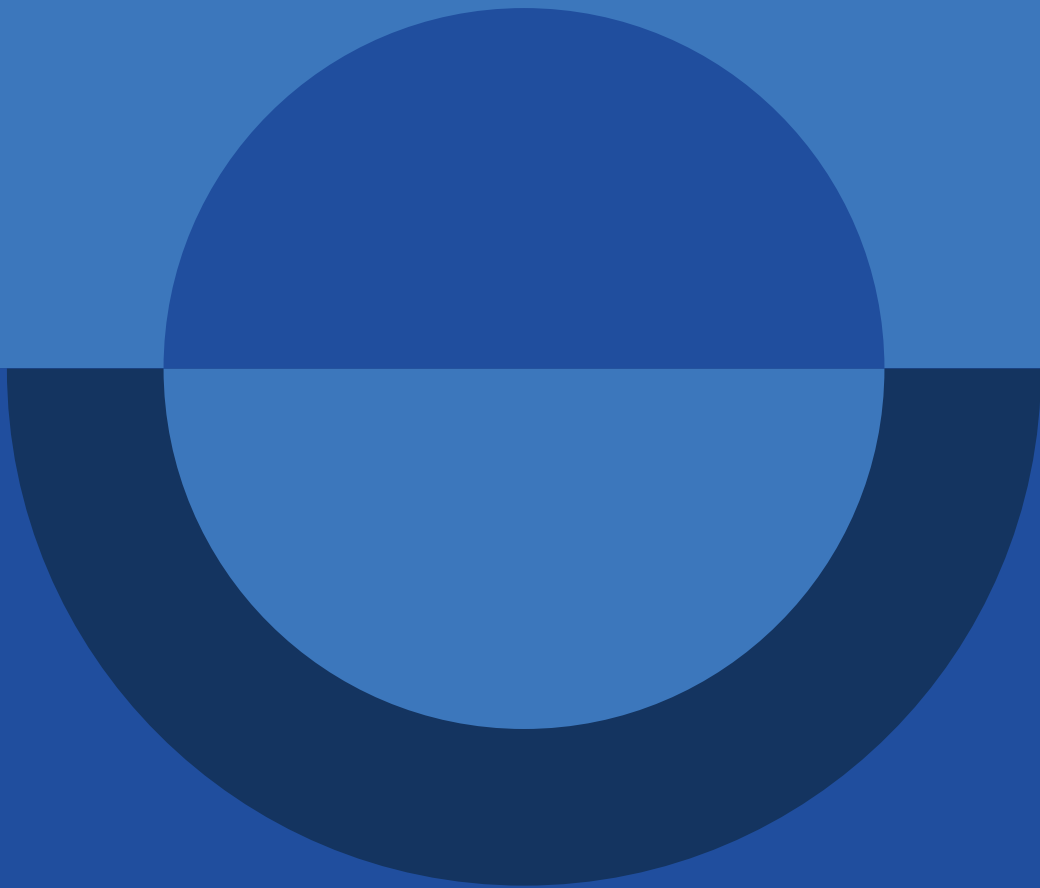


BluOr Bank AS

Corporate Governance Statement 2023



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"¹ 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), and of the entire prudential consolidation group², which comprises commercial companies, including the Bank, the Bank's subsidiaries, the Bank's parent company, and the parent subsidiary (hereinafter – the Group), is based on the objective of ensuring, first of all, that the management of the Group has reasonable confidence that the assets of the Group are secured against loss and unauthorised possession and use, operational risks of the Group are constantly identified and managed, the Group's capital, in terms of size, elements and their proportion, is sufficient to cover the inherent and potential risks of the Group's activities, the transactions are carried out according to the procedures established in the Group, and that the Group operates reasonably, cautiously and efficiently, in full compliance with the requirements of laws and regulations.

Secondly, the internal control system of 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 Group's activities, their results and reputation.

Basic elements of the internal control system of the Group:

- Determination of the development strategy of the Group, planning of activities for each year and for the future;
- Day-to-day organisation, structure and distribution of powers of the Group as defined in internal regulatory documents and decisions;
- Identification and management of significant risks occurring in the Group's activities, 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 Group and external conditions affecting the activities of 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, AS BBG council and board are responsible for the proper organisation of the Group's activities and the establishment, effective functioning and continuous improvement of the comprehensive internal control system. The board of the Bank is responsible for the establishment of the internal control system, its implementation, management and improvement within the Group, whereas 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 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 Group, identifying inconsistencies and providing proposals and recommendations for the improvement of the risk management system of the Group.

The Bank has an Audit Committee, and at the end of 2022, the Bank additionally established a Risk Committee and a Nomination and Remuneration Committee.

The Audit Committee is a supervisory body that is part of the Bank's organisational structure, which supervises the process of preparing and auditing the annual financial report (financial statements of the Bank and the Group, the consolidated annual report of the Group), 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 concerns ensuring the reliability and objectivity of the annual report, as well as to ensure the selection process of candidates for sworn auditors and to monitor compliance of the sworn auditor with the requirements of independence and objectivity specified in applicable laws and regulations.

The Risk Committee is a supervisory body that is part of the Bank's organisational structure, which is independent in its activities and aims to advise the council and provide it with support in relation to the Group's existing and future risk strategy, including changes to it, taking into account changes in the Group's business and changes in external factors, and assists the council in monitoring its implementation.

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

² A prudential consolidation group is considered to be all corporates that are determined based on the criteria established by the Regulation (EU) No 575/2013, the Credit Institution Law, the Bank of Latvia Regulations No 266 "Regulatory provisions on the application of the options provided for in the directly applicable European Union legislation on prudential requirements". Information regarding the composition of the Group is updated on a regular basis and is contained in the quarterly financial statements that are published on the Bank's website <https://www.bluorbank.lv/en/financial-information>

The Nomination and Remuneration Committee is a supervisory body that is part of the Bank's organisational structure, which is independent in its activities and aims to:

- Develop proposals for the principles of selection of council members, board members, head of the Internal Audit Service and staff with a material impact on the institution's risk profile, and other senior staff, according to which candidates are evaluated to be elected and re-elected to these positions;
- Participate in the selection and evaluation of candidates for council members, board members, head of the Internal Audit Service, staff with a material impact on the institution's risk profile, candidates for AS BBG board members, ensuring diversity in the council and the management board, as well as in the board of AS BBG;
- Examine issues concerning the establishment and supervision of the Bank's personnel policy and remuneration policy, establishment and monitoring of the remuneration system;
- Monitor the effectiveness and implementation of the policy of suitability of officials;
- Develop proposals for determining the remuneration of council members, board members, head of the Internal Audit Service, staff with a material impact on the institution's risk profile, and other senior staff.

The internal control system of 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 Group that it controls.

Accounting and preparation of financial statements

The Group has established such accounting in order to ensure that all accounting records are kept in accordance with the regulatory requirements, developing and documenting the accounting policy and binding internal regulatory documents, indicating how the transactions of the Bank and other corporates of the Group are reflected in the accounting, their bookkeeping, control, evaluation and preparation of reports.

The Bank and other corporates of 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 corporates included in the Group as any corporate 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 Group suffering losses or jeopardizing its reputation, as well as to ensure the preservation of the value of the Group's assets.

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

The risk management process in 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 Group's activities, including the processes necessary to measure, assess, control and report on risks. Internal regulatory documents cover all areas of activities of the Bank and other corporates included in the Group, 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 essential to 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 establishing restrictions and limits on the maximum permissible amount of risks according to the risk management strategy of the Group), risk limitation methods, control procedures to mitigate non-quantifiable risks, which take into account the activities of the Group, financial situation, capital base, strategic objectives of 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 (since 2023), regularly receive information on the risks inherent in the Group's activities, their size and trends, on the impact of risks on the amount and adequacy of the Bank's and Group's capital, 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 manage the relevant risks within the functions (second line of defence), as well as the obligation of the internal audit function to independently monitor risk management activities of the abovementioned structural units of the Bank (third line of defence);
- When measuring, assessing and monitoring the significant risks inherent in the Group's activities, the Bank applies analytical methods appropriate to the specifics and complexity of the Group's activities, including stress testing used by the Bank to assess both significant risks and interactions between risks.

For additional information on the Bank and the Group, on operating results, as well as information on significant risk management policies, please refer to the financial statements available on the website: <https://www.bluorbank.lv/lv>.