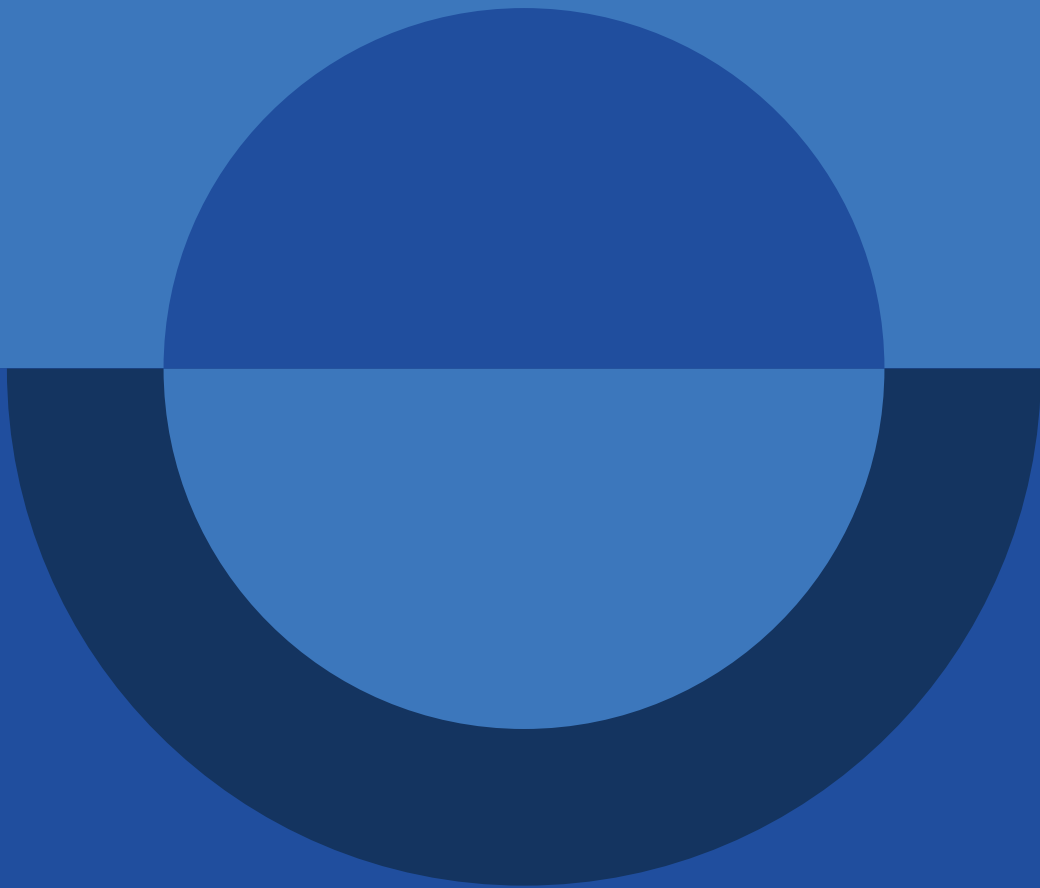


# **BluOr Bank AS**

## **Corporate Governance Statement 2024**



Pursuant to the requirement of Section 56.<sup>2</sup> of the Latvian Financial Instrument Market Law, BluOr Bank AS, reg. No. 40003551060, the issuer of subordinated bond issues ISIN No. LV0000802569 and ISIN No. LV0000804060, hereinafter referred to as the Bank, provides this corporate governance statement.

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

As a credit institution registered in the Republic of Latvia, the Bank conducts its operations and establishes its internal control system in compliance with the regulatory acts applicable to its activities, including European Union regulations, laws, rules, and other regulatory acts of the Republic of Latvia, as well as the "Regulatory Provisions for the Establishment of an Internal Control System" approved by the Council of the Financial and Capital Market Commission, and the European Banking Authority's "Guidelines on Internal Governance". The Bank also adheres to the recommendations and best practices provided by competent authorities, professional organisations, and auditors in the areas of establishing an internal control system and corporate governance.

The establishment of the internal control system for the Bank and the Group (comprising the Bank and the Bank's subsidiary companies included in the consolidation group), as well as the entire prudential consolidation group<sup>2</sup>, which includes the companies within it, namely the Bank, the Bank's subsidiaries, the Bank's parent company, and the parent's subsidiaries (hereinafter referred to as the Group), is based on the objective of ensuring, first of all, that the Group's management has reasonable assurance that the Group's assets are protected against losses and unauthorised possession or use, the Group's operational risks are continuously identified and managed, the Group's capital, in terms of its amount, elements, and proportions, is sufficient to cover the inherent and potential risks associated with the Group's operations, transactions are conducted in accordance with the procedures established within the Group, and the Group operates prudently, cautiously, and efficiently, in full compliance with regulatory requirements.

Secondly, the internal control system within the Group is continuously improved, taking into account changes in the external environment, regulatory acts, professional recommendations, guidelines, and other factors that may impact the Group's operations, results, and reputation.

#### *The key elements of the Group's internal control system:*

- Defining the Group's development strategy and planning activities for each year and the longer-term future;
- Organising the Group's daily operations, structure, and allocation of powers as specified in internal regulatory documents and decisions;
- Identifying and managing significant risks arising from the Group's activities, including measuring, evaluating, controlling, and reporting on risks;
- The capital adequacy assessment process;
- Accounting;
- The management information system;
- Protecting assets and information systems;
- Regularly reviewing, assessing the effectiveness of, and improving the internal control system in line with changes in the Group's operations and external factors affecting the Group's activities;
- Remuneration system;
- Ensuring operational compliance;
- Managing the use of outsourcing;
- Managing new financial services or significant changes to existing financial services.

*The Council and the Board of the Bank, the Council and the Board of AS BBG* are responsible for the appropriate organisation of the Group's operations and the establishment, effective functioning, and continuous improvement of a comprehensive internal control system. The Board of the Bank is responsible for the establishment, implementation, management, and improvement of the internal control system within the Group, while the Council monitors how the Bank's Board ensures the establishment and effective functioning of the internal control system.

*The Chief Risk Officer* implements a comprehensive risk control function within the Group, oversees 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*, which carries out an independent assessment of the quality and efficiency of the Group's risk management processes, identifying discrepancies and providing suggestions and recommendations for the improvement of the Group's risk management system.

The Bank has an *Audit Committee*, a *Risk Committee*, and a *Nomination and Remuneration Committee*.

The *Audit Committee* is a supervisory body within the Bank's organisational structure responsible for overseeing the preparation and audit process of the annual financial statements (financial statements of the Bank and the Group, consolidated annual report of the Group). It operates independently and aims to protect the interests of shareholders in relation to the preparation of the annual report, its audit, and the effectiveness of the internal control, risk management, and internal audit systems, insofar as it relates to ensuring the reliability and objectivity of the annual report. Additionally, the *Audit Committee* ensures the process of selecting candidates for the position of the sworn auditor and supervises the compliance of the sworn auditor with the requirements of independence and impartiality laid down in regulatory enactments.

The *Risk Committee* is a supervisory body within the Bank's organisational structure that operates independently. Its purpose is to advise the Council and provide support regarding the Group's current and future risk strategy, including any changes to it, taking into account changes in the Group's activities and external factors. It also assists the Council in overseeing the implementation of the strategy.

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

<sup>2</sup> All commercial companies, which are determined on the basis of the criteria laid down in Regulation (EU) No 575/2013, the Credit Institution Law, the Bank of Latvia Regulation No 266 "Regulations for the Application of Options Provided for in Directly Applicable European Union Legal Acts on Prudential Requirements", shall be considered as the Prudential Consolidation Group. Information on the composition of the Group is regularly updated and is included in the quarterly financial statements published on the Bank's website <https://www.bluorbank.lv/lv/finansu-informacija>.

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

- Develop proposals for the selection principles with regard to Council members, Board members, the head of the Internal Audit Service, positions affecting the risk profile, and other senior staff, based on which candidates are evaluated for election and re-election;
- Participate in the selection and evaluation of Council members, Board members, the head of the Internal Audit Service, positions affecting the risk profile, candidates for the board members of AS BBG, ensuring diversity within the Council and the Board, the board of AS BBG;
- Examine issues related to the establishment and monitoring of the Bank's personnel and remuneration policies, remuneration systems;
- Monitor the effectiveness of the suitability policy for officials and its implementation;
- Develop proposals for determining the remuneration of council members, board members, the head of the Internal Audit Service, positions affecting the risk profile and other managerial staff.

The internal control system within the Group is based on the principle that the internal control functions (risk control function, operational 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 accounting practices to ensure that all accounting records are maintained in compliance with regulatory requirements, by developing and documenting an accounting policy and relevant internal regulatory documents, specifying how the transactions of the Bank and other commercial companies of the Group are reflected in the accounting, including their recording, control, evaluation, and the preparation of reports.

The Bank and other commercial companies of the Group prepare their financial statements in accordance with the laws and regulations of the Republic of Latvia and international accounting standards so that they provide complete and truthful information about the Bank's and Group's performance, financial situation and cash flow.

#### *Risk management*

The purpose of establishing the commercial companies within the Group, as any commercial company, is to generate income and profit by providing financial services to its clients and cooperating with partners, and its core activity is related to risks. Risk management is a certain set of measures aimed at reducing the likelihood of the Group incurring 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, assessment, 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 in order to regulate the processes necessary for identifying and managing all significant risks inherent to the Group's activities, including their measurement, assessment, control, and the reporting of risks. Internal regulatory documents cover all areas of activities of the Bank and other commercial companies within the Group, defining the roles, duties, and responsibilities of employees, officials, and responsible structural units involved in risk identification and management.

For the risks identified by the Bank as essential for the Group's activities, the Bank develops, documents and implements appropriate risk management policies and control procedures that define:

- The methods and frequency of risk measurement (for risks that can be quantified, e.g., credit risk, market risks) and assessment (for non-quantifiable risks such as reputational risk, strategy risk);
- The appropriate risk control procedures in accordance with the Group's risk management strategy, including the limits and restrictions on the maximum permissible level of risks, risk mitigation methods, control procedures to reduce quantitatively unmeasurable risks, which take into account the Group's areas of activity, financial situation, capital base, strategic objectives, and other significant factors;
- The procedures by which the Bank's Council, Board, Chief Risk Officer, and heads of structural units, as well as the Risk Committee, receive regular information on the risks inherent in the activities of the Group, their amount and trends, the impact of risks on the amount and adequacy of the capital of the Bank and the Group, as well as other information necessary for decision-making;
- The procedures for monitoring compliance with risk management policies and control procedures, including the established restrictions and limits;
- The allocation of duties, powers and responsibilities in risk management, including the obligation of structural units performing business functions to identify and manage the risks arising from their activities (*first line of defence*), performing risk control functions and operational compliance control functions – to carry out further enhanced, independent and comprehensive identification, measurement, evaluation, analysis and monitoring of relevant risks, to report regularly to the Bank's Council or relevant Council-level committees (while ensuring that the Bank's Council is always informed about the most important aspects) on the results of the assessment and to carry out the relevant risk management within the functions (*second line of defence*), as well as the obligation of the internal audit function to independently monitor the actions of the aforementioned structural units of the Bank in risk management (*third line of defence*);
- In measuring, assessing, and monitoring the material risks inherent to the Group's activities, the Bank applies analytical methods appropriate to the specific nature and complexity of the Group's activities, including stress testing, which the Bank uses to assess both material risks and interactions between risks.

More information about the Bank and the Group, their performance, as well as information on material risk management policies, can be found in the financial statements available on the website <https://www.bluorbank.lv/lv>.