Reģionālā
Investīciju Banka

AS Reģionālā investīciju banka

Consolidated and Bank's annual report for the year ended 31 December 2021

29.04.2022

*This version of financial statements is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

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AS Reģionālā investīciju banka
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Management report

The consolidated financial statements, which include AS "Reģionālā investīciju banka" and its subsidiary SIA "Grunewald Residence", together form the Group. Considering that the share of SIA "Grunewald Residence" in the total assets of the Group is insignificant, the report will discuss the Bank and its indicators. AS Reģionālā investīciju banka is a joint stock company registered in the Republic of Latvia. The registered office address: Jura Alunāna iela 2, Riga, LV-1010, Latvia; registered with the Enterprise Register on 3 October 2001, registration No 40003563375. On 3 October 2001, the Financial and Capital Market Commission of the Republic of Latvia (the FCMC) approved AS "Reģionālā investīciju banka" as a credit institution and issued Banking License No 170. Supervisory authority of the Bank is the FCMC.

The Bank's mission is to be a trusted partner to its customers in all matters related to the Bank's services. We offer a high level of expertise, understanding of the customer needs, excellent product quality and quick decision-making.

Twenty-year experience in the financial sector, continuously stable financial performance over many years, conservative risk management and focusing on details form the basis for guaranteeing to our customers the feeling of security, transparency and balance in any interaction with the Bank. At the same time, high competence, comprehensive and in-depth understanding of the nuances of the Bank's core business, i.e., lending, enable us to assist the customers in structuring their business funding projects, optimizing fund raising costs and selecting the most advantageous financing solution. Thanks to this approach, already for the third consecutive year, the Bank demonstrates positive dynamics of business model transformation, an increase in the portfolio of successfully completed projects and a convincing growth in market visibility. All of the above gives confidence that the Bank is on the right path in the Strategy implementation towards taking the desired market position and market share in its market segment within the timeframe set by the Strategy. .

Covid-19 and the geopolitical situation. In 2021, the pandemic continued to affect economies worldwide and in Latvia. A negative scenario prevailed for the economic recovery, compelling significant constraints on business processes, which in turn affected the development and growth rates planned by the Bank, as it still has to exercise maximum caution when assessing projects to be financed and the business resilience of potential customers in the present circumstances. At the same time, Covid-19 has had virtually no impact on the Bank's day-to-day operations thanks to a prudent and effective epidemiological risk management since the start of the pandemic, enabling the Bank to operate with minimal staff morbidity and without any perceptible impact on the work efficiency.

In 2021, the Bank's operating environment experienced the growing influence of foreign and geopolitical policies on the financial sector: a broad sanctions program was introduced against Belarus, the Baltic countries' relations with China over the Taiwan "issue" escalated, a large geopolitical crisis developed on the Russia-Ukraine border with the US and EU Member States actively involved. These circumstances require banks to monitor developments more closely and to assess their potential impact on the Bank's business. Due to the fact that the Armed Forces of Russia started a military operation in Ukraine on February 24, 2022, and the way military activities progress during the first weeks of the operation, it is impossible to forecast credibly neither its outcome, nor its impact on the economies of Ukraine and the Baltic States, as well as the results of the Bank's operations in future. For a more detailed analysis of impact, see Note 38.

In 2022 and in the future, the Bank will focus on risk management, working on risk mitigation measures, taking into account the nature and size of the Bank's portfolio and related risks.

Capital, liquidity and deposits from customers. Throughout 2021, the Bank's financial performance was stable and the liquidity and capital ratios demonstrated solid compliance with the required standards (62.28% and 27.58% against the set requirements of 40% and 11.1%, respectively). During the reporting period, total deposits from customers increased slightly by 2.1%, while deposits from Latvianresidents, an important element in assessing the development of the Bank's business model, increased by 4.1%.

Customer base and corporate lending. In line with the Bank's development strategy, maintaining the existing volume of the non-resident loan portfolio and deposits, in 2021 we started cooperation with a number of well-known customers and customer groups in the Latvian market that are leaders in their business segments. During 2021, the turnover of the Bank's corporate clients - Latvian residents - increased.

We have strengthened our position in our core business, i.e., we have increased our loan portfolio, while maintaining an high portfolio quality. Irrespective of the difficult situation in many sectors of the Latvian economy, we managed to efficiently attract new projects and review loan applications, focusing on our profile customers - Latvian medium-sized and large businesses. Several high-profile financing projects were successfully implemented with companies, leading in the relevant economic sectors. In 2021, the Bank issued new loans for a total amount of EUR 46.4 million, of which EUR 15.5 million represented loans issued to Latvian residents and the rest – non-resident loans. Besides, at the end of 2021, loan agreements were signed with Latvian entrepreneurs for a total amount of over EUR 20 million that will be respectively issued in the first half of 2022. As the result the total amount of new loans approved, signed, including already partially issued loans, to Latvian residents during the reporting period exceeds EUR 35 million. At the end of 2021, the Bank's total loan portfolio had increased by 13.6% compared to the end of 2020, namely, from EUR 78.4 million to EUR 89.1 million.

Overall, the year 2021 has confirmed the right choice of our business model and market position. We stick to our previously defined strategic core values - competence, speed, flexibility, expert-level understanding of the customer's business - and will continue to reinforce these core values in our work in 2022.

Interest and commission income. As in 2020, the general decline in economic activity and the difficulties faced by many customers could not but affect the Bank's performance in 2021. Factors restraining economic activity prevented the Bank from achieving the growth rates of its loan portfolio in terms of actual loans issued as envisaged in its strategy. Many customers had to postpone the previously planned investments and development projects and focus on maintaining their business in the face of constraints and the crisis. As a result, in 2021, there was a decline in the Bank's income compared to 2020: from interest – by 12.9%, from commission fee – by 19.2%.,.

Financial performance. The Bank's net profit for the 12 months of 2021 reached EUR 8.6 million. Compared to the previous year, the profit grew by 1080.52% which is due to a dividend of EUR 10 million received from the Bank's subsidiary and the impairment of investment of EUR -3.98 million recognized in connection with the payment of dividends.

As at 31 December 2021, total assets amounted to EUR 256.19 million. This represents a decrease of 2.25% compared to the previous year. According to the Finance Latvia Association, the Bank ranks ninth in the banking sector in terms of assets.

Development and main plans for 2022. In 2022, the Bank focuses on daily activities that involve the quality of customer service and strengthening the individual approach to the customer. Our customers deserve the best service in the banking sector and we are working to ensure that our offer meets this high standard. In 2022, the implementation of a number of projects is going to raise our service quality level.

In 2022, we will focus even more on our core business activities, i.e., lending. We plan to issue new loans for no less than EUR 51 million, including for EUR 32.4 million in Latvia. This will make the Bank's loan portfolio well over EUR 100 million. To reach it, we continue to attract to our team of account managers the best specialists in the field and to improve our lending products. It needs to be done so that in any situation we can keep the promise given to our clients - to provide the highest level of expertise in the market in the customers' area of activity and to offer the customers a fast and maximum cost-effective funding solution for their business projects.

We have a stable resource base in line with the Bank's business development plans. This will enable us to offer our customers competitive lending terms, while being more flexible and faster in our decision-making than other market players.

In 2022, we will offer our customers a new online banking solution that will take into account all the wishes and requirements of existing and potential customers, best market practices and state-of-the-art solutions. The online banking solution is designed with a focus on servicing corporate customers, namely, the Bank's target customers.

The Bank is working to promote good corporate governance by integrating responsible banking and sustainable finance principles into its core business processes. We also support our customers' efforts in the areas of environmental protection, social responsibility and sustainability, thereby contributing to the efficiency and long-term value of their businesses. In 2022, our team expects to offer more vigorously "green" solutions and products, thus helping existing and potential customers to develop their businesses in line with the "Green Deal", attract additional co-funding and make their businesses more stable and efficient.

Our compliance, data protection and cybersecurity standards as well as our 20-year approach to bank confidenciality issues are among the highest in the market. During the Covid-19 pandemic, we have provided a safe environment for the Bank's employees and we apply modern solutions for remote working and communication with customers, while remaining a bank that wants to meet its customers face-to-face at our office in the center of Riga, at Jura Alunana street 2.

On behalf of the Board and shareholders of the Bank, we would like to thank all our customers, business partners and employees for their contribution to the Bank's growth!

Aleksandrs Jakovļevs
Chairman of the Board

Yuriy Rodin
Chairman of the Council

Riga, 29 April 2022

Council and Board of the Bank

As at 31 December 2021 and the signing date of the financial statements:

Supervisory Council

		Appointment date
Yuriy Rodin	Chairman of the Council	Re-elected – 15.05.2017
Mark Bekker	Deputy Chairman of the Council	Re-elected – 15.05.2017
Dmitrij Bekker	Member of the Council	Re-elected – 15.05.2017
Alla Vanetsyants	Member of the Council	Re-elected – 15.05.2017
Irina Buts	Member of the Council	Re-elected – 15.05.2017

Management Board

		Appointment date
Aleksandrs Jakovlevs	Chairman of the Board	Re-elected - 05.08.2019
Andrejs Gomza	Member of the Board	Re-elected – 05.11.2021
Alda Odiņa	Member of the Board	04.03.2019
Dace Gaigala	Member of the Board	04.03.2019
Vita Matvejeva	Member of the Board	20.01.2020

The following changes took place in the composition of the management Board of AS Reģionālā investīciju banka on 20 April 2022 Alda Odiņa was dismissed.

Aleksandrs Jakovļevs
Chairman of the Board

Yuriy Rodin
Chairman of the Council

Riga, 29 April 2022

Statement of Management Responsibility

Council and Board (hereinafter - the management) of the Bank are responsible for the preparation of the Consolidated financial statements of the Bank and its subsidiary (hereinafter – the Group) and the Bank's financial statements.

The Consolidated and Bank's financial statements on pages 14 through 100 are prepared in accordance with the source documents and present fairly the financial position of the Group and the Bank as at 31 December 2021 and the results of their operations and cash flows for the reporting year 2021.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted in the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

The management of the Bank is responsible for the maintenance of proper accounting records, the safeguarding of the Bank's assets and the prevention and detection of fraud and other irregularities in the Bank. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission and Bank of Latvia and other normative acts of the Republic of Latvia applicable for credit institutions.

Aleksandrs Jakovlevs Chairman of the Board	Yuriy Rodin Chairman of the Council

Riga, 29 April 2022

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Translation from Latvian

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Reģionālā Investīciju Banka AS

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Reģionālā Investīciju Banka AS and its subsidiary (the Group) and the accompanying financial statements of Reģionālā Investīciju Banka AS (the Bank) set out on pages 14 to 100 of the accompanying Annual Report, which comprise the statements of financial position as at 31 December 2021, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements of the Group and the Bank give a true and fair view of the financial position of the Group and the Bank as at 31 December 2021 and of the financial performance of the Group and the Bank and the cash flows of the Group and the Bank for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group and the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter on the assessment of the impact of geopolitical conflict between Russia and Ukraine on the going concern of the Group and the Bank

We draw attention to Note 3 (a) and Note 38 in the financial statements, which outlines the significant assumptions made by the management in the assessment of the impact of geopolitical conflict between Russia and Ukraine subsequent to the reporting date on the going concern of the Group and the Bank. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and the Bank of the current period. These matters were addressed in the context of our audit of the financial statements of the Group and the Bank as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements of the Group and the Bank. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements of the Group and the Bank.

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Key audit matter	How we addressed the key audit matter
Implementation of the Bank's Development Strategy (the Consolidated and the Bank's separate financial statements)	
The Bank initially prepared Development Strategy for years 2018-2021 to adapt its business model and clients' base. The Strategy was further updated for years 2019-2022. In February 2021, the Bank's Council approved the updated Development Strategy for years 2021-2025, which integrated the experience of previous years including aspects of COVID-19 pandemic and changes in the Bank's approach to its development. The key direction of the Development Strategy, as disclosed in Note 4(j) to the financial statements, is extension of lending in Latvia and the European Union with a focus on the segment of medium and large companies. Budget for year 2022 has been prepared in line with the updated Bank's Development Strategy for years 2021-2025. In prior periods, given that the Group and the Bank were in the early stage of the new business model implementation as defined in the Development strategy, there was an uncertainty on whether and how the Group and the Bank will succeed in implementing the new strategy. The Group and the Bank have been implementing the Development Strategy at a slower pace than initially planned, implying that the Group and the Bank are still in progress with implementation of the Development Strategy. Reviewing the implementation status of the Development Strategy required significant attention in performing the audit because of its potential impact on Group's and Bank's liquidity and capital adequacy; therefore, we considered it to be a key audit matter.	Our audit procedures included, among others, the following: We reviewed the Group's and the Bank's Development Strategy for years 2021–2025 and its implementation status based on year 2021 actual results. We reviewed the implementation status of the updated Development Strategy based on the actual financial results for January 2022. We discussed the implementation status of the Group's and the Bank's Development Strategy with the Group's and the Bank's management and the Financial Capital and Market Commission (FCMC). We obtained the year 2022 budget prepared by the management and evaluated the underlying assumptions, including assumptions related to the changes in loan portfolio, implementation of the Development Strategy and COVID-19 impact assessment. We performed this evaluation with reference to the supporting documents, and liquidity and capital adequacy requirements, where appropriate. We also assessed the adequacy of the disclosures relating to the matter in Note 4(j) to the financial statements.
Loan loss impairment (the Consolidated and the Bank's separate financial statements)	
The carrying amount of loans to corporate and individual customers as at 31 December 2021 amounted to EUR 83 259 thousand in the Bank's separate financial statements and EUR 83 259 thousand in the Consolidated financial statements; the total impairment loss allowance as at 31 December 2021 amounted to EUR 5 988 thousand in the Bank's separate financial statements and EUR 5 988 thousand in the Consolidated financial statements. Loan receivables are significant to the total assets of the Consolidated and the Bank's separate financial statements. The Group and the Bank have significant exposures to the borrowers in foreign jurisdictions, including those in the Ukraine. At the end of financial year 2021 geopolitical conflict between Russia and Ukraine developed and tensions between two countries	Our audit procedures included, among others, the following: We gained understanding and tested key controls over the loan issuance, accounting and monitoring and loan impairment assessment processes. We gained understanding of how management applied the assumptions and data used to develop accounting estimates used within the Group's and the Bank's expected credit loss model. We have also tested controls relating to input of data to models and the general IT-controls within the relevant systems. In addition to testing the key controls, we assessed the Group's and the Bank's accounting policies and the management's assumptions relating to the estimation of expected credit loss and involved our internal IFRS 9 specialists to assess its compliance with the requirements of IFRS 9. For a sample of the loans we

significantly escalated after year end. The speculations of Russian invasion threats have raised concerns of possible impact on the Bank's and Group's respective loan portfolio performance. The basis of the Bank's and the Group's loan impairment policy is presented in the accounting policies section in Notes 3(m) and 4(a) to the financial statements. Critical accounting estimates and judgments, disclosures of loans and guarantees and the credit risk management are set out in Notes 3(m), 4(a) and 13 to the financial statements. In order to provide for expected credit losses, management uses a model-based approach and individual assessments. We identified this area to be significant for the audit because measurement and recognition of allowances for loan loss impairment reflected in the Group's and the Bank's expected credit loss model are associated with significant estimation, as it requires the management to exercise judgement and apply complex and subjective assumptions about both the timing and amounts of such impairment. Key areas of judgement include the identification of exposures with a significant increase in credit risk, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward-looking information like the impact from COVID-19 pandemic. Individual impairment allowances recognized by the Group and the Bank mostly relate to large, individually monitored exposures to corporates and individuals. Therefore, the assessment of the aforementioned exposures is based on the knowledge about each individual borrower and often on the estimated fair value of the relevant collaterals, the assessment of customers which are likely to default, and the future cash flows relating to loans. Due to the above circumstances, we considered loan impairment assessment to be a key audit matter.	assessed the significant expected credit loss model components: staging criteria, including parameters determining a significant increase in credit risk, Loss Given Default (LGD), Probability of Default (PD), Exposure at Default (EAD) and assessed whether the Group and the Bank have calculated the estimated expected credit loss in line with the provisioning policy. We assessed whether the borrowers exhibited the significant increase in credit risk or the possible default risk that may affect meeting their scheduled repayment obligations. We selected a sample of loans with higher risk characteristics such as significant exposures arising from the related borrower groups, borrowers in foreign jurisdictions, exposures arising from delayed payments outstanding on the reporting date and restructured loans, including loans affected by the COVID-19 pandemic. The sample of loans was assessed as to the existence of significant increase in credit risk and default triggers by reviewing the underlying loan documentation and discussing the respective loans with the representatives of the Loan Department and the Debt Collection Department. As concerns non-performing loans, we reviewed the forecasts of future cash flows used in the assessment of loan impairment, evaluated the key assumptions made by the management such as the applied discount rates, collateral values, forecasted business performance and, as applicable, cost to repossess the collateral, collateral sales costs and sales periods. We performed analytical procedures, such as a comparison of loan loss impairment allowance balances to industry levels, comparison to prior year, movements between stages etc. We also assessed the adequacy of the financial statement disclosures in Notes 3 (m), 4(a) and 13, as well as the subsequent events disclosure in Note 38.
Anti-money Laundering (regulatory requirements regarding anti-money laundering) (the Consolidated and the Bank's separate financial statements)	
As disclosed in Note 4(i) to the financial statements, in the third quarter of 2019, the FCMC performed two separate inspections (extended scope inspection and targeted specific scope inspection) at the Bank on the prevention of money laundering and terrorist and proliferation financing and the sanctions risk management. The extended scope inspection has been concluded without identifying any systematic deficiencies. Based on the results from the targeted specific scope inspection, on the 3rd of November 2020	Our audit procedures included, among others, the following: We reviewed the Bank's AML/CTPF risk management strategy for 2021-2023 and discussed the implementation status. We discussed the matter with the Group's and the Bank's representatives responsible for compliance with anti-money laundering requirements. We reviewed and evaluated the Bank's remediation plan in relation to the FCMC findings and its implementation by

the FCMC announced a regulatory fine amounting to EUR 473 thousand imposed on the Bank. As disclosed in Note 4(i) to the financial statements, the FCMC and the Bank concluded on a remediation plan for the Bank to strengthen its internal anti-money laundering control system so that it complies with the FCMC requirements which are considered a prerequisite for the Group's and the Bank's successful operations in the future. Given the importance of the matter to the Group's and the Bank's reputational risk, we have identified this as a key audit matter.	inspecting the implementation status reports and correspondence on the implementation with the regulator. We updated our understanding of the Bank's internal policies and procedures and involved our internal AML specialists in the assessment of policy compliance with AML/CTPF laws and regulations. We updated our understanding and tested the key controls over the Client Onboarding, Enhanced due diligence, Transaction monitoring processes and reviewed their compliance with AML/CTPF laws and regulations. We discussed and reviewed the communication with the FCMC in order to identify undisclosed or unrecorded violations noted by the regulatory institution and, if such are identified, to assess their possible impact on the financial statements. We also assessed the adequacy of the disclosures relating the matter in Note 4(i) to the financial statements.

Reporting on other information
Management is responsible for the other information. The other information comprises:

- the Management Report, as set out on pages 3 to 6 of the accompanying Annual Report;
- the Statement on Management Responsibility, as set out on page 7 of the accompanying Annual Report;

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the Other reporting responsibilities in accordance with the legislation of the Republic of Latvia section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Group and the Bank and their environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Regulation No. 113 "Regulation on the Preparation of Annual Accounts and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies" of the Financial and Capital Market Commission of the Republic of Latvia.

Based solely on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Management Report has been prepared in accordance with the requirements of the Regulation No. 113 "Regulation on the Preparation of Annual Accounts and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies" of the Financial and Capital Market Commission of the Republic of Latvia.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting responsibilities and confirmations required by the legislation of the Republic of Latvia and European Union when providing audit services to public interest entities

We were first appointed as auditors of the Group and the Bank on 29th September 2017 by Shareholders of the Bank. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 5 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank;
- as stipulated in paragraph 37^6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Group and the Bank the prohibited non-audit services (NASs) referred to in EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

The responsible certified auditor on the audit resulting in this independent auditors' report is Diāna Krišjāne.

ERNST & YOUNG BALTIC SIA
Licence No. 17

Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Riga, 29 April 2022

Consolidated and Bank's Financial Statements

Consolidated and Bank's Statement of Comprehensive Income

	Notes	2021 Group EUR	2021 Bank EUR	2020 Group EUR	2020 Bank EUR
Interest revenue calculated using effective interest rate method	5	4,793,736	4,893,857	5,178,893	5,345,275
Other interest and similar income	5	59,709	59,709	344,255	344,255
Interest expense	5	(1,351,444)	(1,351,444)	(2,308,714)	(2,303,194)
Net interest income	5	**3,502,001**	**3,602,122**	**3,214,434**	**3,386,336**
Reversal of allowances for loan impairment	12,13,20,28	2,629,457	2,661,375	1,299,010	1,294,819
Net interest income after allowances for loan impairment		**6,131,458**	**6,263,497**	**4,513,444**	**4,681,155**
Fee and commission income	6	2,843,668	2,843,988	3,520,495	3,520,759
Fee and commission expense	6	(224,311)	(224,178)	(356,723)	(356,591)
Net fee and commission income	6	**2,619,357**	**2,619,810**	**3,163,772**	**3,164,168**
Profit/(loss) from sale of financial assets at fair value through profit or loss, net		(2,102)	(2,102)	43,138	43,138
Loss from revaluation of securities at fair value through profit or loss, net		(42,216)	(42,216)	(63,129)	(63,129)
Profit/(loss) from derivative financial instruments revaluation, net		-	-	(32,359)	(32,359)
Gain from trading in foreign currencies, net		175,123	175,123	808,468	808,468
Gain/(loss) from foreign exchange translation, net		72,966	72,966	(4,989)	(4,989)
Dividend income	16,19	8,043	10,008,043	10,854	10,854
Other operating income	8	289,197	286,917	443,012	420,626
Total operating income		**9,251,826**	**19,382,038**	**8,882,211**	**9,027,932**
Administrative expense	7	(7,093,961)	(6,911,151)	(7,244,796)	(7,145,649)
Amortization and depreciation charges	17,18	(378,233)	(378,233)	(367,690)	(367,690)
Other income	9	14,298,744	876,119	453,317	453,317
Other expense	9	(535,039)	(4,397,562)	(1,117,096)	(1,114,629)
Profit before corporate income tax		**15,543,337**	**8,571,211**	**605,946**	**853,281**
Corporate income tax	10	(2,622,278)	(134,276)	(139,596)	(138,603)
Net profit for the year attributable to:		**12,921,059**	**8,436,935**	**466,350**	**714,678**
shareholders of the Bank		12,871,425	8,436,935	549,838	714,678
non-controlling interest		49,634	-	(83,488)	-
Other comprehensive income					
Items that cannot be reclassified subsequently to profit or loss:					
Gain/(loss) on equity instruments at fair value through other comprehensive income		13,556	13,556	(190,299)	(190,299)
Items that can be reclassified subsequently to profit or loss:					
Gain/(loss) on debt instruments at fair value through other comprehensive income		(1,945)	(1,945)	5,617	5,617
Other comprehensive income ,total		**11,611**	**11,611**	**(184,682)**	**(184,682)**
Total comprehensive income for the year attributable to:		**12,932,670**	**8,448,546**	**281,668**	**529,996**
shareholders of the Bank		12,883,036	8,448,546	365,156	529,996
non-controlling interest		49,634	-	(83,488)	-

The Consolidated and Bank's financial statements on pages 14 through 100 have been approved by the Council and Board of the Bank and signed on their behalf by:

Aleksandrs Jakovlevs
Chairman of the Board

Yuriy Rodin
Chairman of the Council

Riga, 29 April 2022

The accompanying notes on pages 19 through 100 form an integral part of these financial statements.

Consolidated and Bank's Statement of Financial Position

	Notes	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Assets					
Cash and balances with the Bank of Latvia	11	82,900,231	82,900,231	67,749,254	67,749,254
Balances due from banks	12	38,393,662	38,393,662	40,859,902	40,859,902
Financial assets at fair value through profit or loss	14	1,607,310	1,607,310	13,394,913	13,394,913
Debt instruments at fair value through other comprehensive income	15	30,902,143	30,902,143	46,448,754	46,448,754
Equity instruments at fair value through other comprehensive income	19	235,618	235,618	221,711	221,711
Loans and advances to customers	13	83,259,093	83,259,093	64,980,255	68,628,156
Other assets	20	4,792,557	4,776,631	17,210,951	4,991,082
Investment in subsidiary	16	-	583,972	-	6,100,000
Property and equipment, and right-of-use assets	18	12,872,931	12,872,931	13,092,753	13,092,753
Intangible assets	17	475,426	475,426	437,088	437,088
Prepaid expense		181,858	181,858	148,695	148,695
Total assets		**255,620,829**	**256,188,875**	**264,544,276**	**262,072,308**
Liabilities					
Balances due to banks		-	-	5,400	5,400
Deposits from customers	22	208,333,160	209,730,323	204,612,329	205,430,951
Other financial liabilities	24	1,326,260	1,216,131	538,650	536,360
Deferred income and accrued expense	25	835,026	835,026	739,910	739,914
Debt securities	23	-	-	16,384,025	16,384,025
Subordinated loans	35	-	-	3,016,117	3,016,117
Current income tax liabilities		594,315	1,645	2,337	2,337
Total liabilities		**211,088,761**	**211,783,125**	**225,298,768**	**226,115,104**
Equity					
Share capital	27	32,334,756	32,334,756	32,334,756	32,334,756
Reserves		6	6	6	6
Revaluation reserve on equity instruments at fair value		46,490	46,490	32,934	32,934
Revaluation reserve on debt instruments at fair value		3,672	3,672	5,617	5,617
Retained earnings		12,147,144	12,020,826	3,831,829	3,583,891
Equity attributable to equity holders of the parent		**44,532,068**	**44,405,750**	**36,205,142**	**35,957,204**
Non-controlling interest		-	-	3,040,366	-
Total equity		**44,532,068**	**44,405,750**	**39,245,508**	**35,957,204**
Total liabilities and equity		**255,620,829**	**256,188,875**	**264,544,276**	**262,072,308**
Off-balance sheet items					
Contingent liabilities	28	7,032,383	7,032,383	9,550,225	9,550,225
Financial commitments	28	45,541,858	45,541,858	13,722,190	13,722,190
Assets under management	36	64,832,077	64,832,077	54,707,966	54,707,966

The Consolidated and Bank's financial statements on pages 14 through 100 have been approved by the Council and Board of the Bank and signed on their behalf by:

Aleksandrs Jakovlevs
Chairman of the Board

Yuriy Rodin
Chairman of the Council

Riga, 29 April 2022

The accompanying notes on pages 19 through 100 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Attributable to shareholders of the Bank							
	Share capital EUR	Reserves EUR	Retained earnings EUR	Revaluation reserve on debt instruments at fair value EUR	Revaluation reserve on equity instruments at fair value EUR	Total EUR	Non-controlling interest EUR	Total equity EUR
Balance as at 31 December 2019	**32,334,756**	**6**	**3,281,991**	**-**	**223,233**	**35,839,986**	**533,854**	**36,373,840**
Profit for the year	-	-	549,838	-	-	549,838	(83,488)	**466,350**
Change in the revaluation reserve	-	-	-	5,617	(190,299)	(184,682)	-	**(184,682)**
Total comprehensive income for the year	**-**	**-**	**549,838**	**5,617**	**(190,299)**	**365,156**	**(83,488)**	**281,668**
Increase in subsidiary's share capital	-	-	-	-	-	-	2,590,000	**2,590,000**
Balance as at 31 December 2020	**32,334,756**	**6**	**3,831,829**	**5,617**	**32,934**	**36,205,142**	**3,040,366**	**39,245,508**
Profit for the year	-	-	12,871,425	-	-	12,871,425	49,634	**12,921,060**
Change in revaluation reserve	-	-	-	(1,945)	13,556	11,611	-	**11,611**
Total comprehensive income for the year	**-**	**-**	**12,871,425**	**(1,945)**	**13,556**	**12,883,036**	**49,634**	**12,932,671**
Decrease in subsidiary's share capital *	-	-	-	-	-	-	(3,086,910)	**(3,086,910)**
Marup from acquisition of investment in subsidiary**	-	-	(4,556,110)	-	-	(4,556,110)	-	**(4,556,110)**
Acquisition of non-controlling interest**	-	-	-	-	-	-	(3,090)	**(3,090)**
Balance as at 31 December 2021	**32,334,756**	**6**	**12,147,144**	**3,672**	**46,490**	**44,532,068**	**-**	**44,532,068**

* Decrease of the capital of the subsidiary SIA "Grunewald Residence" and payout to the non-controlling interests EUR 3,086,910 (see also Note 16).

** The acquisition of the shares of non-controlling interest for total amount of 4,559,200 EUR (33.62% of shares or EUR 3,090 and as a result the markup from acquisition of investment in subsidiary 4,556,110 EUR) of the subsidiary SIA Grunewald Residence (see also Note 16).

The accompanying notes on pages 19 through 100 form an integral part of these financial statements.

Bank's Statement of Changes in Equity

	Share capital	Reserves	Retained earnings	Revaluation reserve on debt instruments at fair value	Revaluation reserve on equity instruments at fair value	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 31 December 2019	**32,334,756**	**6**	**2,869,213**	**-**	**223,233**	**35,427,208**
Profit for the year	-	-	714,678	-	-	714,678
Change in revaluation reserve	-	-	-	5,617	(190,299)	**(184,682)**
Total comprehensive income for the year	**-**	**-**	**714,678**	**5,617**	**(190,299)**	**529,996**
Balance as at 31 December 2020	**32,334,756**	**6**	**3,583,891**	**5,617**	**32,934**	**35,957,204**
Profit for the year	-	-	8,436,935	-	-	8,436,935
Change in revaluation reserve	-	-	-	(1,945)	13,556	11,611
Total comprehensive income for the year	**-**	**-**	**8,436,935**	**(1,945)**	**13,556**	**8,448,546**
Balance as at 31 December 2021	**32,334,756**	**6**	**12,020,826**	**3,672**	**46,490**	**44,405,750**

The accompanying notes on pages 19 through 100 form an integral part of these financial statements.

Consolidated and Bank's Statement of Cash Flows

	Notes	2021 Group EUR	2021 Bank EUR	2020 Group EUR	2020 Bank EUR
Cash flows from/(used in) operating activities					
Interest received		4,967,879	5,068,000	5,607,514	5,773,896
Interest paid		(1,436,136)	(1,435,318)	(2,371,473)	(2,349,175)
Fees and commission received	6	2,843,668	2,843,988	3,520,495	3,520,759
Fees and commission paid	6	(224,311)	(224,178)	(356,723)	(356,591)
Income/(loss) received from sale financial assets measured at FVPL		(376)	(376)	5,990	5,990
Income received from foreign exchange		175,123	175,123	850,808	850,808
Other operating income received *		26,705,117	286,918	445,597	437,291
Personnel expenses paid		(5,220,881)	(5,205,492)	(5,431,410)	(5,425,007)
Administrative and other operating expenses paid		(2,109,382)	(1,839,581)	(2,687,337)	(2,404,155)
Income tax paid		(2,030,675)	(134,968)	(138,016)	(137,398)
Cash flows generated from operating activities before changes in operating assets and liabilities		**23,670,026**	**(465,884)**	**(554,555)**	**(83,582)**
Changes in operating assets and liabilities					
(Increase)/decrease in financial assets measured at FVPL		15,398,382	15,398,382	12,868,040	12,868,040
(Increase)/decrease in debt instruments measured at FVOCI		15,310,993	15,310,993	(46,448,754)	(46,448,754)
(Increase)/decrease in balances due from banks		1,135,825	1,135,825	(31,058,469)	(31,058,469)
(Increase) in loans and advances to customers, net		(9,581,631)	(5,902,631)	(14,072,300)	(13,197,300)
(Increase)/decrease in other assets		(280,263)	417,296	7,610,563	7,490,090
Increase in deposits from customers, net		(3,851,743)	(3,273,202)	(8,952,365)	(8,587,865)
(Decrease/increase) in balanced due to banks		(5,400)	(5,400)	5,400	5,400
Increase in other liabilities, net		825,433	825,433	419,181	1,419,181
Net cash flows from (used in) operating activities		**42,621,622**	**23,440,812**	**(80,183,259)**	**(77,593,259)**
Cash flows from (used in) investing activities					
Purchase of shares in subsidiary	16	-	(4,559,200)	-	-
Purchase of intangible assets	17	(199,159)	(199,159)	(120,463)	(120,463)
Purchase of property and equipment	18	(1,131)	(1,131)	(48,395)	(48,395)
Net cash flows generated from /(used in) investing activities		**(200,290)**	**(4,759,490)**	**(168,858)**	**(168,858)**
Cash flows from/(used in) financing activities					
(Decrease)/Increase in subsidiary's share capital**		(3,086,910)	6,093,900	2,590,000	-
The acquisition of the shares of non-controlling interest	16	(4,559,200)	-	-	-
Dividends received	16,19	8,043	10,008,043	-	-
Repayment of debt securities		(16,817,980)	(16,817,980)	-	-
Repayment of the Subordinated loans		(3,038,223)	(3,038,223)	(5,381,701)	(5,381,701)
Repayment of the principal amount of lease liabilities		(46,636)	(46,636)	(67,169)	(67,169)
Net cash flows generated from /(used in) financing activities		**(27,540,906)**	**(3,800,896)**	**(2,858,870)**	**(5,448,870)**
Effect of exchange rates on cash and cash equivalents		(3,037,703)	(3,037,703)	(1,669,181)	(1,669,181)
Net increase/(decrease) in cash and cash equivalents		**11,842,723**	**11,842,723**	**(84,880,168)**	**(84,880,168)**
Cash and cash equivalents at the beginning of the year	21	79,424,802	79,424,802	164,304,970	164,304,970
Cash and cash equivalents at the end of the year	**21**	**91,267,525**	**91,267,525**	**79,424,802**	**79,424,802**

The accompanying notes on pages 19 through 100 form an integral part of these financial statements.

* The increase in other operating income received in the Consolidated Statement of Cash Flows is formed by the funds received as the result of the transaction on the sale of the immovable property owned by the subsidiary company for 26,500,000 EUR . For more detailed information, see Note 16.
** The shareholders of the Bank's subsidiary resolved to reduce the share capital of SIA Grunewald Residence from 9,190,000 EUR to 9,190 EUR . On the basis of this decision, SIA Grunewald Residence repaid the shareholder's contribution of 9,180,810 EUR, and in line the amount of owned shares, 6,093,900 EUR was paid to the Bank and 3,086,910 EUR was paid to non-controlling interest shareholders. For more detailed information, see Note 16.

Notes to the financial statements

1. Incorporation and principal activities

AS Reģionālā investīciju banka (hereinafter – the Bank) provides financial services to corporate customers and private individuals. In 2005, the Bank established a representative office in Odessa (Ukraine). In 2010, a representative office was established in representative office in Brussels, the capital of Belgium.

In August 2016, the Bank established a 100% subsidiary - the limited liability company *Grunewald Residence*, reg. No 40203014344, whose share capital is EUR 9,190. (31 December 2020: EUR 9,190,000). As at 31 December 2021, the Bank's equity interest in the subsidiary was 100.00% (31 December 2020: 66.38%).

The Bank and the limited liability company *Grunewald Residence* together form a group (hereinafter - the Group), operating in the area of financial services and real estate.
The legal address of the Bank 's principal place of business is:
J.Alunāna iela 2
LV-1010, Riga
Latvia

The legal address of SIA Grunewald Residence principal place of business is:
J. Alunāna iela 2
LV-1010, Riga
Latvia

The Bank has no other representative offices, subsidiaries or other entities, except for the above mentioned.

These financial statements were approved for issue by the Bank's Council and Board on 29 April 2022.

2. Operating environment of the Group and the Bank

The Latvian economy was negatively affected by the worsening epidemiological situation, resulting in lockdown and severe restrictions. Private consumption started to recover in the third quarter, but its positive impact on the Latvian economy was undermined by the fact that, as a result of the austerity measures, residents of Latvia spent a large part of their savings abroad. According to operational data, in the last quarter of 2021, GDP increased by 3.1% (seasonally adjusted). In 2021, such sectors as accommodation and catering as well as the arts, entertainment and recreation continued to be most affected by the Covid-19 pandemic; in the construction sector the volume decline was largely due to the rising costs, experiencing particular significant increases in the prices of timber and metals. The real estate, agriculture and forestry sectors underwent a slight decline. In other key sectors, economic activity increased compared to 2020. In 2021, the savings rate of the population was on an upward trend, but considering the current and expected price rises, the savings rate might decline in the coming months. Inflation rates in Latvia continued to rise because of the rising global energy prices, reaching +7.9% in

2. Operating environment of the Group and the Bank *(cont'd)*

December against December 2020. Taking into account deflation at the beginning of the year, the price level rose by 3.3% on average in 2021. Latvia's inflation forecast for 2022 has been raised to 6.1%.The Latvian banking sector remained broadly stable - the overall negative impact of the pandemic on asset quality was not material. Loans to non-bank customers showed a slight increase, with household demand for housing rising significantly. In corporate lending, the negative impact of Covid-19 was mitigated by support measures offered by the state and credit institutions. Average liquidity ratios in the banking sector remained unchanged, significantly above the minimum requirements. Capital ratios remained at a consistently high level and the banking system as a whole was profitable.

At the end of the reporting period evidence suggests that the rapid spread of the Omicron variant of the coronavirus causing the prolongation of the state of emergency will act as a brake on economic growth in Latvia in early 2022. In parallel, rising geopolitical risks between Ukraine and Russia that escalated to military operation on February 24, 2022 may affect not only the further development of energy prices, but also the dynamics of investment and foreign trade; however, all in all a favorable year is forecast for the further development of the Latvian economy.

The Bank's operations are influenced by trends and events in the Ukrainian market as the Bank cooperates closely with Pivdennij Bank, a Ukrainian public joint stock company, and some of the Bank's loans are issued to companies whose business activities are related to Ukraine, and some of deposits are attracted from the residents of Ukraine.

The table below presents the total assets and liabilities of the Bank and the Group subject to the Ukraine country risk as at 31 December 2021 and 31 December 2020:

	31.12.2021 Group EUR '000	31.12.2021 Bank EUR '000	31.12.2020 Group EUR '000	31.12.2020 Bank EUR '000
Statement of financial position assets subject to Ukraine country risk:				
Balances due from banks	586	586	9,051	9,051
Loans issued and other receivables	30,643	30,643	24,371	24,371
Other assets	517	517	872	872
Total	**31,746**	**31,746**	**34,294**	**34,294**
Statement of financial position financial liabilities subject to Ukraine country risk:				
Balances due to banks	-	-	5	5
Deposits	41,784	41,784	60,771	60,771
Total	**41,784**	**41,784**	**60,776**	**60,776**
Off-balance sheet items subject to the Ukraine country risk:				
Off-balance sheet financial commitments	112	112	2,700	2,700
Total	**112**	**112**	**2,700**	**2,700**

The Bank complies with the limit set by the FCMC on the concentration of exposures in Ukraine equal to the Bank's tier 1 capital (Tier 1 capital is determined accordiing Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 Article 25). In addition, Bank sets limits on the concentration of assets by countries, counterparties and transaction types, sectors, and types of collateral.

2. Operating environment of the Group and the Bank *(cont'd)*

According to the estimates of the Central Bank of Ukraine, the real GDP of Ukraine grew by around 3% in 2021. The economic recovery has been underpinned by resilient consumer demand, rising business investment after the crisis and record high crop yields. However, the recovery was slower than expected. It was affected by the rising energy prices and energy shortages, a slower recovery in the services sector, capacity constraints in some manufacturing sectors and higher-than-expected pandemic-induced losses. Taking into the account ECL downside scenario results that include geopolitical aspect and other scenario results, which are described in more detail in Note 4(a), the Bank considers that ECL amount calculated on 31.12.2021 under the base case scenario is sufficient as at 31.12.2021.

The base scenario calculated on 31.12.2021 did not include the current war scenario or event. Material events have taken place that have not been taken into account in the ECL calculation at 31.12.2021, but they may have financial statement effects in future reporting periods, t.i. the geopolitical situation between Ukraine and Russia has progressed from the state of uncertainty at the end of the year to military conflict. In view of this fact the Bank analyzed financial assets and liabilities subject to the Ukraine country risk impact on the Bank's profitability including possible changes in ECL under the downside scenario, the volume and structure of payments with Ukraine, the structure of deposits and their impact on liquidity. For the assessment, see Note 38.

3. Summary of significant accounting principles

(a) Going concern

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter - IFRS), on a going concern basis. In preparation of the financial statements on a going concern basis, the management considered the Group's and Bank's financial position, access to financial resources and analysed the impact of the recent financial crisis and geopolitical conflict between Russia and Ukraine in the future operations of the Group and the Bank. Taking into consideration circumstances described in Note 38, which outlines the stress test performed by the Management to assess the impact of the events after balance sheet date on the Group's and Bank's liquidity and capital adequacy ratios, there are no material uncertainties related to going concern of the Group and Bank as of today

(b) Currency used in the preparation of the financial statements

The financial statements are prepared in the euros (EUR), rounded to the nearest euro, unless stated otherwise. The functional and presentation currency of the Group, the Bank and its subsidiary is the euro.

(c) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for the following:

- financial assets at fair value through profit or loss are stated at fair value;
- financial assets at fair value through other comprehensive income are stated at fair value;
- buildings and land which are stated at revalued amounts being the fair value at the date of valuation less subsequent accumulated depreciation and any accumulated impairment losses;
- the repossessed real estate is stated at inventories at lower of cost and net realizable value.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the management's best knowledge of current events and actions, the actual results ultimately may differ from those estimates. The same accounting policies were used consistently in the preparation of the financial statements for the year 2021, if compared to those of 2020.

3. Summary of significant accounting principles *(cont'd)*

(d) Consolidation

Subsidiaries, namely, the companies, in which the Group directly or indirectly has the power to govern the financial and operating policies as well as the reallocation of income, are consolidated in the Group's financial statements. Investments in subsidiaries in the Bank's financial statements are stated at cost less impairment, if any. Subsidiaries are consolidated from the date on which control is transferred to the Group and excluded from the consolidated financial statements from the date that control ceases. Acquisition of subsidiaries is accounted for using the purchase method. The acquisition cost comprises the assets transferred, shares issued or liabilities taken over at fair value as at the purchase date. Acquisition-related costs are expensed as incurred and included in administrative expenses.. The excess of the net assets purchased over the purchase price is recorded as a goodwill. All intra-group transactions and balances and unrealized gains resulting from intra-group transactions are eliminated. Unrealized losses are also eliminated, except where costs cannot be recovered.

Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Fair value measurement

The Group and the Bank measure financial instruments at fair value through profit or loss (FVPL) and at fair value through other comprehensive income (FVOCI).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group and the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group and the Bank use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Group and the Bank determine whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3. Summary of significant accounting principles *(cont'd)*

(f) Initial recognition

Date of recognition

Regular way purchase or sale of financial assets is recognized on a trade date, i.e., on the date when the Group and the Bank commit themselves to purchase an asset or liability. Regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Initial measurement

The classification of financial instruments at initial recognition depends on the financial instrument's contractual terms and the business model selected for managing them. Financial instruments, except financial assets and financial liabilities stated at fair value through profit or loss, are initially measured at fair value plus or minus transaction costs.

Measurement categories of financial assets and liabilities

In accordance with IFRS 9, all debt-based financial assets which do not meet the 'solely payments of principal and interest' criterion, at initial recognition are measured at fair value through profit or loss. Under this criterion, the debt instruments which are not in line with 'basic lending arrangement', e.g., instruments which contain embedded conversion options or non-recourse loans, are measured at fair value through profit or loss.

Debt-based financial assets which do meet the 'solely payments of principal and interest' criterion, at initial recognition are measured on the basis of a business model under which the instruments are managed:

- Instruments managed under the 'hold to collect' business model are measured at amortized cost;
- Instruments managed under the 'hold to collect and sell' business model are measured at fair value through other comprehensive income (FVOCI);
- Instruments managed under other business models, including financial assets held for trading, are measured at fair value through profit or loss (FVPL).

Equity instruments at initial recognition are measured at fair value through profit or loss, unless the financial asset not held for trading is irrevocably designated at fair value through other comprehensive income.

Regarding investment in equity instruments at fair value through other comprehensive income, all realized and unrealized gains and losses, excluding income from dividends, are recognized in other comprehensive income as items that cannot be reclassified subsequently to profit or loss.

The Group and the Bank classify all financial assets depending on the business model selected for managing assets and the asset's contractual terms, which are measured:

- at amortized cost;
- at fair value through other comprehensive income (FVOCI);
- at fair value through profit or loss (FVPL).

The Group and the Bank classify and measure derivative financial instruments and financial assets held for trading at FVPL. The Group and the Bank may measure financial instruments at FVPL if such measurement eliminates or significantly reduces a measurement or recognition inconsistency. Debt instruments acquired in the liquidity portfolio and providing the Bank's liquidity reserve both by collecting contractual cash flows and selling them the Group and the Bank classify and measure at FVOCI.

Financial liabilities, other than loans and borrowings and financial guarantees, are measured at amortized cost or at FVPL if held for trading or are derivative financial instruments.

3. Summary of significant accounting principles *(cont'd)*

(f) Initial recognition *(cont'd)*

Balances due from banks, loans to customers, investments in securities at amortized cost

The Group and the Bank only measure the balances due from banks, loans to customers and other financial investments at amortized cost when both of the following conditions are met:

- a financial asset is held under a business model whose objective is to hold assets to collect contractual cash flows;
- the contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A more detailed information on the above conditions is provided below.

Business model assessment

The Group and the Bank determine the business model at a level that reflects the way groups of financial assets are managed together to achieve a particular business objective.

The business model of the Group and the Bank is not determined on an instrument-by-instrument basis, rather it is assessed at a higher level of aggregated portfolios and is based on observable evidence, for example:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed;
- how managers of the business are compensated – e.g., whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- the expected frequency, volume and timing of sales also are significant aspects to be considered in the assessment carried out by the Group and the Bank.

The assessment of a business model is performed on the basis of scenarios that are reasonably expected to occur, excluding 'worst case' or 'stress case' scenarios. If cash flows, subsequent to initial recognition, are realized in a way that is different from the Group and Bank's initial expectations, the Group and the Bank do not change the classification of the remaining financial assets held in that business model, but consider this information in assessing the business model for newly generated or newly acquired financial assets.

SPPI test

As a second step in determining the appropriate classification category the Group and the Bank assess the financial asset's contractual terms in order to determine whether the financial asset meets the SPPI test.

For the purpose of this test, a principal is defined as fair value of a financial asset at initial recognition, which may change over the life of a financial instrument (for example, if there are repayments of principal or amortization of premium/discount).

In a lending arrangement, most significant interest components usually are consideration for the time value of money and credit risk. For the SPPI test purposes, the Group and the Bank apply judgment and consider relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In such cases the financial asset is measured at FVPL.

3. Summary of significant accounting principles *(cont'd)*

(f) Initial recognition *(cont'd)*

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss. Financial assets at fair value through profit or loss comprise debt securities held by the Group and the Bank for trading purposes. They are accounted for at fair value with all gains and losses from revaluation and trading reported in the statement of comprehensive income. Interest earned while holding trading securities is reported as interest income.

All regular way purchases and sales of financial assets held for trading are recognized at trade date, which is the date that the Group and the Bank commit to purchase or sell the asset.

Financial assets at fair value through profit or loss are derecognized when the rights to receive cash flows from the financial assets have expired or where the Group and the Bank have transferred substantially all risks and rewards of ownership.

Debt instruments measured at fair value through other comprehensive income (FVOCI)

The Group and the Bank, in accordance with IFRS 9, apply a classification to debt instruments measured at FVOCI when both of the following conditions are met:

- an instrument is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and sell financial assets;
- the financial asset's contractual terms meet the SPPI test.

Debt instruments designated at FVOCI are subsequently measured at fair value recognizing gain or loss resulting from changes in the fair value in other comprehensive income. For debt instruments at fair value through FVOCI, interest income and foreign exchange gain or loss are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

Expected credit loss (ECLs) on debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to an allowance, which would be established if the assets were measured at amortized cost, is recognized in other comprehensive income as 'accumulated impairment amount', with a corresponding amount debited to the statement of profit or loss. Total accumulated gains/losses recognized in other comprehensive income are recycled to the statement of profit or loss upon derecognition of the respective asset.

Equity instruments measured at FVOCI

The Group and the Bank, upon initial recognition, often elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group and the Bank benefit from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment. Upon disposal of these instruments, any remaining balance in the revaluation reserve relating to the asset disposed of is transferred directly to retained earnings.

Financial guarantees, letters of credit and undrawn loan commitments

The Group and the Bank provide financial guarantees, letters of credit and loan commitments.

3. Summary of significant accounting principles *(cont'd)*

(f) Initial recognition *(cont'd)*

Financial guarantees, letters of credit and undrawn loan commitments (cont'd)

Financial guarantees represent irrevocable commitments to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees, namely, premiums received, are initially recognized in the financial statements at fair value. After initial recognition, the Group's and Bank's liabilities arising from guarantees are measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of profit or loss, and and the ECL as defined under IFRS 9.

Undrawn loan commitments and letters of credit are liabilities whereby the Group and the Bank, during the commitment period, must issue a loan to the customer under agreed upon terms are not recognized on the statement of financial position. However, in accordance with IFRS 9, the Group and the Bank calculate and recognize ECL on these exposures which are booked as a provision on the statement of financial position.

Non-financial guarantees

Non-financial guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Non-financial guarantees do not transfer credit risk. The risk under non-financial guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, non-financial guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9, but in IAS 37.

(g) Income and expense recognition

Interest income and expense are recognized in the statement of comprehensive income for all interest-bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method for calculating the amortized cost of a financial asset or a financial liability based on the recognition of interest income or interest expense over the relevant period.

The Group and the Bank calculate interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired, the Group and the Bank calculate interest revenue by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cure and are no longer credit-impaired, the Group and the Bank revert to calculating interest revenue on a gross basis.

Commissions received or incurred in respect of origination of financial assets or funding are deferred and recognized as an adjustment to the effective interest rate applied to the asset or liability. Commissions on servicing of settlement accounts are recognized in the statement of comprehensive income on a regular basis throughout the duration of the customer contract. Other fees and commissions, including those related to trust activities, are credited and/or charged to the statement of comprehensive income as earned/incurred.

(h) Foreign currency revaluation

Functional and presentation currency

The functional currency of the Bank and the Group companies is the currency of the primary economic environment in which the Group and the Bank operate. The financial statements are presented in the euros (EUR), which is the Bank's functional and the Group's presentation currency.

Transactions and balances

Foreign currency transactions have been recalculated into the euro applying the rate determined by the conversation procedure between central banks of the European System of Central Banks and other central banks and which is published on the European Central Bank's website. To those foreign

3. Summary of significant accounting principles *(cont'd)*

(h) Foreign currency revaluation *(cont'd)*

currencies, for which the ECB does not publish the EUR reference rate, the foreign currency exchange rates published by Bloomberg are applied. Any gain or loss resulting from a change in exchange rates is included in the statement of comprehensive income as profit or loss from revaluation of foreign currency positions.

During the preparation of the financial statements of the Group and the Bank, the most commonly used currency exchange rates (foreign currency units against one EUR) were as follows

Reporting date	USD
31 December 2021	1.1326
31 December 2020	1.2271

(i) Income taxes

Income taxes include current and deferred taxes.

Legal entities have not been required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions.

Both distributed profits and deemed profit distributions are subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the consolidated statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year. No provision is recognized for income tax payable on a dividend distribution before dividends are declared but information on the contingent liability is disclosed in the notes to the consolidated financial statements.

(j) Deferred tax assets and liabilities

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying value for accounting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

(k) Cash and it's equivalents

Cash and its equivalents comprise cash and demand deposits with the Bank of Latvia and other credit institutions, due to and from other credit institutions with original maturity of 3 months or less.

(l) Amount due from other credit institutions

Amounts due from other credit institutions are recorded when the Group and the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other credit institutions are carried at amortized cost.

3. Summary of significant accounting principles *(cont'd)*

(m) Loans and allowances for loan impairment

Overview

Impairment is determined using the expected credit loss model. The Group and the Bank group its loans into Stage 1, Stage 2, Stage 3 and POCI, as decribed below:

Stage 1 applies to assets whose credit risk has not increased significantly since initial recognition.

Stage 2 applies to assets with a significant increase in credit risk.

Stage 3 applies to assets for which life cycle expected credit losses apply (ECL).

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition

Significant increase in credit risk

At the end of each reporting period, the Group and the Bank determine whether there has been any significant increase in credit risk since initial recognition. In case of a significant increase, quantitative and qualitative indicators are analyzed. The assessment requires the use of both historical and forward-looking information.

Irrespective of the quantitative indicator, the following *backstop* indicators trigger a significant increase in credit risk:

- contractual payments are more than 30 days but less than 90 days past due;
- financial assets are included in „The List of Customers with Early Signs of Deterioration in Credit Quality" (Watch List);
- forborne financial assets (modifications or concessions to the original terms of loans as a response to the borrower's financial difficulties have been granted). Prior *backstop* indicators usually overlap with the quantitative indicator of a significant increase in credit risk.

If credit risk has increased significantly since initial recognition, a lifetime ECL is recognized and the financial instrument is moved to Stage 2. If in subsequent reporting periods the credit quality of the financial instrument improves so that it is no longer credit-impaired, the financial asset is transferred back to Stage 1. In case of its continuous deterioration, it is moved to Stage 3.

Definition of default

Defaulted financial instruments are included in Stage 3. For accounting purposes, the Group and the Bank apply the definition of default in the Capital Requirements Regulation (Article 178 of 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), i.e. financial assets that are past due for more than 90 days, and also forborne exposures which has met a below listed criteria:

- Loan forbearance which will most likely diminish financial commitments;
- New forbearance measures are set for a forborne exposure;
- The number of days past due for a forborne exposure exceeds 30 days.
- An exposure has met any criteria of unlikely to pay list.

Forborne exposures

Forborne exposures are debt contracts regarding which forbearance measures have been applied. Forbearance measures consist of concessions to a debtor that is experiencing or about to experience difficulties in meeting its financial commitments ('financial difficulties'). Forborne exposures are classified under Stage 2 for the ECL assessment purposes. The Group and the Bank derecognize a financial asset, e.g., a loan to customer, if a new agreement has been reached on such terms and conditions of the loan that it actually becomes a new.

3. Summary of significant accounting principles *(cont'd)*

(m) Loans and allowances for loan impairment *(cont'd)*

Forborne exposures (cont'd)

Once an exposure has been classified as forborne, it wil remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The probation period of two years has passed from the date forborne conract was considered performing;
- Regular payments of more than insignificant amount of principal or interest have been made during all the probation period;
- The Client does not have any contracts that are more than 30 days past due.

In order to decide whether forborne loans are to be classified as Stage 3 assets for ECL assessment purposes, the Group and the Bank assesses the following:

- The adequacy and observance of the loan payment schedule (initial and further payment schedules), which, inter alia, includes a repeated non-observance of the payment schedule, changes in the payment schedule in order to avoid any delays, or the payment schedule is based on forecasts which are not based on macroeconomic forecasts or realistic assumptions regarding the borrower's capability of repaying debt obligations;
- Whether the loan agreement includes terms which postpone the deadline of regular repayments in a way that hinders the assessment of conformity to the set classification, for example, if the repayment periods of the principal amount are postponed for more than two years.

Other criteria for forborne loans to be classified as Stage 3 assets are:

- Loan forbearance which will most likely diminish financial commitments;
- New forbearance measures are set for a forborne exposure;
- The number of days past due for a forborne exposure exceeds 30 days.
- An exposure has met any criteria of unlikely to pay list.

If there are changes which do not result in derecognition, the Group and the Bank also reassess whether there is no significant increase in credit risk and whether the assets should be classified as credit-impaired assets. If the assets are classified as credit-impaired assets they will remain under Stage 3 at least for a 12-month trial period to be reclassified to Stage 2, and 24-months to be reclassified to Stage 1. The forborne exposure is to be reclassified out of Stage 3 if regular payments of more than an insignificant amount of principal or interest have been made during the second half of the probation period. The forborne exposure is reclassified from Stage 3 if, during the review period, the borrower has made regular payments to the amount equivalent to all previous arrears (if there were arrears at the time the relief was granted) or to that written off under the relief (if there were no arrears), or the borrower has otherwise demonstrated the ability to comply with the forbearance measures.

(n) Sale and repurchase agreements

Sale and repurchase agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group and the Bank are transferors, assets transferred remain on the Group's and Bank's statement of financial position and are subject to the Group's and Bank's usual accounting policies, with the purchase price received included as a liability owed to the transferee. Where the Group and the Bank are a transferee, the assets are not included in the Group's and Bank's statement of financial position, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognized in the statement of comprehensive income over the term of the agreement using the effective interest method.

3. Summary of significant accounting principles *(cont'd)*

(o) Derivative financial instruments

Derivative financial instruments comprise various derivatives, inter alia, options, forwards, futures and foreign currency and capital market transactions. Such financial instruments are held for trading and stated at fair value. Fair values are based on quoted market prices or pricing models where the actual market or contractual prices of the existing instruments as well as other factors are considered.

All derivatives are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative. Any gain or loss arising from these instruments is taken to the statement of profit or loss as net gain/ (loss) from financial instruments designated at fair value through profit or loss or as foreign currency exchange gain/ (loss) depending on the nature of the respective instrument.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative cause some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

This is the way in which the Group and the Bank account for derivatives embedded in financial liabilities and non-derivative host contracts. The classification of financial assets is based on the business model and SPPI assessment, without separation of embedded derivatives (see also Note 3(e)).

(p) Repossessed collateral

Repossessed collateral represents real estate repossessed by the Group and the Bank for the purpose of selling as collateral for the outstanding loans and is disclosed under other non-financial assets. The repossessed real estate is stated in inventories at lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(q) Intangible assets

The acquired computer software licenses are recognized as intangible assets at cost, including any expenditure that is directly attributable to preparing the asset for its intended use. Intangible assets are amortized over their estimated useful lives, not exceeding 5 years, on a straight-line basis.

(r) Property and equipment

The items of property and equipment are stated at cost less accumulated depreciation and impairment, except buildings and land are measured at a revalued amount. The cost includes expenditure directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably.

Such costs are depreciated over the asset's remaining useful life. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

3. Summary of significant accounting principles *(cont'd)*

(r) Property and equipment *(cont'd)*

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset to write down the cost of property and equipment to their residual values at the end of the useful life. The estimated useful lives are, as follows:

Land	is not depreciated
Building	50 years
Office equipment	10 years
Computers	3 years
Transport vehicles	5 years

Buildings and land under the property and equipment category are measured at a revalued amount. The revalued amount is the fair value at the revaluation date less subsequent accumulated depreciation and impairment loss. The fair value of land and buildings is determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers at the end of the reporting year. Revaluation gains are recorded under the heading of revaluation surplus and recognized in other comprehensive income. A revaluation loss is initially taken to the revaluation surplus (and recorded in other comprehensive income) related to these assets, if any, and subsequently included in profit or loss for the reporting period (see Note 18).

The carrying values of property and equipment (except for the buildings and land) are reviewed for impairment on a periodical basis. Where the carrying value of an asset exceeds the estimated recoverable amount and the respective changes in the value are not considered to be temporary, the value of the corresponding asset is written down to its recoverable amount. Recoverable amount: the higher of an asset's fair value less costs of disposal and its value in use.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income.

(s) Leases

The Group and the Bank as lessees

At the contract inception, the Group and the Bank assess whether it contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration

The Group and the Bank apply a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group and the Bank recognize lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group and the Bank recognize right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, which for the lease of premises is 3 to 5 years.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment (see Note 18).

3. Summary of significant accounting principles *(cont'd)*

(s) Leases (cont'd)

Lease liabilities

At the commencement date of the lease, the Group and the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and the Bank and payments of penalties for terminating the lease, if the lease term reflects the Group and the Bank exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group and the Bank use their incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the interest expense and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group and Bank's lease liabilities are disclosed under Other financial liabilities (see Note 24).

Short-term leases and leases of low-value assets

The Group and the Bank apply the short-term lease recognition exemption to their short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). They also apply the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The Group and the Bank as lessors

As lessors, the Group and the Bank determine at lease inception whether the lease is a finance lease or an operating lease. If the Group and the Bank determine that the lease transfers substantially all of the risks and rewards of ownership of the underlying asset, the lease is a finance lease. Leases in which the Group and the Bank do not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(t) Derecognition of financial assets and liabilities

Financial assets (or, where applicable, a portion of a financial asset or a part of a group of similar assets) are recognized when:

- the contractual rights to the cash flows from the financial asset have expired;
- the Group and the Bank have transferred the contractual rights to the cash flows from the financial asset or retain the contractual rights to the cash flows from the financial asset, but assume an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and

3. Summary of significant accounting principles *(cont'd)*

(t) Derecognition of financial assets and liabilities *(cont'd)*

- either (a) the Group and the Bank have transferred substantially all the risks and rewards of the asset, or (b) the Group and the Bank have neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial assets are written off, in full or in part, only when the Group and the Bank have no reasonable expectation of recovery. If the amount to be written off exceeds the cumulative loss amount, the difference is first considered as increase in allowance which then is set off against the gross carrying amount. Any further recovery is included in credit loss expense. A write-off constitutes a derecognition event. Financial liabilities are derecognized when the obligation specified in the contract is either discharged or cancelled or expires. Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognized in profit or loss.

(u) Deposits from customers

Deposits from customers are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

(v) Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

(w) Debt securities issued

The Group and the Bank recognize the issued debt securities at the date when the respective funds are received. After initial recognition when these financial liabilities are stated at fair value, including direct transaction costs, those are subsequently carried at amortized cost using the effective interest method. When issued debt securities are sold at a discount, the difference is amortized applying the effective interest method until the debt matures and charged to the statement of comprehensive income as interest expense.

(x) Provisions

Provisions are recognized when the Group and the Bank have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The assessment of provisions requires the application of management's judgment and assumptions on the probability of an outflow of resources, the probability of recovery of resources from related sources including collateral agreements and the amounts and timing of such outflows.

(y) Dividends

Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the financial statements are authorized for issue are disclosed in the subsequent events note. Profit distribution and other appropriations are carried out according to the Group's and Bank's financial statements. The legislation of the Republic of Latvia stipulates retained earnings to be the basis of dividend payment.

(z) Employee benefits

The Group and the Bank makes the State statutory social insurance contributions for state pension insurance and to the state funded pension scheme in accordance with the legislation of Latvia The State funded pension scheme is a defined contribution plan under which the Group and the Bank pay fixed

3. Summary of significant accounting principles *(cont'd)*

(z) Employee benefits *(cont'd)*

contributions determined by the law and it will have no legal or constructive obligations to pay further contributions if the State pension insurance system or the State funded pension scheme is not able to settle the liabilities to employees. Short-term employee benefits, including salaries and state statutory social insurance contributions, bonuses and paid vacation benefits, are included in administrative expenses on an accrual basis.

(aa) Trust operations

Funds managed or held in custody by the Group and the Bank on behalf of individuals, trusts and other institutions are not regarded as assets of the Group and the Bank and, therefore, are disclosed in the off-balance sheet.

Accounting for trust operations is separated from the Group's and Bank's own accounting system, thus ensuring separate accounting in a separate trust balance sheet for assets of each client, by client and by type of assets under management.

(bb) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(cc) Significant accounting estimates and assumptions

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities, as disclosed in the statement of financial position, cannot be established using quoted market prices in an active market, the fair value is estimated using various valuation techniques, including mathematical models. The data used in such models are obtained from observable markets, if possible, in case it is not possible a certain judgment is required for determining the fair value (see also Note 3(d)).

Impairment loss on financial instruments

The Group and the Bank assess their assets for impairment on a regular basis. To estimate impairment loss in accordance with IFRS 9 only for assets at amortizated costs and FVOCI (except equity instruments at FVOCI), in determining the impairment loss and assessing significant increases in credit risk, the value and timing of future cash flows and collateral must be assessed (see also Note 3(l)).
The impairment loss calculations for the Group's and Bank's assets are the result of the Bank's provisioning model, which is based on a number of assumptions regarding the range of variables and their interdependencies. The following estimates and judgements are used in determining impairment of financial assets:

- assessment of the criteria for a significant increase in credit risk and classification of loans in Stage 1 or Stage 2;
- identification of default criteria and reclassification of loans to Stage 3;
- information on forborne exposures and customers subject to watch list screening;
- interpretation of accounting and modelling assumptions to build the model, including various formulas and input data;
- modelling and calculation of key parameters, including probability of default (PD), loss given default (LGD), and exposure at default (EAD);
- identification of macroeconomic indicators and incorporating forward-looking information into the model;

3. Summary of significant accounting principles *(cont'd)*

(cc) Significant accounting estimates and assumptions *(cont'd)*

Impairment loss on financial instruments (cont'd)

- to assess the above indicators for the relevant future period, the weighted average of the corresponding macroeconomic indicator, taken separately for each group of countries, and is data forecast for the next three years is obtained twice per year from two publicly available official data sources:
  - for Latvia data is obtained from Ministry of Finance of Latvia and Bank of Latvia, updated twice a year;
  - for Ukraine data is obtained from National Bank of Ukraine and Ministry of Finance of Ukraine, updated twice a year;
- assessing individual impairment losses of Stage 3 assets, the Bank determing the weighted average probability of two scenarious assessing the probability for base case and downside scenarios;
- assessing individual impairment losses of purchased or originated credit-impaired (POCI) assets under four scenarios and determining the probability of those scenarios.

Grouping financial assets measured on a collective basis

Dependent on the factors below, the Group and the Bank calculate ECLs either on a collective or on an individual basis. Asset classes where the Group and the Bank calculate ECL on an individual basis include:

- all Stage 3 assets;
- amounts due from banks;
- liquidity portfolio exposures.

The Bank's provisioning model was changed on 15 April 2021. Taking into account the specific nature and structure of the Bank's loan portfolio, the approach to the probability of default (PD) calculation methodology was changed, the loan portfolio was split according to country risk groups, macroeconomic indicators and forward-looking information was incorporated into the provisioning model.

Whenever impairment of financial assets is recalculated, the inputs and parameters are reviewed and, if necessary, changed, taking into account the macroeconomic situation, the COVID-19 caused state of emergency, etc.

As a result of the change in the Bank's provisioning model, the Bank recognized an ECL decrease of EUR 765.3 thousand at the new model implementation date, i.e., on 15 April 2021. If not changed until the reporting date, the amount of ECL would have been by EUR 862.5 thousand higher.

Main reason for decrease related to ECL model change from Markov Matrix approach to Weibull fitting approach, in addition to this other important changes are driven by lower PD and LGDs driven by the following :

1) the Bank has divided credit portfolio by country, PD was calculated separately for each portfolio, but in old model approach for whole credit portfolio;
2) PD calculated based on ten years history in new model approach, and based on three year period in old model approach;
3) LGD calculated based on ten years history in new model approach, but in old model approach calculated based on all Bank's history from the beginning of Bank's activity.

Impairment of investments in subsidiaries (the Bank)

In the Bank's financial statements, investments in subsidiaries are stated at cost. The Bank compares the cost of the investment with the carrying amount of the subsidiary's net assets on a regular basis to

3. Summary of significant accounting principles *(cont'd)*

(cc) Significant accounting estimates and assumptions *(cont'd)*

Impairment of investments in subsidiaries (the Bank) (cont'd)

ascertain whether there are no indications of impairment. If any indications of impairment are identified, the recoverable amount of the investment is calculated on the basis of the estimated future free cash flows of the subsidiary to equity. The future cash flows are based on the budgets and forecasts of the subsidiary the reliability of which is assessed. Impairment loss is recognized when the decrease in the value of the investment in the subsidiary is substantial and sustained.

Impairment of non-financial assets

Assessment of any possible indicators of impairment of non-financial assets is done at each reporting date or more frequently if events or changes in circumstances indicate to feasible impairment of a non-financial asset. If any such indication exists, an estimate of the asset's recoverable amount is made. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increase will effectively be the reversal of an impairment loss.

Determining the lease term of contracts with renewal and termination options – the Group and the Bank as lessees

The Group and the Bank determine the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group and the Bank have several lease contracts that include extension and termination options. The Group and the Bank apply judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group and the Bank reassess the lease term if there is a significant event or change in circumstances that is within their control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Group and the Bank included the renewal period as part of the lease term for leases of premises with shorter non-cancellable period (i.e., three to five years). The Group and the Bank typically exercise the option to renew for these leases because there will be a significant negative effect on operations if a replacement asset is not readily available. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Leases – Estimating the incremental borrowing rate

The Group and the Bank cannot readily determine the interest rate implicit in the lease, therefore, they use their incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group and the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group and the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).

The Group and the Bank estimate the IBR using observable inputs (such as market interest rates) when available and are required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

3. Summary of significant accounting principles *(cont'd)*

(dd) Adoption of new or revised standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group and the Bank as of 1 January 2021:

Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods. The Group and the Bank has assessed that there is not a material effect on the financial statements.

IFRS 4: Insurance Contracts (Amendments)

The amendments to IFRS 4 change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023. The Group and the Bank has assessed that there is not a material effect on the financial statements.

IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

The Group and the Bank has assessed that there is not a material effect on the financial statements.

Standards issued but not yet effective and not early adopted

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In its March 2020 meeting the Board decided to defer the effective date to 2023. IFRS

3. Summary of significant accounting principles *(cont'd)*

(dd) Adoption of new or revised standards and interpretations *(cont'd)*

Standards issued but not yet effective and not early adopted (cont'd)

IFRS 17: Insurance Contracts (cont'd)

17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The Group and the Bank has assessed that there is not a material effect on the financial statements.

IFRS 17: Insurance Contracts (Amendments)

The amendments to IFRS 17 are effective, retrospectively, for annual periods beginning on or after January 1, 2023, with earlier application permitted. The amendments aim at helping companies implement the Standard. In particular, the amendments are designed to reduce costs by simplifying some requirements in the Standard, make financial performance easier to explain and ease transition by deferring the effective date of the Standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time. The Group and the Bank has assessed that there is not a material effect on the financial statements.

IFRS 17: Insurance contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments)

The amendment is effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted respectively with IFRS 17. For entities that first apply IFRS 17 and IFRS 9 at the same time, the amendment adds a transition option for a "classification overlay", relating to comparative information of financial assets. An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. Also, in applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of IFRS 9. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements. These amendments have not yet been endorsed by the EU.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

3. Summary of significant accounting principles *(cont'd)*

(dd) Adoption of new or revised standards and interpretations *(cont'd)*

Standards issued but not yet effective and not early adopted (cont'd)

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments were initially effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments.

In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. These Amendments, including ED proposals, have not yet been endorsed by the EU.

IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

IFRS 3 Business Combinations (Amendments) update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

IAS 16 Property, Plant and Equipment (Amendments) prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.

3. Summary of significant accounting principles *(cont'd)*

(dd) Adoption of new or revised standards and interpretations *(cont'd)*

Standards issued but not yet effective and not early adopted (cont'd)

Annual Improvements 2018-2020 make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments): The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Amendments have not yet been endorsed by the EU.

IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments): The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Amendments have not yet been endorsed by the EU.

IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments): The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Amendments have not yet been endorsed by the EU.

4. Financial and other risk management

Risk management

Risk management is one of the Group's and the Bank's strategic tasks. Risk Management Strategy has been developed for the Group's and the Bank's risk management which covers management of the following risks: credit risk, operational risk, market risk, interest rate risk, foreign currency risk, liquidity risk, concentration risk, country risk, money laundering and terrorism financing risk and other risks.

For the purpose of managing these risks, internal risk management policies and procedures have been developed which are approved by the Council and/or Board of the Bank and implemented by the responsible units of the Group and the Bank.

The Board of the Bank is responsible for the development and effective functioning of the risk management system as well as ensuring the identification and management of the Group's and the Bank's risks, including risk estimation, evaluation, oversight and preparation of reports through implementing the risk identification and management policy set by the Council of the Bank and other documents relating to risk management.

4. Financial and other risk management *(cont'd)*

Risk management *(cont'd)*

Risk Director is responsible for the risk control function in the Group and the Bank, oversees the risk management system and co-ordinates actions of all structural units of the Group and the Bank related to risk management. The main unit responsible for determination, evaluation and oversight of risks is the Risk management Department, which is an independent unit whose functions are separated from the functions of the business units.

The risk management system is being constantly improved in accordance with the Group's and the Bank's activities and external conditions influencing these activities. The regular oversight of this process is performed by the Internal Audit Department.

(a) Credit risk

Credit risk is the risk of incurring losses in the event that a borrower (debtor) or a business partner is unable to fulfil its obligations to the Group and the Bank in accordance with the provisions of the contract. Credit risk is present in the Group's and the Bank's operations where the Group and the Bank make claims against another person and which are reflected in the Group's and the Bank's statement of financial position and under off-balance sheet items.

The Group's and the Bank's principles for evaluation, oversight and acceptance of credit risk are described and approved in its Credit Risk Management Strategy, Loan Policy, Business Partner Risk Policy and Investment Portfolio Policy.

The Group and the Bank divide up and oversees their credit risk by setting limits of various types and categories: acceptable risk limits for each borrower, a group of related borrowers, geographical regions, business sectors, type and value of collateral, currency, term and ratings granted by international agencies.

Credit risk exposures are monitored on a continuous basis through regular assessments of borrowers' ability to meet interest and principal maturities and limits are adjusted as appropriate. The Group's and the Bank's exposure to credit risk is managed and minimized by obtaining collaterals and guarantees against credit exposures that are registered in the name of the Bank. The fair values of both are also reviewed on a regular basis.

Credit–related commitments risks

The table below presents credit risk exposures relating to assets and off-balance sheet items:

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Assets subject to credit risk:				
Balances with the Bank of Latvia	82,900,231	82,900,231	67,749,254	67,749,254
Balances due from banks	38,393,662	38,393,662	40,859,902	40,859,902
Financial assets at FVPL	1,607,310	1,607,310	13,394,913	13,394,913
Debt instruments at FVOCI	30,902,143	30,902,143	46,448,754	46,448,754
Loans to customers	83,259,093	83,259,093	64,980,255	68,628,156
Other financial assets	2,383,901	2,367,975	2,143,348	1,791,713
Total	**239,446,340**	**239,430,414**	**235,576,426**	**238,872,692**
Off-balance sheet items subject to credit risk:				
Contingent liabilities	7,032,383	7,032,383	9,550,225	9,550,225
Financial commitments	45,541,858	45,541,858	13,722,190	13,722,190
Total	**52,574,241**	**52,574,241**	**23,272,415**	**23,272,415**

The Group and the Bank estimate expected credit losses (ECL), to valuate expected present value of the cash shortfalls discounted to approximate it to ECL. Cash shortfall is the difference between the cash flows that are due to the entity in accordance with the contractual terms of a financial instrument and the cash flows that the entity expects to receive.

Credit–related commitments risks (cont'd)

ECL calculation techniques and key elements are provided below:

PD	Probability of default. This is an estimate of the likelihood of default over a given time horizon.
EAD	Exposure at Default. This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, notwithstanding whether based on a contract or otherwise, and expected drawdowns on committed facilities.
LGD	Loss Given Default. This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD

ECL allowance is based on the estimate of losses that result from all possible default events over the period of 12 months (12m ECL), unless credit risk has increased significantly since the initial recognition of exposure, in which case the allowance is based on the risk of default over lifetime (lifetime ECL). 12-month ECLs are the portion of the lifetime ECLs that represent the ECLs resulting from default events on a financial instrument that are possible within 12 months after the reporting date.

Both lifetime ECLs and 12-month ECLs are measured on an individual or collective basis depending on the type of underlying portfolios of financial instruments. The Group and the Bank reflect the potential future use of undrawn loan and credit card balances by applying the credit conversion factor of 75% which corresponds to the size of the currently unused facilities, which will be used over a certain period. The credit conversion factor is determined using relevant historical information and forecasts.

The Group and the Bank have established a policy for assessing at the end of each reporting period whether there has been a significant increase in credit risk since initial recognition, considering the change in the risk of default occurring over the expected life of the financial instrument.

Impairment assessment

The Group and the Bank are continuously monitoring all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12m ECL or lifetime ECL, the Group and the Bank assess whether there has been a significant increase in credit risk since initial recognition.

At every reporting date, the Group and the Bank assess whether credit risk with regard to an exposure has increased significantly since initial recognition. The assessment of a significant increase in the Group and the Bank's credit risk is based on the following elements:

- quantitative element;
- qualitative element.

The main quantitative criterion is the number of days past due (hard criteria 30 days past due) and significant deterioration of the internal creditworthiness of the Customer/borrower.

Other quantitative criteria that signal about an increase in credit risk can be used, if these criteria are applicable and significant with regard to the borrower.

The Group and the Bank use quantitative information in 12mPD or LTPD measurement models and includes it in the quantitative measurement. In cases when quantitative information cannot be included in the quantitative measurement, qualitative factors are examined individually to determine whether credit risk has increased significantly since initial recognition.

4. Financial and other risk management *(cont'd)*

(a) Credit risk *(cont'd)*

Impairment assessment (cont'd)

The Group and the Bank determing the following absolute and relative limits, for significant PD changes, it shall be the grounds to transfer an exposure at least to stage 2:

- If the 12-month PD exceeds 20% for a financial asset on the reporting date, the asset shall be automatically transferred to stage 2 (absolute criterion).
- If the increase of the lifetime PD has reached 200% for a financial asset on the reporting date since initial recognition, the asset shall be automatically reclassified to stage 2 (relative PD SICR criterion).

The list of indicators and indices, deterioration in which signals about an increase in credit risk, if it is applicable and topical for the borrower:

- the exposure is included on the 'List of Early Warning Signs of Deterioration in Credit Quality' of the Group and the Bank (watch list);
- the terms of the contracts have been amended to improve debt recovery which will not reduce significantly the amount of financial commitments;
- the Group and the Bank consider the factors which might suggest potential violations of terms even if the borrower is formally observing these terms;
- overdue payments or other type of default in other banks (verification of the Credit Register data);
- assigned external rating and trends;
- other negative information regarding the key customers/counterparties/area of activity of the borrower/suppliers.

When estimating ECLs on a collective basis for a group of similar assets, the Group and the Bank apply the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Asset classes where the Group and the Bank calculate ECL on a collective basis include all Stage 1 and 2 assets.

Under the above procedure, the Group and the Bank organize their loans as Stage 1, Stage 2, Stage 3 and POCI as described below:

Stage 1: Upon initial recognition of a loan, the Group and the Bank recognize loss allowance based on 12 -month ECLs. Stage 1 can also include exposures moved from Stage 2 if seeing decrease of the respective credit risk.

Stage 2: Assets with significant increase in credit risk since initial recognition. For these assets the Group and the Bank recognize loss allowance based on lifetime ECL. Stage 2 can also include exposures moved from Stage 3 if seeing decrease of the respective credit risk.

Stage 3: Financial assets that have objective evidence of impairment at the reporting date. For these assets the Group and the Bank recognize loss allowance based on lifetime ECL.

POCI: Purchased or originated as credit-impaired financial instruments. The classification of POCI assets remains unchanged, i.e., a financial asset that is classified as POCI remains in that group until the asset is derecognized. The classification as POCI is determined at the level of the financial instrument.

Event of default and cure

The Group and the Bank consider a financial instrument in default and, accordingly Stage 3 (credit-impaired financial asset) for ECL calculations, when contractual payments are 90 days past due. The Group and the Bank consider the amounts due from banks in default and act, without delay, if the demanded daily payments are not settled by the end of the business day as specified in individual contracts. In performing a qualitative assessment as to whether a customer complies with their

Event of default and cure (cont'd)

obligations, the Group and the Bank also consider various events that can indicate an inability to pay (default events). In such cases, the Group and the Bank carefully consider whether it can be deemed that the customer does not comply with their obligations and whether the respective exposure should be classified in Stage 3 or Stage 2.
Such events are:

- internal rating of the borrower indicating default or partial default;
- a borrower asks an emergency funding from the Group and the Bank;
- significant decrease in the value of underlying collateral if recovery of the loan is expected from collateral;
- significant decrease in the borrower's turnover or loss of their key customer;
- breach of the contractual terms not repudiated by the Group and the Bank;
- debtor (or any legal entity of the debtor's group) files for bankruptcy;
- debtor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties.

The policy of the Group and the Bank is to consider a financial instrument as 'cured' (it no longer meets any of the default criteria) and, accordingly, to move it from Stage 3 if any of the default criteria other than restructuring has not been in force at least for a consecutive period of 12 months to be reclassified to Stage 2, and at least 24 months to be reclassified from Stage 3 to Stage 1. A decision on whether the cured asset should be classified as Stage 1 or Stage 2 asset depends on the updated credit category over the cure period and whether it indicates a significant increase in credit risk in comparison with initial recognition.

Internal rating and PD estimation

The number of days past due is used as the principal indicator for calculation of PD and internal credit rating for calculation of provisions. The PD rates are calculated for each of the following groups of delay:

- past due for less than 30 days;
- past due for 31-60 days;
- past due for 61-90 days;

Taking into account the specific nature, size, geographic and geopolitical risks of the Group and Bank's portfolio, PDs are calculated separately for each group of loans using an adjustment factor. It is done to replicate the cumulative default curve based on historically observed defaults in each period since the financial instrument was issued with the objective of obtaining the best possible curve fit to historically observed defaults with the fewest possible number of parameters/observations.

Taking into account the Group and the Bank's historical data and them to be representative and reliable, the Group and the Bank divide the loan portfolio into two groups, each having its own PD:

- private individuals and legal entities – residents of Latvia;
- private individuals and legal entities – residents of other countries (Ukraine is designated as the base country).

The PD ratios are recalculated at least quarterly for each group separately.
The PD calculation is based on data for at least the last 10 years before the end of the reporting period.

4. Financial and other risk management *(cont'd)*

(a) Credit risk *(cont'd)*

Internal rating and PD estimation

Depending on the stage of the financial asset, the PD rate is calculated as the difference between the cumulative PD rate at maturity of the asset and the one attributable to the period for which the asset has been in the portfolio:

- for Stage 1 financial assets, a cumulative PD rate that applies no more than 12 months ahead for the relevant period of time that the asset has already been held in the portfolio;
- for Stage 2 financial assets, the PD rate is calculated as the difference between the cumulative PD rate at maturity of the asset and the one attributable to the period for which the asset has been in the portfolio;
- for Stage 2 forborne financial assets, the PD rate is calculated as the difference between the cumulative PD rate at maturity of the asset and the cumulative original PD rate attributable to that period of time assuming that the asset has started its life cycle in the portfolio.

Exposure at default

An exposure at default (EAD) equals to the gross carrying amount of the financial instruments subject to impairment assessment and it refers both to the customer's ability to increase risk, while approximating a default event, and the potential early repayment. In order to measure EAD for Stage 1 exposure, the Group and the Bank assess the possible defaults over 12 months to calculate 12m ECL. For Stage 2 and Stage 3, in case of default, events over the lifetime of the respective instruments are considered.
For POCI assets, losses are calculated over the life of the asset. Losses expected at initial recognition are referred to as initial impairment. In successive periods, only the cumulative change in the lifetime ECL of the asset since initial recognition is recognized in profit or loss.

The Group and the Bank determine EAD, by modeling the range of possible outcomes over various horizons in several scenarios. Subsequently, PD, as defined in IFRS 9, is assigned to each economic scenario on the basis of the outcomes of the model used by the Group and the Bank.

Loss given default

The Group and the Bank assess the LGD values and the Bank's Asset and Liability Committee reviews and approves thereof at least quarterly as well as whenever the Group and the Bank become aware of information indicating significant deterioration in the quality of an asset or contingent liability.

The credit risk assessment is based on a standardized LGD assessment approach as a result of which a certain LGD rate is obtained. Such LGD rates consider the expected EAD in comparison with the amount expected to be recovered or obtained from collateral discounted at the original effective interest rate.

Forward-looking information

For determining the PD, and hence for the ECL modeling, the Group and the Bank consider for each group macroeconomic indicators from each coutry two official data sources publicly available. The Group and Bank use the weighted average of the corresponding macroeconomic indicator, taken separately for each group of countries.
The historically calculated PD for each group is correlated with key macroeconomic indicators, such as GDP at real prices, GDP at constant prices, inflation rate, unemployment rate, gross average wages, net average wages, and consumer price index. The Group and the Bank apply to each group those macroeconomic indicators whose quarterly growth relative to the previous period correlates better with

4. Financial and other risk management *(cont'd)*

(a) Credit risk *(cont'd)*

Forward-looking information (cont'd)

the historically calculated PD. Given the correlation of historical PD data with macroeconomic data, the Group and the Bank use the inflation rate and the unemployment rate for the *group of legal entities and private individuals - residents of Latvia* and the GDP and the average gross monthly wage growth for the *group of legal entities and private individuals - non-residents*. At least annually, the Group and the Bank review the correlation with key macroeconomic indicators on a group-by-group basis and assesses whether to use the same indicators for future ECL calculations or change them.

The Group and the Bank assess:

- every sector of economy, in which the Bank has significant credit risk exposures;
- macroeconomic data at a national level in every region, in which the Bank has significant credit risk exposures;
- relevant trends on real estate market;
- other relevant information.

As the COVID-19 pandemic continues to affect economy, the Group and the Bank constantly keep an eye on the outbreaks of new variants of the virus and their impact on the Group and the Bank's customers in order to respond and assist the customer in a timely manner. Taking into account the probability of the loan portfolio deteriorating due to the impact of the COVID-19 pandemic, the Group and the Bank has reviewed and analyzed it to determine the most exposed customer loan liabilities and the probability of default, considering the industry and solvency of each individual borrower. Concerning its loan portfolio, the Group and the Bank have identified as vulnerable to the effects of the pandemic the following sectors: trade, real estate operations and construction, accommodation and catering services.

Globally, the hardest hit sectors were accommodation and catering services, tourism and aviation. The Group and the Bank have relatively small exposures to these sectors - 3% of total net loans to customers. The Group and the Bank have analyzed the year-end loan portfolio data, the Group and the Bank did not have any new customers affected by the COVID-19 pandemic this year. In 2021, of all customers who were granted modifications because of COVID -19 in 2020, two customers fully repaid their loans for a total amount of EUR 230 thousand; three customers returned to the original schedule for a total amount of EUR 1.5 million; and one customer is still in Stage 3 but has resumed payments for a total amount of EUR 577 thousand.

Overall, the Group and the Bank consider the impact of the pandemic on the loan portfolio to be insignificant as mostly all customers affected by the pandemic have successfully overcome the economic crisis caused by the pandemic, thus the increase in ECL for the above-mentioned customers was insignificant at the end of the year.

The Group and the Bank constantly monitor the current global economic situation in order to timely identify potential risks and assess the impact of risks on the loan portfolio. In addition to Covid-19, the impact of rising global energy prices and the geopolitical situation on the Bank's loan portfolio and collateral was identified and assessed.

4. Financial and other risk management *(cont'd)*

(a) Credit risk *(cont'd)*

Key macroeconomic variable assumptions for the ECL measurement

The Group and the Bank use publicly available current macroeconomic forecasts from various official data sources as forward-looking information included in the ECL measurement. To provide an objective ECL estimate under IFRS 9, the Group and the Bank use at least three scenarios. One is the base case scenario, which describes the most likely outcome, and is applied in the Bank's strategy planning and is based on up-to-date forecasts. The other scenarios predict optimistic and pessimistic outcomes (upside and downside scenarios). Each scenario is assigned a probability weight based on expert judgement. The assumptions regarding macroeconomic variables for the base case used as at 31 December 2021 are set out below.

	2021	2022	2023
Latvian portfolio:			
Inflation rate	2.40%	3.20%	2.45%
Unemployment rate	7.70%	6.90%	6.40%
Other countries portfolio (based on macroeconomic forecasts for Ukraine)			
GDP (gross domestic product)	3.85%	3.80%	4.35%
Gross average wages (nominal)	15.65%	8.65%	7.45%

Source: Macroeconomic forecasts in the base case scenario are expressed as the average of two publicly available data sources: for the Latvian portfolio – those of the Bank of Latvia and the Ministry of Finance, for the Other countries' portfolio – of the National Bank of Ukraine and the Ministry of Finance of Ukraine, updated on 14.12.2021.

The upside scenario assumes that the economic situation in 2022 will be at the 2021 level, the economy is much better adapted to the situation of epidemic crisis and Omicron or other new outbreaks of Covid-19 are less likely to have an impact on economic growth, no tighter restrictions will be needed. At the same time, rising energy prices will continue to weigh on economic growth, easing in the second half of 2022.

The downside scenario delineates the risks that high energy costs will be felt also through the year 2022[1]. According to the data summarized by the Central Statistical Bureau, last December the inflation rate in Latvia reached 7.9%, compared to December 2020, which has been the fastest increase in prices since April 2009. Hence, the downside scenario assumes that the inflation rate of December 2020 will remain throught 2022. Due to Omicron or other more dangerous coronavirus mutations, tighter restrictions will be introduced. At the same time, the geopolitical crisis between Russia and Ukraine will have a negative impact on economic growth. Due to the elevated conflict situation between these countries, the rating agency *Fitch* has reduced GDP forecasts for Ukraine down to 2.9%[2], which were taked into account in developing the scenario. The downside scenario was developed before the Russia's military incursion into Ukraine and did not stipulate the effects of war on these countries.

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[1] https://www.fm.gov.lv/lv/jaunums/fm-augstas-energoresursu-un-partikas-cenas-ietekmeja-perna-gada-decembra-straujo-cenu-kapumu

[2] https://forbes.ua/ru/news/fitch-pogirshilo-prognoz-reytingu-ukraini-do-stabilnogo-prichina-pidvishcheniy-rizik-konfliktu-z-rosieyu-07022022-3535

4. Financial and other risk management *(cont'd)*

(a) Credit risk *(cont'd)*

Key macroeconomic variable assumptions for the ECL measurement (cont'd)

Measuring ECL as at 31 December 2021, the probability of the base case scenario was estimated at 60%, the probability of the upside scenario - at 15% and that of the downside scenario - at 25%.

	LV portfolio EUR '000	Other countries portfolio EUR '000	Total EUR '000
ECL			
Base case scenario (100%)	1,143.4	1,085.9	2,229.3
Base case scenario (60%)	686.0	651.5	1,337.5
Upside scenario (15%)	153.6	161.1	314.7
Downside scenario (25%)	330.7	290.5	621.2
Total	**1,170.3**	**1,103.1**	**2,273.4**

The results of scenarios show that the ECL model of the bank shows a low sensitivity to changes in macroeconomic indicators. The base case scenario is aligned with and is used for strategic planning and budgeting process of the Group and the Bank.

(b) Market risk

The Group and the Bank manage market risks by diversifying the financial instruments portfolio, setting limits on different types of financial instruments and applying sensitivity tests which show the impact of particular risks on the Group and Bank's assets and equity.

Basis of the market risk management:

- assessment and analysis of securities portfolio;
- analysis and monitoring of issuers' financial position;
- establishing internal limits/ diversification (stop-loss to issuers, countries, regions, terms, credit rating categories);
- monitoring of the compliance of the internal limits.

(c) Currency risk

The Group and the Bank are exposed to the risk of changing foreign currency exchange rates which impacts both the financial performance and the cash flows of the Group and the Bank. The Group and the Bank control assets and liabilities denominated in foreign currencies to avoid unreasonable foreign currency exchange rate risk. Currency risk is calculated for each currency separately taking into account the amount of liabilities and requirements of the Group and the Bank. The Board determines the Group and Bank's open position limits on certain currencies which are monitored daily. The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Group's and Bank's equity but that the total foreign currency open position may not exceed 20% of the equity. In 2021 and 2020 the Group and the Bank complied with these limits (see Note 29). The Group and the Bank have no significant open positions in 'exotic' currencies.

4. Financial and other risk management *(cont'd)*

(c) Currency risk *(cont'd)*

The Group's and Bank's foreign currency risk assessment is based on the following main principles:

- assessment is made of changes in the Group's and Bank's assets, liabilities and off-balance sheet items as a result of exchange rate fluctuations;
- how the Group's and Bank's revenue/costs change with exchange rate fluctuations;
- performing currency risk stress tests.

Basis of the currency risk management:

- assessing currency risk;
- setting of limits and restrictions;
- monitoring of adherence to internal limits;
- performing exchange rate stress tests and analyzing the obtained results;
- entering into hedge relationships, if necessary.

The Group and the Bank define and control daily and weekly maximum loss limits via involving in currency trading.

As part of a quarterly currency risk management process, assessment of the foreign exchange risk is performed (assessment how the statement of financial position and off-balance sheet items change with the changes in foreign currency exchange rates; how the income/expenses of the Group and the Bank change with the foreign currency exchange rate changes) and the results of such evaluation are submitted to the management of the Group and the Bank. Once a year a currency risk stress testing and the analysis of its results are performed, serving as the basis of proposals for changes in the foreign currency risk management policy which are made to the management of the Group and the Bank, if necessary.

The table below presents the sensitivity of the Group and the Bank's profit/ loss to currency exchange rate fluctuations at the end of the reporting period with all other variables held constant (in thousand EUR):

31.12.2021	Effect on net profit/loss and equity		31.12.2020	Effect on net profit/loss and equity	
	+10%	-10%		+10%	-10%
USD	(3)	3	USD	(16)	16
Total	**(3)**	**3**	**Total**	**(16)**	**16**

(d) Interest rate risk

Interest rate risk is the sensitivity of the Group and the Bank's financial position to a change in market interest rates. In the normal course of business, the Group and the Bank encounter interest rate risk as a result of differences within maturities or interest re-fixing dates of respective interest-sensitive assets and liabilities. The risk is controlled by the Bank's Asset and Liability Committee which sets limits on the level of mismatch of interest rate reprising and evaluates interest rate risk undertaken by the Group and the Bank (see Note 32).

Basis of the interest rate management:

- Assessing sensitivity of interest rate risk;
- Setting of internal limits (limit of reduction in economic value and for total duration of securities portfolio);
- Monitoring of adherence to internal limits;
- Performing interest rate stress tests and analyzing the obtained results;
- Entering into hedge relationships, if necessary.

Notes to the financial statements *(cont'd)*

4. Financial and other risk management *(cont'd)*

(d) Interest rate risk *(cont'd)*

Interest rate risk identification and assessment are made in a way as to further examine all types of interest-rate risks. To limit the interest rate risk, limits are set to both impairment of economic value and the modified duration of securities portfolio.

As part of interest rate risk assessment, impact of interest rate changes on the economic value of the Group and the Bank is performed regularly, including interest rate risk assessment from income perspective and interest rate risk assessment from the perspective of economic value, and on that basis, follow up control of the set limits is carried out. Moreover, interest rate risk stress testing is performed, based on which changes are proposed in the interest rate risk management policies, if needed. Results of interest rate risk assessment are reported to the management of the Group and the Bank.

Assets/ liabilities/ off-balance sheet items with specified maturity are split into maturity groups as follows:

- Shorter from the remaining repayment/ settlement/ maturity term – for financial instruments with fixed interest rate;
- For a period until the next interest rate change date or interest repricing date – for financial instruments with variable interest rate;
- Maturity of deposits is shown as being not longer than five years.

Assets/ liabilities/ off-balance sheet items with no specified maturity are split into maturity groups as follows:

- Settlement accounts, for which interest is paid, are classified as sensitive to the changes in interest rates and presented as 'on demand';
- Derivatives are presented under both long off-balance-sheet position and short off-balance-sheet position.

The following changes in interest rates are applied to the sensitivity analysis: all items except for deposits are subject to rate changes of +/-100 base points, while deposits are subject to rate changes of +/-50 base points.

The table below presents the Group's sensitivity of revenue and equity to interest rate fluctuations as described above with all other variables held constant (in thousand EUR):

31.12.2021	Effect on net profit/loss and equity		31.12.2020	Effect on net profit/loss and equity	
	+100 bps	-100 bps		+100 bps	-100 bps
USD	(271)	271	USD	(280)	280
EUR	(135)	135	EUR	(41)	41
Total	**(406)**	**406**	**Total**	**(321)**	**321**

The table below presents the Bank's sensitivity of revenue and equity to interest rate fluctuations as described above with all other variables held constant (in thousand EUR):

31.12.2021	Effect on net profit/loss and equity		31.12.2020	Effect on net profit/loss and equity	
	+100 bps	-100 bps		+100 bps	-100 bps
USD	(271)	271	USD	(280)	280
EUR	(135)	135	EUR	(46)	46
Total	**(406)**	**406**	**Total**	**(326)**	**326**

4. Financial and other risk management *(cont'd)*

(e) Liquidity risk

The Group and the Bank are exposed to daily calls on its available cash resources from short-term liquid investments. The relationship between the maturity of assets and liabilities, as well as off-balance sheet items, is indicative of liquidity risk and the extent to which it may be necessary to raise funds to meet outstanding obligations.

The Group and the Bank do not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Board sets limits on the minimum proportion of maturing funds available to meet such calls and at the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types (see Note 31). An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and the Bank and their exposure to changes in interest rates and exchange rates.

The matching and controlled mismatching of the maturities of assets and liabilities are fundamental to the daily liquidity management of the Group and the Bank.

The Group and the Bank use the following methods for evaluation of liquidity risk:

- preparation of maturity analysis (for all currencies and separately for individual currencies);
- calculation of the liquidity ratio, monitoring of adherence to liquidity ratio regulations;
- Stress testing.

Basis of the liquidity risk management:

- being in compliance with liquidity ratio regulations;
- setting of the liquidity net position limit;
- setting of restriction on attracting deposits;
- monitoring of adherence to liquidity limits;
- conducting liquidity stress tests and analysis of the obtained results;
- recommendations for resolving liquidity problems.

To manage and control the funding structure (positions), the Bank:

- regularly assesses its funding structure, i.e., the Bank's dependence on certain types of borrowed resources, in particular on borrowings on interbank lending, money and capital markets;
- evaluates funding sources and its ability to quickly raise funds from respective sources;
- ensures efficient diversification of funding sources and their maturities, incl. sets concentration limits.

In accordance with the Financial and Capital Market Commission (FCMC) requirements, the Bank maintains sufficient liquid assets to meet its liabilities in the amount which is not less than 40% of the Bank's current liabilities.

On a daily basis, the Bank monitors both the deposit structure to ensure a high liquidity ratio and changes in its deposits, taking into account uncertainty due to COVID-19. The Bank assesses the deposit situation as stable. As a result, as at 31 December 2021, the Bank maintained a relatively high liquidity ratio of 62.28%

(f) Capital adequacy

Capital adequacy refers to the sufficiency of the Group's and Bank's own funds to cover credit and market risks related to assets and off-balance sheet items.

To calculate the capital amount for covering the risks for which the minimum capital requirements are set by the FCMC, the following approaches and methods are used:

- credit risk capital requirements are calculated using the standardized approach;

4. Financial and other risk management *(cont'd)*

(f) Capital adequacy *(cont'd)*

- the Financial Collateral Simple Method is used in order to decrease credit risk;
- the Group and the Bank calculates the own funds requirements for CVA risk applying the standardized method specified in Article 384 of EU Regulation No 575/2013;
- foreign currency risk capital requirements, commodities risk capital requirements and capital requirements for position risk of debt securities and equities are calculated using the standardized approach;
- capital requirements for general risk of debt securities are calculated using the maturity method;
- capital requirements for operational risk are calculated using the basic indicator approach.

The Group and the Bank also evaluate whether compliance with the minimal capital requirements ensures that the capital of the Group and the Bank is sufficient to cover all possible losses associated with all of the above mentioned risks.

Moreover, the Group and the Bank have developed internal documentation and regulations according to which they determine the amount of necessary capital for substantial risks to which minimal capital requirements are not set (e.g., interest rates risk, liquidity risk, concentration risk, and other substantial risks).

Calculated in accordance with the FCMC requirements, the Group's and Bank's capital adequacy ratio as at 31 December 2021 was 27.69% and 27.58% (31 December 2020: 27.50% and 25.64%), which is above the minimum set by European Parliament and the Council Regulation (EU) No 575/2013 requiring capital conservation buffer amount (10.5%), being a sum of equity against risk weighted assets and off-balance sheet items being minimum of 8% and capital conservation buffer above 2.5% (see Note 29).

On 2 November 2021, the Financial and Capital Market Commission recalculated the capital adequacy requirement determining it to the Group and Bank at 10.90% and capital conservation buffer at 2.5%. The Group and the Bank complied with the individual capital adequacy requirements in 2021.

(g) Operational risk

Operational risk is the possibility of incurring losses as a result of inadequate or unsuccessful developments in the Group's and Bank's internal processes, human and systemic actions, or influence of external conditions. Operational risk is defined as the risk of a reduction in the Group's and Bank's revenue/ incurring of additional costs (and a resulting reduction of the equity) due to erroneous transactions with customers/business partners, information processing, adoption of ineffective decisions, insufficient human resources or insufficient planning for the influence of external conditions.

The Group and the Bank have established and maintain an Operational Risk Event and Loss database in which internal data on operational risk events and associated losses are collected, processed and organized.

Basis of the operational risk management:

- monitoring of operational risk;
- management and minimizing of operational risk:
- development of internal regulations which eliminate/ reduce the possibility of operational risk events;
- compliance with the principle of separation of duties;
- monitoring of compliance with the internal limits;
- compliance with the procedure for using IT and other resources of the bank;
- adequate staff training;
- review of transactions and account documentation on a regular basis.

4. Financial and other risk management *(cont'd)*

(h) Concentration risk

Transaction concentration risk

Transaction concentration risk is any risk transaction or group of risk transactions that could cause the Group and the Bank to suffer such losses that may endanger the liquidity of the Group and the Bank or their ability to continue as a going concern. Concentration risk arises from significant risk transactions with customers or groups of inter-related customers or risk transactions with customers with common risk factors (e.g., economy sector, geographical region, currency, the instrument used for decreasing credit risk (one type of collateral or one provider of collateral, etc.)).

In order to control transaction concentration risk, the Group and the Bank have set limits on investments into various types of assets, instruments, markets, etc. Limit is a numerical threshold applied to various types of investments serving as an instrument for limiting and controlling the risk.

Country risk

Country risk is one of significant transaction concentration risks. Country risk – country partner risk – is the possibility of incurring losses if the Group's and Bank's assets are located in a country where, due to changes in its economic and political factors, the Group and the Bank may experience problems in recovering its assets within the agreed time and amount. The reasons of default by partners and issuers are primarily currency devaluation, unfavorable legislative changes, creation of new restrictions and barriers as well as other, including force majeure, factors.

In order to manage concentration risks the Group and the Bank set the following internal limits:

- country risk limits;
- credit rating group limits;
- financial market operations risk limits;
- limits on open currency positions and cash, limits on allowable loss on trading with foreign currencies;
- limits on allowable loss from trading with financial instruments portfolios;
- limits on large exposures;
- limits on transactions with parent bank;
- limits on lending programs.

Control, analysis and review of fulfilment of these limits are performed. Basis of the risk management:

- setting of internal limits by regions, countries, and by transaction types in individual countries;
- monitoring of adherence to internal limits;
- analysis and monitoring of country risk;
- review of internal limits.

Asset, liability and off-balance sheet country risk applies to the country which is considered to be the primary country where the customer conducts its business activities. If a loan is granted to a resident of another country using collateral which is physically located in a country other than the resident country of the legal entity, the country risk is transferred to the country where the loan collateral is actually located.

International rating agency data (including credit ratings and their dynamics), economic indicators of the country and other relevant information sources are used for country risk analysis.

Notes to the financial statements *(cont'd)*

4. Financial and other risk management *(cont'd)*

(h) Concentration risk *(cont'd)*

Country risk (cont'd)

The table below reflects composite ratings of Latvia, TOP3 OECD countries, and TOP3 non-OECD countries. TOP countries have been selected taking into account the volume of transferred exposures.

Latvia – Composite rating (Moody's/ Fitch un S&P)		OECD – Composite rating (Moody's/ Fitch un S&P)		Non-OECD 0150 Composite rating (Moody's/ Fitch un S&P)	
Country	Rating	Country	Rating	Country	Rating
Latvia	A3/A-	USA	Aaa/AAA	Ukraine	B2/B
-	-	Luxemburg	Aaa/AAA	Russia	Baa3/BBB-
-	-	Switzerland	Aaa/AAA	China	A1/A+

The table below shows the breakdown of financial assets and liabilities by groups of countries as at 31 December 2021.

	Latvia		OECD		Non-OECD		31.12.2021	31.12.2021
	Group	Bank	Group	Bank	Group	Bank	Group	Bank
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Financial assets								
Cash and balances with the Bank of Latvia	82,900,231	82,900,231	-	-	-	-	82,900,231	82,900,231
Balances due from banks	-	-	30,037,043	30,037,043	8,356,619	8,356,619	38,393,662	38,393,662
Loans and advances to customers	30,661,192	30,661,192	20,367,093	20,367,093	32,230,808	32,230,808	83,259,093	83,259,093
Financial assets at FVPL	375,058	375,058	1,224,358	1,224,358	7,894	7,894	1,607,310	1,607,310
Debt instruments at FVOCI	-	-	30,902,143	30,902,143	-	-	30,902,143	30,902,143
Equity instruments at FVOCI	-	-	235,618	235,618	-	-	235,618	235,618
Other financial assets	707,415	691,809	1,630,292	1,629,972	4,872	4,872	2,342,579	2,326,653
Total financial assets	**114,643,896**	**114,628,290**	**84,396,547**	**84,396,227**	**40,600,193**	**40,600,193**	**239,640,636**	**239,624,710**

	Latvia		OECD		Non-OECD		31.12.2021	31.12.2021
	Group	Bank	Group	Bank	Group	Bank	Group	Bank
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Liabilities	60,725,358	62,122,521	76,614,138	76,614,138	70,993,664	70,993,664	208,333,160	209,730,323
Deposits from customers	936,348	936,348	77,736	60,357	312,176	219,426	1,326,260	1,216,131
Other financial liabilities	1,397,296	804,626	1,707	1,707	30,338	30,338	1,429,341	836,671
Total liabilities	**63,059,002**	**63,863,495**	**76,693,581**	**76,676,202**	**71,336,178**	**71,243,428**	**211,088,761**	**211,783,125**

Notes to the financial statements *(cont'd)*

4. Financial and other risk management *(cont'd)*

(h) Concentration risk *(cont'd)*

Country risk (cont'd)

The table below shows the breakdown of financial assets and liabilities by groups of countries as at 31 December 2020.

	Latvia		OECD		Non-OECD		31.12.2020	31.12.2020
	Group	Bank	Group	Bank	Group	Bank	Group	Bank
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Financial assets								
Cash and balances with the Bank of Latvia	67,749,254	67,749,254	-	-	-	-	67,749,254	67,749,254
Balances due from banks	-	-	19,577,962	19,577,962	21,281,940	21,281,940	40,859,902	40,859,902
Loans and advances to customers	28,984,284	28,984,284	9,079,157	12,727,058	26,916,814	26,916,814	64,980,255	68,628,156
Financial assets at FVPL	1,151,919	1,151,919	12,235,708	12,235,708	7,286	7,286	13,394,913	13,394,913
Debt instruments at FVOCI	-	-	46,448,754	46,448,754	-	-	46,448,754	46,448,754
Equity instruments at FVOCI	-	-	221,711	221,711	-	-	221,711	221,711
Other financial assets	130,611	108,555	1,939,309	1,609,728	4,871	4,871	2,074,791	1,723,154
Total financial assets	**98,016,068**	**97,994,012**	**89,502,601**	**92,820,921**	**48,210,911**	**48,210,911**	**235,729,580**	**239,025,844**

	Latvia		OECD		Non-OECD		31.12.2021	31.12.2021
	Group	Bank	Group	Bank	Group	Bank	Group	Bank
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Liabilities	58,853,244	59,671,866	48,260,958	48,260,958	97,503,527	97,503,527	204,617,729	205,436,351
Deposits from customers	446,286	444,594	40,789	40,191	51,575	51,575	538,650	536,360
Other financial liabilities	737,091	737,095	2,398	2,398	2,758	2,758	742,247	742,251
Deferred income and accrued expense	-	-	15,168,586	15,168,586	1,215,439	1,215,439	16,384,025	16,384,025
Debt securities	692,844	692,844	1,915,718	1,915,718	407,555	407,555	3,016,117	3,016,117
Subordinated loans	**60,729,465**	**61,546,399**	**65,388,449**	**65,387,851**	**99,180,854**	**99,180,854**	**225,298,768**	**226,115,104**

4. Financial and other risk management *(cont'd)*

(i) Money laundering and financing of terrorism and proliferation risk

The Group and the Bank place a high priority on maintaining and continuously developing an effective system of anti-money laundering and countering the financing of terrorism and proliferation (AML/CFTP), creating an internal risk management culture with zero tolerance for intentional violations of AML/CFTP laws and regulations and compliance with international and national sanctions.

To ensure control of the AML/CFTP risk management, the Group and the Bank have established a comprehensive and effective internal control system (hereinafter - ICS). It is, continuously improved with documented internal policies and procedures, ensuring compliance with the constantly changing requirements of the laws and regulations of the Republic of Latvia and the European Union, recommendations of international competent organizations and industry best practice. The internal regulations set out clear risk management measures for all ICS elements of the AML/CFTP area - the AML/CFTP and Sanctions Risk Management Strategy 2021-2023 as well as the policies and procedures for its implementation. They define the AML/CFTP risk management structure and operational organization of the Group and the Bank, the allocation of responsibilities and powers of the management and employees in the AML/CFTP risk management, identification and management of AML/CFTP risk, including measurement, assessment, control and reporting to the Bank's management, recording and documentation of customer information and transactions, etc.

The Group and the Bank continuously improve their internal control system to meet the demands of a constantly changing external environment. Key external legislative documents that in 2021 influenced changes in internal processes are as follows:

- FCMC Regulations No 5 'Regulations on Establishing Customer Due Diligence, Enhanced Customer Due Diligence and Risk Scoring System and Information Technology Requirements (hereinafter - the Regulations);
- EBA 01/03/2021 Guidelines on customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions ('The ML/TF Risk Factors Guidelines') under Articles 17 and 18(4) of Directive (EU) 2015/849;
- EBA 03/03/2021 Opinion of the European Banking Authority on the risks of money laundering and terrorist financing affecting the European Union's Financial sector.

The above documents accentuate as one of the most significant changes the review and updating of the customer risk scoring and methodology, strengthening the Bank's approach and in-depth understanding of the Bank's ICS operations, monitoring of customers, individuals, counterparties and their transactions, analysis and processing of reports and alerts, including in the area of sanctions. These documents provide a detailed analysis of various AML/CFTP risks, both of the risk type and the financial sector. Thus, the Bank has taken into account and implemented best practice standards and trends in its algorithms and calculations when updating its overall and customer AML/CFTP sanctions risk profile and its methodology. The Bank continues to focus on a risk-based approach to customer due diligence - the depth and breadth of which depends on the customer's risk level as well as on the Bank's overall exposure to AML/CFTP sanctions risk it considers reasonable to take (risk appetite). The Bank is obliged to justify and document that its customer due diligence activities are appropriate to the risks inherent in dealing with customers.

Within the timeframe set out in the Regulations, the Bank has carried out an analysis of the risk factors referred to in a number of external sources (both in Regulations No 5 and in the EBA Guidelines, etc.), taking into account the specific nature of the Bank's business, target customers and products offered. It has also developed a new customer risk profile model and introduced new risk factors to be applied in risk scoring as well as revised the existing ones. Moreover, the scoring and risk quantification of potential customers have been assessed separately, resulting in a weighting of risk factors applicable to the potential client assessment.

At the end of 2021, goAML, a new international information sharing and exchange application, was introduced for the Bank and the Financial Intelligence Unit to receive, process and analyze submitted reports. In the long term, the use of goAML allows the Bank to efficiently submit suspicious transaction reports and threshold declarations, eliminates the need for parallel reporting to both the Financial Intelligence Unit and the State Revenue Service, and improves the flow of communication with the Financial Intelligence Unit.

During the reporting period, the Bank updated its AML/CFTP risk management strategy, supplementing it with a strategy for managing sanctions risk. There have been no significant changes in the exposure limits compared to the previous period.

The Bank continues ongoing improvement of IT systems ensuring automated AML/CFTP and sanctions risk management processes. It includes processing and managing customer information, determining AML/CFTP and sanctions risk scores, sanctions screening, transaction monitoring, identification of suspicious transactions, automated input of the customer basic data in the Bank's system and their validation, digitization of the customer files and continuous development and supplementation of this system with the documentation supporting the products and transactions offered to the customer so that the information about the customer is concentrated together, etc. During the reporting period, certain sections of the Bank's IT systems for AML/CFTP were upgraded to ensure that they contain up-to-date, detailed, structured and accurate data, thus ensuring that information is fully preserved and automatically available for scoring purposes. In 2022 there are to be completed some IT projects, launched with the aim of digitizing AML/KYC (*Know Your Customer*) data, namely, receiving customer data from different sources and collecting them in the most convenient format possible as well as analyzing and documenting the decisions taken.

The Bank ensures that several independent assessments of the ICS effectiveness in the area of AML/CFTP sanctions compliance are carried out - an independent assessment by an external auditor every 18 months, internal audit reviews at least annually and a regular quality assurance process. The quality control provided by an independent unit of the Bank, performs both regular random checks on customer due diligence carried out by employees to ensure compliance with regulatory requirements and follow-ups on the implementation of new AML/CFTP regulatory requirements. The reviews carried out in 2021 give an assurance that the Bank's customer due diligence and enhanced customer due diligence are conducted in accordance with the AML/CFTP regulatory requirements as well as the procedures and requirements set out in the Bank's internal regulatory documents, i.e., no material weaknesses have been identified during the reviews.

The Bank's ability to assume and manage the risks inherent in the Bank is demonstrated by the above mentioned elements of the Bank's AML/CFTP risk management, the Bank's contribution to the establishment and ongoing improvement of the internal control system by increasing staff competence,

(i) Money laundering and financing of terrorism and proliferation risk *(cont'd)*

regular updating of the AML/CFTP and sanctions risk assessment and appropriate improvement of the systems as well as the implementation of the quality assurance function on a daily basis.

(j) Strategic and business risk

Strategic and business risk is the risk of loss arising from errors in decisions that affect the Group's and Bank's strategic operations and development (strategic, business management), namely:

- failure of taking into account or incomplete identification of potential hazards to the Group's and Bank's business;
- incorrect or insufficiently substantiated identification of prospective areas of activity in which the Group and the Bank may have an advantage over competitors;
- lack of or insufficient resources (financial, material, human) and organizational arrangements (management decisions) necessary to ensure achieving the Group's and the Bank's strategic objectives.

Within the Group and the Bank, strategic and business risk is managed within the framework of the Bank's Development Strategy 2021-2025 and the approved budget. Strategic and business risk is mitigated by continuously monitoring the current performance against the Bank's strategic development plan and budget, and by updating the Bank's strategic development plans. The Finance and Resources Department and the Management Board of the Bank monitor the actual performance against the plan.

One of the key elements of the Bank's Development Strategy 2021-2025 is to increase the volume and share of transactions (dealings) with customers – residents of Latvia by gradually diversifying the Bank's sources of profit and its own resources and reducing the share of transactions (dealings) with non-residential customers . In 2021, the Bank focused on reaching the strategic objective. There has been an increase in the amount of deposits held by LV residents and in the Bank's loan portfolio as well as in the share of income from LV residents – this indicator has doubled from 19% in 2020 to 38% in 2021. As at 31 January 2022, the share of loans issued to Latvian residents in the total Bank's loan portfolio was 47% and had increased by EUR 7.2 million compared to January 2021. Covid-19 related restrictions, particularly strict in Latvia at certain periods in 2021, had an impact on the growth rates of transactions with Latvian residents, i.e. in 2021, some objectives set in the Development Strategy were not met, however, a sound foundation has been laid for a successful transformation process in 2022 and beyond. Because of the transformation, the financial result showed a stable positive momentum from the second half of 2021 onwards.

Based on unaudited information, in January 2022, the Bank's operational performance was in line with the planned budget, confirming the Bank's ability to operate steadily under the chosen Development Strategy and to further develop its priority area - financing of LV business projects and servicing EU/LV residents.

Notes to the financial statements *(cont'd)*

5. Interest income and expense

	2021 Group EUR	2021 Bank EUR	2020 Group EUR	2020 Bank EUR
Interest income at effective interest rate:				
Loans and advances to legal entities	4,540,718	4,640,839	4,605,842	4,772,224
Loans and advances to private individuals	148,215	148,215	286,517	286,517
Balances due from banks	104,803	104,803	286,534	286,534
Other income and similar income:				
Debt securities held for trading	48,740	48,740	339,423	339,423
Debt securities at fair value through other comprehensive income	10,969	10,969	4,832	4,832
Total interest income	**4,853,445**	**4,953,566**	**5,523,148**	**5,689,530**
Interest expense				
Due to private individuals	(130,234)	(130,234)	(169,945)	(169,945)
Due to legal entities	(102,514)	(102,514)	(151,717)	(151,717)
Subordinated loans	(104,031)	(104,031)	(517,153)	(517,153)
Debt securities issued	(351,843)	(351,843)	(790,012)	(790,012)
Other interest and related expense	(662,530)	(662,530)	(679,237)	(673,717)
Interest expense on lease liabilities (see also Note 18)	(292)	(292)	(650)	(650)
Total interest expense	**(1,351,444)**	**(1,351,444)**	**(2,308,714)**	**(2,303,194)**
Net interest income	**3,502,001**	**3,602,122**	**3,214,434**	**3,386,336**

Other interest and related expenses include payments to the deposit guarantee fund of EUR 118,735 (2020: EUR 131,028), which are calculated in accordance with the Deposit Guarantee Law and FCMC regulations 'Regulations for preparing a report of guaranteed deposits and for determining the adjustment ratio to be applied to the payments in the deposit guarantee fund'; as well as financial stability fee of EUR 123,807 (2020: EUR 112,589); negative interest rate applied to correspondent accounts of EUR 392,150 (2020: EUR 328,860) and deposit referral fee of EUR 27,838 (2020: EUR 101,240).

6. Fee and commission income and expense

	2021 Group EUR	2021 Bank EUR	2020 Group EUR	2020 Bank EUR
Fee and commission income:				
Account servicing	978,154	978,154	1,251,897	1,251,897
Commission income on asset management	613,972	613,972	1,042,396	1,042,396
Money transfers	584,340	584,660	614,689	614,953
Commission on transactions with settlement cards	219,622	219,622	149,566	149,566
Commissions on letters of credit	194,836	194,836	189,461	189,461
Interbank commission income	94,150	94,150	84,787	84,787
Commission income on escrow accounts servicing	53,325	53,325	59,114	59,114
Income from general services	38,438	38,438	42,519	42,519
Commission income on transactions with securities	23,211	23,211	60,236	60,236
Fees on registration of changes in loan agreements	21,340	21,340	7,240	7,240
Other commissions (DIGIPAS)	17,388	17,388	13,971	13,971
Other income	4,892	4,892	4,619	4,619
Total fee and commission income	**2,843,668**	**2,843,988**	**3,520,495**	**3,520,759**
Fee and commission expense:				
Money transfers	(195,602)	(195,469)	(304,226)	(304,094)
Other expense	(28,709)	(28,709)	(52,497)	(52,497)
Total fee and commission expense	**(224,311)**	**(224,178)**	**(356,723)**	**(356,591)**
Net fee and commission income	**2,619,357**	**2,619,810**	**3,163,772**	**3,164,168**

7. Administrative expense

	2021 Group EUR	2021 Bank EUR	2020 Group EUR	2020 Bank EUR
Remuneration paid to personnel	(3,409,119)	(3,409,119)	(3,512,558)	(3,512,558)
State statutory social insurance contributions	(986,394)	(983,456)	(1,044,129)	(1,042,886)
Remuneration paid to the Members of the Council and the Board	(825,368)	(812,917)	(874,723)	(869,563)
Communications expense	(388,725)	(388,725)	(442,824)	(442,823)
Set-up and maintenance costs of information systems	(323,077)	(323,077)	(293,339)	(293,339)
Fee paid to the certified auditor*	(194,500)	(194,500)	(184,900)	(184,900)
Consulting and professional fees	(189,087)	(50,704)	(123,113)	(103,278)
Public utilities	(110,818)	(110,818)	(81,690)	(81,690)
Non-deductible VAT	(101,123)	(98,118)	(206,476)	(206,476)
Real estate tax	(82,077)	(77,700)	(122,478)	(122,478)
Business trips	(36,270)	(35,068)	(16,075)	(13,247)
Health insurance	(31,066)	(31,066)	(31,251)	(31,251)
Office and equipment maintenance	(20,559)	(20,559)	(115,235)	(115,235)
Postal charges	(19,419)	(19,419)	(21,479)	(21,479)
Stationary	(10,713)	(10,713)	(10,600)	(10,600)
Advertising and marketing	(10,643)	(10,643)	(5,215)	(5,215)
Transport expense	(6,144)	(6,144)	(4,162)	(4,162)
Security	(1,234)	(1,234)	(1,266)	(1,266)
Other administrative expense	(347,625)	(327,171)	(153,283)	(83,203)
Total administrative expense	**(7,093,961)**	**(6,911,151)**	**(7,244,796)**	**(7,145,649)**

The average number of staff employed by the Group and the Bank in 2021 was 134, including 5 Members of the Board, 5 Members of the Council and 124 other employees (2020: 148, including 5 members of the Board, 5 Members of the Council and 138 other employees). The remuneration paid to the Members of the Council and the Board is disclosed in Note 33.

* The total fee paid to the certified auditor for the types of services provided by the auditor was as follows: statutory annual audit of consolidated and separate financial statements – EUR 176,500 (2020: EUR 163,400), other audit tasks - EUR 18,000 (2020: EUR 6,000); to other specialists – EUR 0,00 (2020: EUR 15,500).

8. Other operating income

	2021 Group EUR	2021 Bank EUR	2020 Group EUR	2020 Bank EUR
Rentals	250,603	247,723	405,302	385,622
Penalties	8,075	8,075	18,611	18,611
Other income	30,519	31,119	19,099	16,393
Total other operating income	**289,197**	**286,917**	**443,012**	**420,626**

9. Other income and expense

	2021 Group EUR	2021 Bank EUR	2020 Group EUR	2020 Bank EUR
Profit from the sale of foreclosed assets *	13,940,818	518,193	441,474	441,474
Profit from loan cession transactions	355,191	355,191	10,000	10,000
Income from recovery of written - off loans	2,735	2,735	1,843	1,843
Total other income	**14,298,744**	**876,119**	**453,317**	**453,317**
Loss on impairment of investment in subsidiary **	-	(3,981,328)	-	-
Impairment of repossessed collateral	(282,184)	(282,184)	(426,327)	(426,327)
Payments to funds and membership fees	(134,030)	(134,030)	(209,387)	(209,387)
Other taxes	(104,075)	-	-	-
Other expense	(14,662)	-	(7,256)	(4,789)
Penalties	(88)	(20)	(474,126)	(474,126)
Total other expense	**(535,039)**	**(4,397,562)**	**(1,117,096)**	**(1,114,629)**

* The increase in the Group's profit from the sale of foreclosed assets is formed in the amount of earned profit of 13.422,625 EUR as the result of sale of the immovable property owned by the subsidiary. For more detailed information, see Note 16.

** Loss on revaluation of investment in subsidiary, as the entire profit was distributed and paid in dividends, because of the profit distribution to recognize an impairment of the investment in the subsidiary of EUR 3,981,328. For more detailed information, see Note 16.

10. Corporate income tax

	2021 Group EUR	2021 Bank EUR	2020 Group EUR	2020 Bank EUR
Corporate income tax for the reporting year *	(2,499,637)	(11,635)	(4,426)	(3,433)
Amount of tax paid abroad**	(122,641)	(122,641)	(135,170)	(135,170)
Total corporate income tax	**(2,622,278)**	**(134,276)**	**(139,596)**	**(138,603)**

* The increase in the Group's corporate income tax for the reporting year has formed as the result of pay-out of SIA Grunewald Residence dividends, calculating the corporate income tax of 2,488,002 EUR . Observing the German laws, SIA Grunewald Residence a relief was applied for the tax paid in Germany in the amount of EUR 1,892,281 EUR. For more detailed information, see Note 16.

** The amount of tax paid abroad consists of withholding tax paid in Ukraine. Corporate income tax from dividends calculated in Latvia can be reduced by the amount of tax paid abroad, if the payment is certified by the documents approved by a foreign tax authority, stating the amount of taxable income and the amount of tax withheld abroad. Tax can be reduced by the amount of tax withheld abroad, however, limited to the amount, which would be payable in Latvia for the amount of revenue generated abroad. Amounts of withholding tax, exceeding the tax calculated in Latvia, cannot be carried forward to the future periods, therefore, are recognized as tax expense in the current period.

11. Cash and balances with the Bank of Latvia

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Cash	961,118	961,118	827,093	827,093
Demand deposits with the Bank of Latvia	81,947,374	81,947,374	66,922,228	66,922,228
ECL allowances	(8,261)	(8,261)	(67)	(67)
Cash and balances with the Bank of Latvia, net	**82,900,231**	**82,900,231**	**67,749,254**	**67,749,254**

Demand deposits with the Bank of Latvia represent the Group's and Bank's correspondent account balance.

All cash balances are allocated in Stage 1. Changes in ECL allowances can be specified as follows:

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Allowances for demand deposits with the Bank of Latvia at the beginning of the year	67	67	11,263	11,263
Increase in the reporting year	22,493	22,493	15,191	15,191
Decrease in the reporting year	(14,298)	(14,298)	(26,387)	(26,387)
Change in methodology	(1)	(1)	-	-
Allowances for demand deposits with the Bank of Latvia at the end of the year	8,261	8,261	67	67

Demand deposits with the Bank of Latvia include reserves, which are held in accordance with the Regulations of the Bank of Latvia. These Regulations prescribe the minimum level of the Bank's average correspondent account balance per month, while at any given day these funds can be freely accessed and used by the Bank.

The minimum level of the Bank's correspondent account for the period from 22 December 2021 to 8 February 2022 was set at EUR 2,051,898 (2020: EUR 1,814,331). The Bank was in compliance with the reserve requirement of the Bank of Latvia in 2021 and 2020.

12. Balances due from banks

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Due from banks registered in OECD countries	30,037,074	30,037,074	19,578,071	19,578,071
Due from banks registered in non-OECD countries	8,357,462	8,357,462	21,283,322	21,283,322
Balances due from banks, gross	**38,394,536**	**38,394,536**	**40,861,393**	**40,861,393**
ECL allowances	(874)	(874)	(1,491)	(1,491)
Balances due from banks, net	**38,393,662**	**38,393,662**	**40,859,902**	**40,859,902**

The table below discloses the balances due from banks by their type:

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
On demand	8,359,033	8,359,033	11,686,986	11,686,986
Balances with maturity of three months or less	30,021,002	30,021,002	29,161,023	29,161,023
Other balances due from banks	14,501	14,501	13,384	13,384
Balances due from banks, gross	**38,394,536**	**38,394,536**	**40,861,393**	**40,861,393**
ECL allowances	(874)	(874)	(1,491)	(1,491)
Balances due from banks, net	**38,393,662**	**38,393,662**	**40,859,902**	**40,859,902**

Notes to the financial statements *(cont'd)*

12. Balances due from banks *(cont'd)*

The table below discloses an analysis of changes in gross carrying amount and corresponding ECL allowance on balances due from credit institutions during the year ended 31 December 2021:

Balances due from banks	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2021	**40,861,393**	-	-	**40,861,393**
New assets originated or purchased	98,739,797	-	-	98,739,797
Assets repaid	(104,212,752)	-	-	(104,212,752)
Interest accrued	1,578	-	-	1,578
Foreign exchange adjustments	3,004,520	-	-	3,004,520
Gross carrying amount as at 31.12.2021	**38,394,536**	-	-	**38,394,536**

Balances due from banks	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2021	**1,491**	-	-	**1,491**
New assets originated or purchased	138,847	-	-	138,847
Assets repaid	(139,482)	-	-	(139,482)
Change in methodology	2	-	-	2
Foreign exchange adjustments	16	-	-	16
ECL allowances as at 31.12.2021	**874**	-	-	**874**

The table below discloses an analysis of changes in gross carrying amount and corresponding ECL allowance on balances due from credit institutions during the year ended 31 December 2020:

Balances due from banks	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2020	**50,991,421**	-	-	**50,991,421**
New assets originated or purchased	104,814,840	-	-	104,814,840
Assets repaid	(112,585,839)	-	-	(112,585,839)
Foreign exchange adjustments	(2,359,029)	-	-	(2,359,029)
Gross carrying amount as at 31.12.2020	**40,861,393**	-	-	**40,861,393**

Balances due from banks	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2020.	**640,999**	-	-	**640,999**
New assets originated or purchased	2,276,651	-	-	2,276,651
Assets repaid	(2,366,457)	-	-	(2,366,457)
Re-measurement	(563,142)	-	-	(563,142)
Foreign exchange adjustments	13,440	-	-	13,440
ECL allowances as at 31.12.2020	**1,491**	-	-	**1,491**

The table below discloses the Group's and Bank's balances due from banks by their ratings:

Ratings	**31.12.2021 Due from banks**		**31.12.2020 Due from banks**	
	EUR	%	EUR	%
A1 to A3	30,038,839	78.24%	20,179,282	49.38%
Baa1 to Baa3	7,173,999	18.68%	6,410,050	15.69%
Ba1 to Ba3	620	0.00%	369	0.00%
B1 to B3	1,166,577	3.04%	13,753,214	33.66%
	38,380,035	**99.96%**	**40,342,915**	**98.73%**
Without rating	14,501	0.04%	518,478	1.27%
ECL allowances	(874)	-	(1,491)	-
Balances due from banks, net	**38,393,662**	**100%**	**40,859,902**	**100%**

13. Loans and advances to customers

Analysis of loans by customer profile and type of loans:

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Loans to legal entities	87,616,675	87,616,675	72,992,631	76,672,449
Loans to private individuals, except for mortgages	1,503,831	1,503,831	2,020,962	2,020,962
Mortgages	126,678	126,678	81,053	81,053
Total loans and advances to customers, gross	**89,247,184**	**89,247,184**	**75,094,646**	**78,774,464**
Allowances for loan impairment	(5,988,091)	(5,988,091)	(10,114,391)	(10,146,308)
Total loans and advances to customers, net	**83,259,093**	**83,259,093**	**64,980,255**	**68,628,156**

The table below discloses an analysis of changes in gross carrying amount and corresponding ECL allowances on balances of the Group's loans and advances to customers during the year ended 31 December 2021.

Loans to legal entities	Stage 1	Stage 2	Stage 3	POCI*	Total
Gross carrying amount as at 01.01.2021	**56,385,366**	**2,501,486**	**14,105,779**	**-**	**72,992,631**
New assets originated or purchased	40,317,081	850,000	-	4,465,845	45,632,926
Assets increase[1]	91,657,469	47,456	1,013,783	238,123	92,956,831
Assets repaid	(112,777,367)	(323,004)	(7,613,808)	(875,824)	(121,590,003)
Assets sold	(1,289,675)	-	(2,523,114)	-	(3,812,789)
Transfers to Stage 1	131,812	(131,812)	-	-	-
Transfers to Stage 3	-	(2,915,613)	2,915,613	-	-
Amounts written off	(86)	-	(1,144,731)	-	(1,144,817)
Accrued interest	42,933	83	-	-	43,016
Foreign exchange adjustments	2,280,748	-	258,132	-	2,538,880
Gross carrying amount as at 31.12.2021	**76,748,281**	**28,596**	**7,011,654**	**3,828,144**	**87,616,675**

Loans to legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2021	**2,296,172**	**258,997**	**6,555,392**	**-**	**9,110,561**
New assets originated or purchased	633,057	309,361	-	-	942,418
Assets increase [1]	2,431,530	19,609	547,881	-	2,999,020
Assets repaid	(3,262,113)	(30,715)	(2,136,829)	-	(5,429,657)
Assets sold	(10,772)	-	(529,887)	-	(540,659)
Transfers to Stage 1	10,540	(10,540)	-	-	-
Transfers to Stage 3	-	(513,797)	513,797	-	-
Impact on ECL of transfers	(5,755)	-	15,982	-	10,227
Change in methodology	(722,568)	(31,630)	-	-	(754,198)
Amounts written off	(86)	-	(1,144,731)	-	(1,144,817)
Foreign exchange adjustments	64,767	-	205,040	-	269,807
ECL allowances as at 31.12.2021	**1,434,772**	**1,285**	**4,026,645**	**-**	**5,462,702**

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2021	**387,327**	**-**	**1,633,635**	**-**	**2,020,962**
New assets originated or purchased	775,055	-	-	-	775,055
Assets increase [1]	463,953	-	104,511	-	568,464
Assets repaid	(892,373)	-	(969,166)	-	(1,861,539)
Amounts written off	(309)	-	-	-	(309)
Accrued interest	551	-	-	-	551
Foreign exchange adjustments	659	-	(13)	-	646
Gross carrying amount as at 31.12.2021	**734,863**	**-**	**768,967**	**-**	**1,503,830**

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

13. Loans and advances to customers *(cont'd)*

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2021	**20,371**	**-**	**981,900**		**1,002,271**
New assets originated or purchased	18,239	-	-	-	18,239
Assets increase[1]	29,354	-	155	-	29,509
Assets repaid	(49,858)	-	(474,014)	-	(523,872)
Change in methodology	(2,040)	-	(153)	-	(2,193)
Amounts written off	(309)	-	-	-	(309)
Foreign exchange adjustments	29	-	1	-	30
ECL allowances as at 31.12.2021	**15,786**	**-**	**507,889**	**-**	**523,675**

Mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2021	**81,053**	**-**	**-**	**-**	**81,053**
Assets increase[1]	108,964	-	-	-	108,964
Assets repaid	(65,643)	-	-	-	(65,643)
Accrued interest	236	-	-	-	236
Foreign exchange adjustments	2,068	-	-	-	2,068
Gross carrying amount as at 31.12.2021	**126,678**	**-**	**-**	**-**	**126,678**

Mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2021	**1,029**	**-**	**-**	**-**	**1,029**
Assets increase[1]	1,510	-	-	-	1,510
Assets repaid	(413)	-	-	-	(413)
Change in methodology	(422)	-	-	-	(422)
Foreign exchange adjustments	10	-	-	-	10
ECL allowances as at 31.12.2021	**1,714**	**-**	**-**	**-**	**1,714**

The table below discloses an analysis of changes in gross carrying amount and corresponding ECL allowances on balances of the Bank's loans and advances to customers during the year ended 31 December 2021:

Loans to legal entities	Stage 1	Stage 2	Stage 3	POCI*	Total
Gross carrying amount as at 01.01.2021	**60,065,184**	**2,501,486**	**14,105,779**	**-**	**76,672,449**
New assets originated or purchased	40,317,081	850,000	-	4,465,845	45,632,926
Assets increase[1]	91,657,469	47,456	1,013,783	238,123	92,956,831
Assets repaid	(116,510,734)	(323,004)	(7,613,808)	(875,824)	(125,323,370)
Assets sold	(1,289,675)	-	(2,523,114)	-	(3,812,789)
Transfers to Stage 1	131,812	(131,812)	-	-	-
Transfers to Stage 3	-	(2,915,613)	2,915,613	-	-
Amounts written off	(86)	-	(1,144,731)	-	(1,144,817)
Accrued interest	96,482	83	-	-	96,565
Foreign exchange adjustments	2,280,748	-	258,132	-	2,538,880
Gross carrying amount as at 31.12.2021	**76,748,281**	**28,596**	**7,011,654**	**3,828,144**	**87,616,675**

* POCI – In November 2021, the Bank together with related to the Bank parties acquired a credit-impaired asset, the Bank's share amounted to 4,465,845 EUR (effective interest rate 6%) or 33.6% of the transaction amount. POCI transactions is fulfilled under a limit which is subject to Ukrainian risk exposure. Acquired POCI is fully secured with real estate.

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

13. Loans and advances to customers *(cont'd)*

Loans to legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2021	**2,328,088**	**258,997**	**6,555,923**	**-**	**9,143,008**
New assets originated or purchased	633,057	309,361	-	-	942,418
Assets increase[1]	2,431,898	19,609	547,881	-	2,999,388
Assets repaid	(3,285,193)	(30,715)	(2,137,360)	-	(5,453,268)
Assets sold	(10,772)	-	(529,887)	-	(540,659)
Transfers to Stage 1	10,540	(10,540)	-	-	-
Transfers to Stage 3	-	(513,797)	513,797	-	-
Impact on ECL of transfers	(5,755)	-	15,982	-	10,227
Change in methodology	(731,775)	(31,630)	-	-	(763,405)
Amounts written off	(86)	-	(1,144,731)	-	(1,144,817)
Foreign exchange adjustments	64,770	-	205,040	-	269,810
ECL allowances as at 31.12.2021	**1,434,772**	**1,285**	**4,026,645**	**-**	**5,462,702**

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2021	**387,327**	**-**	**1,633,635**	**-**	**2,020,962**
New assets originated or purchased	775,055	-	-	-	775,055
Assets increase[1]	463,953	-	104,511	-	568,464
Assets repaid	(892,373)	-	(969,166)	-	(1,861,539)
Amounts written off	(309)	-	-	-	(309)
Accrued interest	551	-	-	-	551
Foreign exchange adjustments	659	-	(13)	-	646
Gross carrying amount as at 31.12.2021	**734,863**	**-**	**768,967**	**-**	**1,503,830**

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2021	**20,371**	**-**	**981,900**	**-**	**1,002,271**
New assets originated or purchased	18,239	-	-	-	18,239
Assets increase[1]	29,354	-	155	-	29,509
Assets repaid	(49,858)	-	(474,014)	-	(523,872)
Change in methodology	(2,040)	-	(153)	-	(2,193)
Amounts written off	(309)	-	-	-	(309)
Foreign exchange adjustments	29	-	1	-	30
ECL allowances as at 31.12.2021	**15,786**	**-**	**507,889**	**-**	**523,675**

Mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2021	**81,053**	**-**	**-**	**-**	**81,053**
Assets increase[1]	108,964	-	-	-	108,964
Assets repaid	(65,643)	-	-	-	(65,643)
Interest accrued	236	-	-	-	236
Foreign exchange adjustments	2,068	-	-	-	2,068
Gross carrying amount as at 31.12.2021	**126,678**	**-**	**-**	**-**	**126,678**

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

13. Loans and advances to customers *(cont'd)*

Mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2021	**1,029**	**-**	**-**	**-**	**1,029**
Assets increase[1]	1,510	-	-	-	1,510
Assets repaid	(413)	-	-	-	(413)
Change in methodology	(422)	-	-	-	(422)
Foreign exchange adjustments	10	-	-	-	10
ECL allowances as at 31.12.2021	**1,714**	**-**	**-**	**-**	**1,714**

The table below discloses an analysis of changes in gross carrying amount and corresponding ECL allowances on balances of the Group's loans and advances to customers during the year ended 31 December 2020:

Loans to legal entities	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2020	**43,472,944**	**6,486,363**	**12,983,742**	**62,943,049**
New assets originated or purchased	25,382,303	-	-	25,382,303
Assets increase[1]	65,700,046	2,500,832	1,712,034	69,912,912
Assets repaid	(69,486,331)	(7,531,071)	(4,589,247)	(81,606,649)
Assets sold	-	-	(8,507)	(8,507)
Transfers to Stage 2	(5,491,196)	5,491,196	-	-
Transfers to Stage 3	(912,202)	(4,506,365)	5,418,567	-
Amounts written off	-	-	(1,022,543)	(1,022,543)
Accrued interest	74,197	12,127	-	86,324
Foreign exchange adjustments	(2,354,395)	48,404	(388,267)	(2,694,258)
Gross carrying amount as at 31.12.2020	**56,385,366**	**2,501,486**	**14,105,779**	**72,992,631**

Loans to legal entities	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2020	**1,210,417**	**604,619**	**7,987,629**	**9,802,665**
New assets originated or purchased	1,083,768	-	-	1,083,768
Assets increase[1]	3,103,983	659,532	274,932	4,038,447
Assets repaid	(2,507,186)	(1,391,813)	(1,321,967)	(5,220,966)
Assets sold	-	-	(8,507)	(8,507)
Transfers to Stage 2	(476,166)	476,166	-	-
Transfers to Stage 3	(24,017)	(516,785)	540,802	-
Impact on ECL of transfers	-	424,546	365,643	790,189
Amounts written off	-	-	(1,022,543)	(1,022,543)
Foreign exchange adjustments	(94,627)	2,732	(260,067)	(351,962)
ECL allowances as at 31.12.2020	**2,296,172**	**258,997**	**6,555,922**	**9,111,091**

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2020	**13,595**	**3,330,458**	**193,097**	**3,537,150**
New assets originated or purchased	370,517	-	-	370,517
Assets increase[1]	465,951	54,772	217,633	738,356
Assets repaid	(462,198)	(447,153)	(1,715,340)	(2,624,691)
Transfers to Stage 3	(275)	(2,938,077)	2,938,352	-
Amounts written off	(97)	-	(146)	(243)
Accrued interest	(267)	-	39	(228)
Foreign exchange adjustments	101	-	-	101
Gross carrying amount as at 31.12.2020	**387,327**	**-**	**1,633,635**	**2,020,962**

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

13. Loans and advances to customers *(cont'd)*

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2020	**468**	**1,823,559**	**193,096**	**2,017,123**
New assets originated or purchased	9,000	-	-	9,000
Assets increase[1]	25,033	28,905	1,020	54,958
Assets repaid	(14,101)	(243,670)	(807,310)	(1,065,081)
Transfers to Stage 3	(3)	(1,608,794)	1,608,797	-
Impact on ECL of transfers	-	-	(13,557)	(13,557)
Amounts written off	(26)	-	(146)	(172)
Foreign exchange adjustments	-	-	-	-
ECL allowances as at 31.12.2020	**20,371**	**-**	**981,900**	**1,002,271**

Mortgages	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2020	**94,954**	**-**	**13,809**	**108,763**
New assets originated or purchased	8,200	-	-	8,200
Assets increase[1]	46,938	-	-	46,938
Assets repaid	(67,570)	-	(778)	(68,348)
Amounts written off	-	-	(13,031)	(13,031)
Accrued interest	156	-	-	156
Foreign exchange adjustments	(1,625)	-	-	(1,625)
Gross carrying amount as at 31.12.2020	**81,053**	**-**	**-**	**81,053**

Mortgages	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2020	**648**	**-**	**13,809**	**14,457**
New assets originated or purchased	122	-	-	122
Assets increase[1]	1,232	-	-	1,232
Assets repaid	(936)	-	-	(936)
Amounts written off	-	-	(13,809)	(13,809)
Foreign exchange adjustments	(37)	-	-	(37)
ECL allowances as at 31.12.2020	**1,029**	**-**	**-**	**1,029**

The table below discloses an analysis of changes in gross carrying amount and corresponding ECL allowances on balances of the Bank's loans and advances to customers during the year ended 31 December 2020:

Loans to legal entities	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2020	**48,043,756**	**6,486,363**	**12,983,742**	**67,513,861**
New assets originated or purchased	25,382,303	-	-	25,382,303
Assets increase[1]	65,865,610	2,500,832	1,712,034	70,078,476
Assets repaid	(70,543,705)	(7,531,071)	(4,589,247)	(82,664,023)
Assets sold	-	-	(8,507)	(8,507)
Transfers to Stage 2	(5,491,196)	5,491,196	-	-
Transfers to Stage 3	(912,202)	(4,506,365)	5,418,567	-
Amounts written off	-	-	(1,022,543)	(1,022,543)
Accrued interest	75,015	12,127	-	87,142
Foreign exchange adjustments	(2,354,397)	48,404	(388,267)	(2,694,260)
Gross carrying amount as at 31.12.2020	**60,065,184**	**2,501,486**	**14,105,779**	**76,672,449**

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

13. Loans and advances to customers *(cont'd)*

Loans to legal entities	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2020	**1,238,144**	**604,619**	**7,987,629**	**9,830,392**
New assets originated or purchased	1,083,768	-	-	1,083,768
Assets increase[1]	3,121,924	659,532	274,932	4,056,388
Assets repaid	(2,520,936)	(1,391,813)	(1,321,967)	(5,234,716)
Assets sold	-	-	(8,507)	(8,507)
Transfers to Stage 2	(476,166)	476,166	-	-
Transfers to Stage 3	(24,017)	(516,785)	540,802	-
Impact on ECL of transfers	-	424,546	365,643	790,189
Amounts written off	-	-	(1,022,543)	(1,022,543)
Foreign exchange adjustments	(94,629)	2,732	(260,066)	(351,963)
ECL allowances as at 31.12.2020	**2,328,088**	**258,997**	**6,555,923**	**9,143,008**

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2020	**13,595**	**3,330,458**	**193,097**	**3,537,150**
New assets originated or purchased	370,517	-	-	370,517
Assets increase[1]	465,951	54,772	217,633	738,356
Assets repaid	(462,198)	(447,153)	(1,715,340)	(2,624,691)
Transfers to Stage 3	(275)	(2,938,077)	2,938,352	-
Amounts written off	(97)	-	(146)	(243)
Accrued interest	101	-	-	101
Foreign exchange adjustments	(267)	-	39	(228)
Gross carrying amount as at 31.12.2020	**387,327**	**-**	**1,633,635**	**2,020,962**

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2020	**468**	**1,823,559**	**193,096**	**2,017,123**
New assets originated or purchased	9,000	-	-	9,000
Assets increase[1]	25,033	28,905	1,020	54,958
Assets repaid	(14,101)	(243,670)	(807,310)	(1,065,081)
Transfers to Stage 3	(3)	(1,608,794)	1,608,797	-
Impact on ECL of transfers	-	-	(13,557)	(13,557)
Amounts written off	(26)	-	(146)	(172)
Foreign exchange adjustments	-	-	-	-
ECL allowances as at 31.12.2020	**20,371**	**-**	**981,900**	**1,002,271**

Mortgages	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2020	**94,954**	**-**	**13,809**	**108,763**
New assets originated or purchased	8,200	-	-	8,200
Assets increase[1]	46,938	-	-	46,938
Assets repaid	(67,570)	-	(778)	(68,348)
Amounts written off	-	-	(13,031)	(13,031)
Accrued interest	156	-	-	156
Foreign exchange adjustments	(1,625)	-	-	(1,625)
Gross carrying amount as at 31.12.2020	**81,053**	**-**	**-**	**81,053**

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

Notes to the financial statements *(cont'd)*

13. Loans and advances to customers *(cont'd)*

Mortgages	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2020	**648**	**-**	**13,809**	**14,457**
New assets originated or purchased	122	-	-	122
Assets increase[1]	1,232	-	-	1,232
Assets repaid	(936)	-	-	(936)
Amounts written off	-	-	(13,809)	(13,809)
Foreign exchange adjustments	(37)	-	-	(37)
ECL allowances as at 31.12.2020	**1,029**	**-**	**-**	**1,029**

Risk concentration in the loan portfolio by industry profile:

	31.12.2021 Group EUR	%	31.12.2021 Bank EUR	%	31.12.2020 Group EUR	%	31.12.2020 Bank EUR	%
Construction and operations with real estate	27,665,247	31.00	27,665,247	31.00	26,921,847	35.85	30,601,665	38.85
Trade and commercial activities	25,965,698	29.09	25,965,698	29.09	22,788,230	30.35	22,788,230	28.93
Transport and communications	14,328,439	16.05	14,328,439	16.05	15,863,875	21.13	15,863,875	20.14
Other	9,353,581	10.48	9,353,581	10.48	379,343	0.51	379,343	0.47
Financial services	6,953,492	7.79	6,953,492	7.79	665,953	0.89	665,953	0.85
Tourism and hotel services, restaurant business	2,640,415	2.96	2,640,415	2.96	321,710	0.43	321,710	0.41
Agriculture and food industry	1,073,730	1.20	1,073,730	1.20	1,481,318	1.96	1,481,318	1.88
Private individuals	420,241	0.47	420,241	0.47	2,102,015	2.80	2,102,015	2.67
Forestry and logging	224,775	0.25	224,775	0.25	440,364	0.58	440,364	0.56
Information and communications services	14,104	0.03	14,104	0.03	-	-	-	-
Total loans and advances to customers (gross)	**89,247,184**	**100.00**	**89,247,184**	**100.00**	**75,094,646**	**100.00**	**78,774,464**	**100.00**
Allowances for loan impairment	(5,988,091)	-	(5,988,091)	-	(10,114,391)	-	(10,146,308)	-
Total loans and advances to customers, net	**83,259,093**	-	**83,259,093**	-	**64,980,255**	-	**68,628,156**	-

As at 31 December 2021, the total amount of loans issued to the 10 largest Group's and Bank's customers was EUR 46,895,769 (2019: EUR 45,593,790), which comprised 52.55% of the total credit portfolio (2020: 57.88%).

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

13. Loans and advances to customers *(cont'd)*

The analysis of the Group's and Bank's collateral as at 31 December 2021:

	Assets with collateral value exceeding the loan balance		Assets with insufficient collateral	
	Carrying amount (gross)	Recoverable amount of collateral	Carrying amount (gross)	Recoverable amount of collateral
	EUR	EUR	EUR	EUR
Loans to legal entities	84,162,461	163,561,649	3,454,213	3,275,759
Loans to individuals – consumer loans	1,275,503	10,857,101	81,254	-
Mortgages	126,678	234,481	147,074	-
Total	**85,564,642**	**174,653,231**	**3,682,541**	**3,275,759**

The analysis of the Group's collateral as at 31 December 2020:

	Assets with collateral value exceeding the loan balance		Assets with insufficient collateral	
	Carrying amount (gross)	Recoverable amount of collateral	Carrying amount (gross)	Recoverable amount of collateral
	EUR	EUR	EUR	EUR
Loans to legal entities	52,353,261	115,486,249	20,401,413	4,610,610
Loans to individuals – consumer loans	1,799,005	10,687,902	221,958	-
Mortgages	81,053	409,620	-	-
Total	**54,233,319**	**126,583,771**	**20,623,371**	**4,610,610**

The analysis of the Bank's collateral as at 31 December 2020:

	Assets with collateral value exceeding the loan balance		Assets with insufficient collateral	
	Carrying amount (gross)	Recoverable amount of collateral	Carrying amount (gross)	Recoverable amount of collateral
	EUR	EUR	EUR	EUR
Loans to legal entities	56,033,080	140,086,249	20,401,413	4,610,610
Loans to individuals – consumer loans	1,799,005	10,687,902	221,958	-
Mortgages	81,053	409,620	-	-
Total	**57,913,138**	**151,183,771**	**20,623,371**	**4,610,610**

14. Financial assets at fair value through profit or loss

	31.12.2021 Group	31.12.2021 Bank	31.12.2020 Group	31.12.2020 Bank
	EUR	EUR	EUR	EUR
Latvian government bonds	375,058	375,058	1,151,919	1,151,919
OECD government bonds	-	-	8,148,178	8,148,178
OECD corporate bonds	1,224,358	1,224,358	4,087,530	4,087,530
Unquoted shares	7,894	7,894	7,286	7,286
	1,607,310	**1,607,310**	**13,394,913**	**13,394,913**

14. Financial assets at fair value through profit or loss (cont'd)

The analysis of the Group's and Bank's securities by issuers' ratings:

Ratings	31.12.2021 Securities EUR	%	31.12.2020 Securities EUR	%
Aaa to Aa3	309,545	19.26%	8,435,230	62.97%
A1 to A3	1,289,871	80.25%	4,952,397	36.97%
B1 to B3	7,894	0.49%	7,286	0.06%
	1,607,310	**100%**	**13,394,913**	**100%**

15. Debt instruments at fair value through other comprehensive income

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
OECD government bonds	30,902,143	30,902,143	46,448,754	46,448,754
	30,902,143	**30,902,143**	**46,448,754**	**46,448,754**

The analysis of the Group's and Bank's securities by issuers' ratings:

Ratings	31.12.2021 Securities EUR	%	31.12.2020 Securities EUR	%
Aaa to Aa3	30,902,143	100%	46,448,754	100%
	30,902,143	**100%**	**46,448,754**	**100%**

The table below shows the changes in the carrying amounts of the Group's and Bank's debt instruments designated at fair value through other comprehensive income in the year ended 31 December 2021:

	Stage 1	Stage 2	Stage 3	Total
Fair value at 1 January 2021	**46,448,754**	-	-	**46,448,754**
New assets originated or purchased	120,078,897	-	-	120,078,897
Assets repaid	(137,218,273)	-	-	(137,218,273)
Changes in fair value	(391)	-	-	(391)
Foreign exchange adjustments	1,593,156	-	-	1,593,156
Fair value at 31 December 2021	**30,902,143**	-	-	**30,902,143**

The table below shows the changes in the ECL allowances for the Group's and Bank's debt instruments designated at fair value through other comprehensive income in the year ended 31 December 2021:

	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 1 January 2021	**4,644**	-	-	**4,644**
New assets originated or purchased	12,006	-	-	12,006
Assets repaid	(13,732)	-	-	(13,732)
Foreign exchange adjustments	172	-	-	172
ECL allowances as at 31 December 2021	**3,090**	-	-	**3,090**

The table below shows the changes in the carrying amounts of the Group's and Bank's debt instruments designated at fair value through other comprehensive income in the year ended 31 December 2020:

	Stage 1	Stage 2	Stage 3	Total
Fair value at 1 January 2020	-	-	-	-
New assets originated or purchased	57,090,290	-	-	57,090,290
Assets repaid	(9,379,338)	-	-	(9,379,338)
Changes in fair value	973	-	-	973
Foreign exchange adjustments	(1,263,171)	-	-	(1,263,171)
Fair value at 31 December 2020	**46,448,754**	-	-	**46,448,754**

15. Debt instruments at fair value through other comprehensive income *(cont'd)*

The table below shows the changes in the ECL allowances for the Group's and Bank's debt instruments designated at fair value through other comprehensive income in the year ended 31 December 2020:

	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 1 January 2020	-	-	-	-
New assets originated or purchased	5,709	-	-	5,709
Assets repaid	(921)	-	-	(921)
Foreign exchange adjustments	(144)	-	-	(144)
ECL allowances as at 31 December 2020	**4,644**	-	-	**4,644**

16. Investment in subsidiary

Atlas Invest Bud

On 9 September 2021, the Bank's wholly-owned subsidiary Atlas Invest Bud was registered with the Unified State Register of Enterprises and Organizations of Ukraine. Its share capital of UAH 2,500,000 was paid up with a contribution in kind, i.e., real estate acquired by the Bank as part of debt recovery proceedings. The subsidiary was established for the purpose of selling its shares after making the contribution in kind. The transaction was completed on 30 September 2021.

SIA Grunewald Residence

At the end of 2017, within the framework of the debt recovery procedure against a Bank's borrower, the subsidiary SIA Grunewald Residence acquired a real estate – a land plot with buildings in an exclusive district of Berlin, Germany. The acquisition was carried out with a view to developing and selling the property. The property was encumbered with lease agreements; moreover, individual lessees had entered into sub-lease agreements. All litigations ended in favour of the subsidiary and the property overtaking process was completed by April 2021.. On 6 April 2021, the said property was sold for 26,500,000 EUR, thus leaving an impact on Groups cash flows from other operating income (also see Consolidated Statement of Cash Flows). As a result SIA Grunewald Residence gained profit of 13,422,625 EUR, thus leaving an impact on Group's profit from the sale of foreclosed assets (also see note 9). Observing the German laws, in December 2021, SIA Grunewald Residence paid taxes of 1,892,281 EUR for the said transaction in Germany (also see note 10).

On 9 June 2021, the shareholders of the Bank's subsidiary resolved to reduce the share capital of SIA Grunewald Residence from 9,190,000 EUR to 9,190 EUR . On 12 August 2021, the said reduction was registered with the Enterprises Register of the Republic of Latvia. On the basis of this decision, SIA Grunewald Residence repaid the shareholders' contribution of EUR 9,180,810, and depending on the amount of owned shares, EUR 6,093,900 was paid to the Bank and EUR 3,086,910 was paid to non-controlling interest shareholders, thus leaving an impact on Group's and Bank's cash flows from cash flows from financing activities (also see Consolidated and Bank's Statement of Cash Flows).

In September 2021, the non-controlling interest shareholders of SIA Grunewald Residence expressed their wish to receive the proceedings from the sale of the real estate as soon as possible. Consequently, an agreement was reached and the Bank acquired the shares from both companies at 4,559,200 EUR acquiring 100% equity interest in SIA Grunewald Residence and, accordingly, the full right to the distributable profits of the company thus leaving an impact on Group's and Bank's cash flows from cash flows from investing activities (also see Consolidated and Bank's Statement of Cash Flows).

On 22 December 2021, the Bank, as the sole shareholder of the subsidiary, resolved to pay an extraordinary dividend of 10,000,000 EUR from the profit of SIA Grunewald Residence thus leaving an impact on Bank's cash flows from cash flows from investing activities (also see Bank's Statement of Cash Flows). The profit distribution to recognize an impairment of the investment in the subsidiary of 3,981,328 EUR, thus leaving an impact on Group's and Bank's other expense (also see note Nr.9).

16. Investment in subsidiary *(cont'd)*

By the end of the year, SIA Grunewald Residence has paid out the entire retained profit of the previous years and extraordinary dividends to the Bank as the sole shareholder. As a result of pay-out of dividends, SIA Grunewald Residence calculated the corporate income tax of 2,488,002 EUR, whereto a relief was applied for the tax paid in Germany in the amount of 1,892,281 EUR, recognising the corporate income tax obligations of 595,721 EUR at the end of the year. This leaving an impact on Group's corporate income tax (also see note 10).

The table below discloses the Bank's investment in its subsidiary as at 31 December 2021.

Company	Address	Share capital	Bank's interest	Equity	Assets as at 31.12.2021	Profit for the reporting year
Grunewald Residence SIA	Jura Alunāna iela 2, Riga, LV-1010	9,190	100,00%	710,290	1,413,089	701,100

The table below discloses the Bank's investment in its subsidiary as at 31 December 2020.

Company	Address	Share capital	Bank's interest	Equity	Assets as at 31.12.2020	(Loss) for the reporting year
Grunewald Residence SIA	Jura Alunāna iela 2, Riga, LV-1010	9,190,000	66,38%	9,356,386	13,038,493	(252,519)

17. Intangible assets

Changes in the Group's and Bank's intangible assets in 2021 and 2020 can be specified as follows:

	Software 2021 EUR	Pre-payments 2021 EUR	Total software 2021 EUR	Software 2020 EUR	Pre-payments 2020 EUR	Total software 2020 EUR
Cost						
At the beginning of the year	2,328,633	109,619	2,438,252	2,189,319	129,493	2,318,812
Additions	186,104	13,055	199,159	140,337	-	140,337
Reclassified	-	-	-	-	(19,874)	(19,874)
Disposals	-	-	-	(1,023)	-	(1,023)
At the end of the year	**2,514,737**	**122,674**	**2,637,411**	**2,328,633**	**109,619**	**2,438,252**
Amortization						
Accumulated amortization at the beginning of the year	2,001,164	-	2,001,164	1,868,267	-	1,868,267
Charge for the year	160,821	-	160,821	133,920	-	133,920
On disposals	-	-	-	(1,023)	-	(1,023)
Accumulated amortization at the end of the year	**2,161,985**	**-**	**2,161,985**	**2,001,164**	**-**	**2,001,164**
Net carrying amount at the beginning of the year	**327,469**	**109,619**	**437,088**	**321,052**	**129,493**	**450,545**
Net carrying amount at the end of the year	**352,752**	**122,674**	**475,426**	**327,469**	**109,619**	**437,088**

17. Intangible assets *(cont'd)*

As at 31 December 2021, a number of assets that have been fully amortized were still in active use. The total original cost value of these assets as at the end of the year was EUR 1,699,979 (31 December 2021: EUR 1,574,308).

Intangible assets are amortized over their estimated useful lives, not exceeding 5 years, on a straight-line basis and disclosed under the amortization and depreciation caption of the statement of comprehensive income.

18. Property and equipment, and right-of-use assets

Changes in the Group's and Bank's property and equipment in 2021 can be specified as follows:

	Land and building EUR	Transport vehicles EUR	Computers EUR	Office equipment EUR	Other assets EUR	Pre-payment EUR	Total EUR
Cost							
As at 31.12.2020	**13,335,000**	**65,179**	**1,059,562**	**658,499**	**100,927**	**23,900**	**15,243,067**
Additions	-	-	24,875	156	-	-	25,031
Disposals	-	-	(2,242)	(8,530)	-	-	(10,772)
Reclassified	-	-	-	-	-	(23,900)	(23,900)
As at 31.12.2021	**13,335,000**	**65,179**	**1,082,195**	**650,125**	**100,927**	**-**	**15,233,426**
Depreciation as at 31.12.2020	**452,697**	**65,179**	**1,050,504**	**594,252**	**73,396**	**-**	**2,236,028**
On disposals	-	-	(1,821)	(8,530)	-	-	(10,351)
Charge for 2021	150,899	-	12,456	15,519	6,116	-	184,990
As at 31.12.2021	**603,596**	**65,179**	**1,061,139**	**601,241**	**79,512**	**-**	**2,410,667**
Net carrying amount as at 31.12.2020	**12,882,303**	**-**	**9,058**	**64,247**	**27,531**	**23,900**	**13,007,039**
Net carrying amount as at 31.12.2021	**12,731,404**	**-**	**21,056**	**48,884**	**21,415**	**-**	**12,822,759**

As at 31 December 2021, a number of assets that have been fully depreciated were still in active use. The total original cost value of these assets as at the end of the year was EUR 1,670,844 (31 December 2020: EUR 1,709,491).

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset applying the depreciation rates established by the management and disclosed under the amortization and depreciation caption of the statement of comprehensive income.

At the end of the year 2021, the Bank revaluated the building on the basis of a valuation carried out by an independent certified valuator in accordance with international standards. The fair value of the building was determined using the comparable sales approach and income approach. Under the income approach, direct capitalization rate of 5.7% was used. The forecasts were based on the rental income. As a result of the revaluation, the Bank's building value was set at EUR 12.848 million. Given that the difference between the carrying amount and the determined market value is insignificant, the Bank's management decided not to revalue.

The Group and the Bank have entered into lease agreements on premises that are used in their business activities. The leases term is 3 to 5 years. The Group's and the Bank's lease liabilities are secured with the leased assets (see also Note 24). The Group has also several car lease agreements for 12 months or less and low value office equipment lease agreements. The Group applies the short-term lease and low-value asset lease exemption to the said lease agreements.

18. Property and equipment, and right-of-use assets *(cont'd)*

Carrying amounts of recognized right-of-use assets and changes therein:

	Premises EUR	Total EUR
Right-of-use assets as at 31 December 2020	**85,714**	**85,714**
Additions	-	-
Decrease	(3,607)	(3,607)
Depreciation	(32,422)	(32,422)
Foreign exchange adjustments	487	487
Right-of-use assets as at 31 December 2021	**50,172**	**50,172**

Changes in the Group's and Bank's property and equipment in 2020 can be specified as follows:

	Land and building EUR	Transport vehicles EUR	Computers EUR	Office equipment EUR	Other assets EUR	Pre-payment EUR	Total EUR
Cost as at 31.12.2019	**13,335,000**	**65,179**	**1,090,573**	**610,349**	**100,927**	**30,931**	**15,232,959**
Additions	-	-	6,980	48,446	-	-	55,426
Disposals	-	-	(37,991)	(296)	-	-	(38,287)
Reclassified	-	-	-	-	-	(7,031)	(7,031)
As at 31.12.2020	**13,335,000**	**65,179**	**1,059,562**	**658,499**	**100,927**	**23,900**	**15,243,067**
Depreciation as at 31.12.2019	**301,798**	**65,179**	**1,059,553**	**580,490**	**67,280**	**-**	**2,074,300**
On disposals	-	-	(37,991)	(296)	-	-	(38,287)
Charge for 2020	150,899	-	28,942	14,058	6,116	-	200,015
As at 31.12.2020	**452,697**	**65,179**	**1,050,504**	**594,252**	**73,396**	**-**	**2,236,028**
Net carrying amount as at 31.12.2019	**13,033,202**	**-**	**31,020**	**29,859**	**33,647**	**30,931**	**13,158,659**
Net carrying amount as at 31.12.2020	**12,882,303**	**-**	**9,058**	**64,247**	**27,531**	**23,900**	**13,007,039**

As at 31 December 2020, a number of assets that have been fully depreciated were still in active use. The total original cost value of these assets as at the end of the year was EUR 1,709,491(31 December 2020: EUR 1,293,734).

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset applying the depreciation rates established by the management and disclosed under the amortization and depreciation caption of the statement of comprehensive income.

At the end of the year 2020, the Bank revaluated the building on the basis of a valuation carried out by an independent certified valuator in accordance with international standards. The fair value of the building was determined using the comparable sales approach and income approach. Under the income approach, direct capitalization rate of 6% was used. The forecasts were based on the rental income. As a result of the revaluation, the Bank's building value was set at EUR 12,9 million. Given that the difference between the carrying amount and the determined market value is insignificant, the Bank's management decided not to revalue.

The Group and the Bank have entered into lease agreements on premises that are used in their business activities. The leases term is 3 to 5 years. The Group's and the Bank's lease liabilities are secured with the leased assets (see also Note 24). The Group has also several car lease agreements for 12 months or less and low value office equipment lease agreements. The Group applies the short-term lease and low-value asset lease exemption to the said lease agreements.

18. Property and equipment, and right-of-use assets *(cont'd)*

Carrying amounts of recognized right-of-use assets and changes therein:

	Premises EUR	Total EUR
Right-of-use assets as at 31 December 2019	**91,880**	**91,880**
Additions	39,987	39,987
Decrease	(9,183)	(9,183)
Depreciation	(33,755)	(33,755)
Foreign exchange adjustments	(3,215)	(3,215)
Right-of-use assets as at 31 December 2020	**85,714**	**85,714**

Amounts recognized in the statement of comprehensive income in 2021 and 2020:

	2021 EUR	**2020** EUR
Depreciation of right-of-use assets	(32,422)	(33,755)
Lease interest expense	(292)	(651)
Total amount recognized in the statement of comprehensive income	**(32,714)**	**(34,406)**

In 2021, the Group's and Bank's total lease payments amounted to EUR 36,661 (2020: EUR 43,728).

19. Equity instruments at fair value through other comprehensive income

Equity instruments at fair value through other comprehensive income represent the VISA Inc preference shares obtained by the Bank in the context of the sale of shares of VISA Europe Limited to VISA Inc. In 2021, the Bank received dividend income of EUR 8,043 for VISA shares (EUR 10,854 in 2020).

20. Other assets

Other assets in breakdown between financial assets and non-financial assets can be specified as follows:

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Financial assets, incl.:	2,383,901	2,367,975	2,143,348	1,791,713
- security deposits	1,191,610	1,191,610	1,384,462	1,095,462
- accounts receivable	700,710	700,710	79,056	52,176
- interbank settlements in progress	440,960	440,960	498,189	498,189
- other financial assets	50,621	34,695	181,641	145,886
Non-financial assets	2,449,979	2,449,979	15,119,287	3,251,053
- repossessed collaterals	686,526	686,526	13,440,566	1,572,332
- investment gold	1,763,453	1,763,453	1,678,721	1,678,721
Total other assets, gross	**4,833,880**	**4,817,954**	**17,262,635**	**5,042,766**
Impairment allowances for financial assets	(41,323)	(41,323)	(51,684)	(51,684)
Total other assets, net:	**4,792,557**	**4,776,631**	**17,210,951**	**4,991,082**

The analysis of the changes in ECL allowances for other financial assets in the year ended 31 December 2021:

	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 1 January 2021	**22,327**	**-**	**29,357**	**51,684**
New assets originated or purchased	313,425	-	-	313,425
Assets repaid	(313,791)	-	(322)	(314,113)
Transfers to Stage 3	(16,464)	-	16,464	-
Amounts written off	-	-	(10,941)	(10,941)
Foreign exchange adjustments	116	-	1,152	1,268
ECL allowances as at 31 December 2021	**5,613**	**-**	**35,710**	**41,323**

20. Other assets *(cont'd)*

The analysis of the changes in ECL allowances for other financial assets in the year ended 31 December 2020:

	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 1 January 2020	**1,729**	**625**	**16,628**	**18,982**
New assets originated or purchased	347,056	-	13,080	360,136
Assets repaid	(326,431)	(625)	-	(327,056)
Foreign exchange adjustments	(27)	-	(351)	(378)
ECL allowances as at 31 December 2020	**22,327**	**-**	**29,357**	**51,684**

In non-financial assets the Group and Bank include assets obtained through repossessing collaterals which had served as security for loans and are intended for sale. The repossessed assets include private property and land plots in Latvia and Ukraine and for the Group – also in Germany in 2020 (see Note 16). Non-financial assets are is stated in inventories at lower of cost and net realizable value determined according to the valuation carried out by an independent certified valuer in accordance with international standards. According to independent certified valuer repossessing collaterals net realizable value exceed carrying amount.

The table below summarizes the methods used by the Group and Bank in determining net realizable value of non-financial assets in 2021.

No	Property	Municipality	City	Carrying amount, EUR	Methods used in net realizable value measurement
1	Apartment	Riga	Riga	174,300	Market (comparables) approach
2	Office premises	Odessa	Odessa	512,226	Market (comparables) approach
Total assets repossessed by the Bank and the Group				686,526	

The table below summarizes the methods used by the Group and Bank in determining the net realizable value of non-financial assets in 2020.

No	Property	Municipality	City	Carrying amount EUR	Methods used in net realizable value measurement
1	Land	Riga	Riga	18,830	Market (comparables) approach
2	Apartment	Riga	Riga	174,300	Market (comparables) approach
3	Warehouse and production premises	Kiev	Fastov	289,787	Market (comparables) approach
4	Multi-apartment building	Riga	Riga	507,094	Income approach
5	Office premises	Odessa	Odessa	582,321	Market (comparables) approach
Total assets repossessed by the Bank				1,572,332	
6	Land	Berlin	Berlin	11,868,234	Income approach
Total assets repossessed by the Group				13,440,566	

21. Cash and cash equivalents

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Cash and balances with the Bank of Latvia (Note 11)	82,908,492	82,908,492	67,749,321	67,749,321
Balances due form other banks with original maturity of 3 months or less	8,359,033	8,359,033	11,675,481	11,675,481
Total	**91,267,525**	**91,267,525**	**79,424,802**	**79,424,802**

22. Deposits from customers

(a) Analysis of deposits by customer profile

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Legal entities				
– - current/ settlement accounts	133,383,379	134,780,542	103,946,822	104,765,444
– - term deposits	10,025,208	10,025,208	7,215,084	7,215,084
Private individuals				
– - current/ settlement accounts	54,425,974	54,425,974	70,550,980	70,550,980
– - term deposits	10,498,599	10,498,599	22,899,443	22,899,443
Total deposits from customers:	**208,333,160**	**209,730,323**	**204,612,329**	**205,430,951**
Sector:				
Private companies	110,081,620	111,478,783	77,496,794	78,315,416
Private individuals	64,924,573	64,924,573	93,450,423	93,450,423
Financial institutions	32,925,913	32,925,913	32,900,589	32,900,589
Non-profit institutions	306,590	306,590	208,911	208,911
Institutions of financial institutions and money lenders	94,464	94,464	555,612	555,612
Total deposits from customers:	**208,333,160**	**209,730,323**	**204,612,329**	**205,430,951**

(b) Analysis of deposits by place of residence

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Residents	60,718,350	62,115,513	58,853,245	59,671,867
Non-residents	147,614,810	147,614,810	145,759,084	145,759,084
Total deposits from customers:	**208,333,160**	**209,730,323**	**204,612,329**	**205,430,951**

In 2021, the average interest rate on term deposits was 1.22% (2020: 2.40%) and the average interest rate on demand deposits was -0.08% (2020: -0.06%). All deposits bear a fixed interest rate.

Deposits from customers by industry can be specified as follows:

	31.12.2021 Group EUR	%	31.12.2021 Bank EUR	%	31.12.2020 Group EUR	%	31.12.2020 Bank EUR	%
Financial and insurance services	77,325,367	37.12	77,325,367	36.87	58,522,404	28.60	58,522,404	28.49
Private individuals	64,924,573	31.16	64,924,573	30.96	93,450,423	45.67	93,450,423	45.49
Trade and commercial activities	44,905,992	21.55	44,905,992	21.41	27,377,106	13.38	27,377,106	13.33
Construction and real estate	14,611,309	7.02	16,008,472	7.63	16,046,935	7.84	16,865,557	8.21
Transport and communications	4,108,245	1.97	4,108,245	1.96	7,254,125	3.55	7,254,125	3.53
Other	1,665,458	0.80	1,665,458	0.79	1,539,231	0.75	1,539,231	0.74
Manufacturing	479,737	0.23	479,737	0.23	318,519	0.16	318,519	0.16
Agriculture and food industries	312,479	0.15	312,479	0.15	103,586	0.05	103,586	0.05
Total deposits from customers	**208,333,160**	**100**	**209,730,323**	**100**	**204,612,329**	**100**	**205,430,951**	**100**

22. Deposits from customers *(cont'd)*

As at 31 December 2021, the total amount of deposits attributable to 20 largest depositors was EUR 145,334,195 (31 December 2020: EUR 138,483,502), constituting 69.30% of the Bank's portfolio (31 December 2020: 67,41%).

23. Debt securities

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Debt securities issued	-	-	16,384,025	16,384,025
	-	**-**	**16,384,025**	**16,384,025**

In 2016, the Bank issued debt securities in several tranches. The debt securities are offered through over-the-counter (OTC) trading and are not quoted on an open market. In 2021, all the issued securities were redeemed.

The debt securities issued represented the following issues:

Subordinated bond series RIB SUBUSD-01/2016 issue totaling USD 2,200,000. The redemption date - 26 April 2021, the coupon rate - 4.50%, a coupon payment twice a year on 26 October and 26 April. Balance at 31 December 2021 amounted to EUR 0.00 (31 December 2020: EUR 1,807,412);

Subordinated bond series RIB SUBUSD-03/2016 issue totaling USD 14,300,000. The redemption date – 22 June 2021, the coupon rate – 4.50%, a coupon payment twice a year on 22 December and 22 June. Balance at 31 December 2021 amounted to EUR 0.00 (31 December 2020: EUR 11,666,602)

Subordinated bond series RIB SUBUSD-04/2016 issue totaling USD 3,500,000. The redemption date – 19 July 2021, the coupon rate – 4.50%, a coupon payment 2 times a year on 19 January and 19 July. Balance at 31 December 2021 amounted to EUR 0.00 (31 December 2020: EUR 2,910,011).

24. Other financial liabilities

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Liability suspense account*	199,839	199,839	2,788	2,788
Settlements on behalf of a closed bank	16,585	16,585	16,585	16,585
Accounts payable	138,741	28,612	133,639	131,349
ECL for off-balance sheet liabilities (see Note 28)	920,810	920,810	299,372	299,372
Lease liabilities	50,285	50,285	86,266	86,266
	1,326,260	**1,216,131**	**538,650**	**536,360**

* The liability suspense account as at 31 December 2021 and 31 December 2020 includes the amounts erroneously transferred to the Bank, which were returned to the senders at the beginning of 2022 and 2021 respectively.

Carrying amount of lease expense and changes therein:

	2021 Premises EUR	2021 Total EUR	2020 Premises EUR	2020 Total EUR
Lease liabilities as at 1 January	**86,266**	**86,266**	**92,982**	**92,982**
Increase	-	-	39,987	39,987
Payments	(36,661)	(36,661)	(43,728)	(43,728)
Foreign exchange adjustments	680	680	(2,975)	(2,975)
Lease liabilities as at 31 December	**50,285**	**50,285**	**86,266**	**86,266**

25. Deferred income and accrued expense

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Vacation pay reserve	544,150	544,150	465,733	465,733
State statutory social insurance contributions	121,752	121,752	111,775	111,775
Accrual for the guarantee fund and FCMC financing	87,281	87,281	85,310	85,310
Deferred income	36,202	36,202	34,137	34,137
Other accrued expense	45,641	45,641	42,955	42,959
	835,026	**835,026**	**739,910**	**739,914**

26. Derivative financial instruments

The Group and the Bank use the following derivative financial instruments: currency forwards – agreements on currency acquisition in the future, currency swaps – commitments to exchange one set of cash flow for another. The Group and Bank's credit risk represents the potential cost to replace the forward contracts if the counterparties fail to perform their obligations. To control the level of credit risk taken, the Group and the Bank assess counterparty risk using the same techniques as for its lending activities.

The notional amounts of financial instruments provide a basis for comparison with instruments recognized on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, therefore, they cannot be used for determining the level of the Group and Bank's exposure to credit risk or market risk. The derivative instruments become favorable or unfavorable as a result of fluctuations in market interest rates or foreign exchange rates.

As at 31 December 2021 and 31 December 2020, the Group and the Bank had no derivative financial instruments

27. Share capital

As at 31 December 2021, the Bank's issued and fully paid share capital was EUR 32,334,756 (31 December 2020: EUR 32,334,762). The nominal value of one share is EUR 1.00 (31 December 2020: EUR 1.00). All shares are ordinary registered shares with voting rights. One share is one vote.

On 27 April 2016, the denomination of the share capital from the lats to the euro was registered. As a result of the denomination, a difference of EUR 6 was included in equity under reserves.

The shareholders of the Bank as at 31 December 2021 and 31 December 2020:

	31.12.2021. EUR	%	31.12.2020. EUR	%
SIA SKY Investment Holding	14,228,717	44.00	14,228,717	44.00
Yuriy Rodin	6,466,198	20.00	6,466,198	20.00
AB Pivdenny	4,449,558	13.76	4,449,558	13.76
Mark Bekker	3,418,808	10,57	3,418,808	10,57
Other shareholders (with less than 10% of shares)	3,771,475	11,67	3,771,475	11,67
Total share capital	**32,334,756**	**100%**	**32,334,756**	**100%**

28. Off-balance items and encumbered assets

Contingent liabilities

Contingent liabilities can be specified as follows:

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Financial guarantees	6,438,144	6,438,144	8,915,845	8,915,845
Irrevocable letters of credit	485,621	485,621	-	-
Non-financial guarantees	108,618	108,618	634,380	634,380
Total contingent liabilities	**7,032,383**	**7,032,383**	**9,550,225**	**9,550,225**

Financial guarantees are contracts that provide for compensation in the event of a default by another party. Such contracts involve credit risk of default. Financial guarantees are subject to an assessment of expected credit losses. For financial guarantee contracts, the Group and the Bank take into account changes in the risk that the particular debtor might default on its contractual obligation.

The analysis of the Financial guarantees changes in the year ended 31 December 2021:

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
Financial guarantees as at 01.01.2021	**8,915,845**	**-**	**-**	**8,915,845**
New assets originated or purchased	6,642,117	-	-	6,642,117
Decrease	(9,119,818)	-	-	(9,119,818)
Financial guarantees as at 31.12.2021	**6,438,144**	**-**	**-**	**6,438,144**

The analysis of the ECL changes in the year ended 31 December 2021:

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
ECL as at 01.01.2021	**76,203**	**-**	**-**	**76,203**
New assets originated or purchased	314,590	-	-	314,590
Decrease	(201,288)	-	-	(201,288)
ECL as at 31.12.2021	**189,505**	**-**	**-**	**189,505**

The analysis of the Financial guarantees changes in the year ended 31 December 2020:

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
Financial guarantees as at 01.01.2020	**4,806,837**	**-**	**-**	**4,806,837**
New assets originated or purchased	4,524,861	-	-	4,524,861
Decrease	-	-	-	-
Foreign exchange adjustments	(415,853)	-	-	(415,853)
Financial guarantees as at 31.12.2020	**8,915,845**	**-**	**-**	**8,915,845**

The analysis of the ECL changes in the year ended 31 December 2020:

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
ECL as at 01.01.2020	**-**	**-**	**-**	**-**
New assets originated or purchased	76,203	-	-	76,203
Decrease	-	-	-	-
ECL as at 31.12.2020	**76,203**	**-**	**-**	**76,203**

28. Off-balance items and encumbered assets *(cont'd)*

Non-financial guarantees are secured by cash or loans which are blocked or reserved at the Group and the Bank and secure the Group's and Bank's balances due from customers if the guarantee conditions are met.

Non-financial guarantees	Stage 1	Stage 2	Stage 3	Total
Non-financial guarantees as at 01.01.2021	**634,380**	**-**	**-**	**634,380**
New assets originated or purchased	-	-	-	-
Decrease	(525,762)	-	-	(525,762)
Non-financial guarantees as at 31.12.2021	**108,618**	**-**	**-**	**108,618**

Non-financial guarantees	Stage 1	Stage 2	Stage 3	Total
Non-financial guarantees as at 01.01.2020	**435,646**	**-**	**-**	**435,646**
New assets originated or purchased	303,900	-	-	303,900
Decrease	(103,932)	-	-	(103,932)
Foreign exchange adjustments	(1,234)	-	-	(1,234)
Non-financial guarantees as at 31.12.2020	**634,380**	**-**	**-**	**634,380**

Financial commitments

The outstanding loan commitments can be specified as follows:

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Loan commitments	23,279,170	23,279,170	3,899,604	3,899,604
Undrawn credit lines	22,262,688	22,262,688	9,822,586	9,822,586
Total financial commitments	**45,541,858**	**45,541,858**	**13,722,190**	**13,722,190**

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being actually funded.

The loan commitments are denominated in the following currencies:

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
EUR	23,177,100	23,177,100	1,304,269	1,304,269
USD	102,070	102,070	2,595,335	2,595,335
Total loan commitments	**23,279,170**	**23,279,170**	**3,899,604**	**3,899,604**

The undrawn credit lines are denominated in the following currencies:

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
EUR	13,062,994	13,062,994	8,187,627	8,187,627
USD	9,199,694	9,199,694	1,634,959	1,634,959
Total undrawn credit lines	**22,262,688**	**22,262,688**	**9,822,586**	**9,822,586**

28. Off-balance items and encumbered assets *(cont'd)*

Financial commitments	Stage 1	Stage 2	Stage 3	Total
Financial commitments as at 01.01.2021	**13,690,059**	**-**	**32,131**	**13,722,190**
New assets originated or purchased	72,591,719	850,000	-	73,441,719
Increase[1]	125,700,762	-	2,166,479	127,867,241
Decrease	(166,938,179)	-	(2,959,223)	(169,897,402)
Transfers to Stage 3	-	(850,000)	850,000	-
Foreign exchange adjustments	404,790	-	3,320	408,110
Financial commitments as at 31.12.2021	**45,449,151**	**-**	**92,707**	**45,541,858**

The analysis of the changes in ECL in the year ended 31 December 2021 can be specified as follows:

Financial commitments	Stage 1	Stage 2	Stage 3	Total
ECL as at 01.01.2021	**219,495**	**-**	**3,674**	**223,169**
New assets originated or purchased	713,920	309,361	-	1,023,281
Increase[1]	1,639,464	-	76,321	1,715,785
Decrease	(1,830,415)	-	(383,969)	(2,214,384)
Transfers to Stage 3	-	(309,361)	309,361	-
Change in methodology	(23,444)	-	153	(23,291)
Foreign exchange adjustments	6,539	-	207	6,746
ECL as at 31.12.2021	**725,559**	**-**	**5,747**	**731,306**

Financial commitments	Stage 1	Stage 2	Stage 3	Total
Financial commitments as at 01.01.2020	**28,563,896**	**3,368,603**	**73,896**	**32,006,395**
New assets originated or purchased	34,567,478	-	-	34,567,478
Increase[1]	80,262,052	4,391,256	1,947,331	86,600,639
Decrease	(131,727,721)	(5,255,105)	(2,017,617)	(139,000,443)
Transfers to Stage 1	2,500,000	(2,500,000)	-	-
Transfers to Stage 3	(44,126)	(2,304)	46,430	-
Foreign exchange adjustments	(431,520)	(2,450)	(17,909)	(451,879)
Financial commitments as at 31.12.2020	**13,690,059**	**-**	**32,131**	**13,722,190**

The analysis of the changes in ECL in the year ended 31 December 2020 can be specified as follows:

Financial commitments	Stage 1	Stage 2	Stage 3	Total
ECL as at 01.01.2020	**399,657**	**259,377**	**941**	**659,975**
New assets originated or purchased	332,703	-	-	332,703
Increase[1]	1,182,982	294,525	57,694	1,535,201
Decrease	(1,691,429)	(524,907)	(60,783)	(2,277,119)
Transfers to Stage 1	28,967	(28,967)	-	-
Transfers to Stage 3	(488)	-	488	-
Impact on ECL of transfers	(23,998)	-	5,160	(18,838)
Foreign exchange adjustments	(8,899)	(28)	174	(8,753)
ECL as at 31.12.2020	**219,495**	**-**	**3,674**	**223,169**

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

28. Off-balance items and encumbered assets *(cont'd)*

Encumbered assets

The pledged and restricted assets can be specified as follows:

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Balances due from banks	14,501	14,501	4,699,229	4,699,229
Other assets	1,186,195	1,186,195	1,109,880	1,109,880
Total	**1,200,696**	**1,200,696**	**5,809,109**	**5,809,109**

All encumbered assets serve as security for the Group's and Bank's financial liabilities as at 31 December 2021 and 31 December 2020. The carrying amount of encumbered assets approximate their fair value both as at 31 December 2021 and as at 31 December 2020.

As at 31 December 2021, the encumbered assets of the Group and the Bank consisted of the following:

- security deposits of EUR 0 (31 December 2020: EUR 4,685,845) for the guarantees issued by the Group and the Bank. Total amount of these encumbered assets is included under the balances due from other banks;
- security deposits of EUR 1,186,195 (31 December 2020: EUR 1,109,880) for potential claims from Visa Inc and MasterCard Europe SPRL LLC. The agreements with these organization provide for ensuring a sufficient amount of resources available in the deposit accounts with Lloyds TSB Bank plc (MasterCard Europe Sprl), U.S Bank (Visa Inc) respectively, which could cover all expenses related to the participation of the Bank in these organizations. The total amount of these encumbered assets is included under other assets;
- security deposits of EUR 14,501 (31 December 2020: EUR 13,384) for letters of credit issued. The total amount of these encumbered assets is included under the balances due from other banks.

29. Capital adequacy

The Group's capital adequacy ratio according to the requirements of the Financial and Capital Market Commission is calculated as follows:

Description	31.12.2021 EUR	31.12.2020 EUR
Total own funds	**46,940,426**	**44,615,281**
– Tier 1 capital	46,940,426	42,831,496
– Common equity Tier 1 capital	46,940,426	42,831,496
– Tier 2 capital	-	1,783,785
Total risk exposure amount	**169,545,135**	**162,248,338**
– Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	147,260,321	134,302,150
– Total risk exposure amount for position, foreign exchange and commodities risks	2,010,051	2,946,250
– Total risk exposure amount for operational risk	20,274,763	24,999,938
– Total exposure amounts for credit valuation adjustment	-	-
Capital adequacy ratios		
– Common equity Tier 1 Capital ratio	27,69%	26,40%
– Surplus (+) / Deficit (-) of Common equity Tier 1 capital (4.5%)	39,310,895	35,530,321
– Tier 1 Capital ratio	27,69%	26,40%
– Surplus (+) / Deficit (-) of Tier 1 capital (6%)	36,767,718	33,096,596
– Total capital ratio	27,69%	27,50%
– Surplus (+) / Deficit (-) of total capital (8%)	33,376,815	31,635,414
– Capital conservation buffer (%)	2.5%	2.5%
– Capital conservation buffer	4,238,628	4,056,208

29. Capital adequacy *(cont'd)*

The Bank's capital adequacy ratio according to the requirements of the Financial and Capital Market Commission is calculated as follows:

Description	31.12.2021 EUR	31.12.2020 EUR
Total own funds	**46,813,524**	**41,320,877**
– Tier 1 capital	46,813,524	39,537,092
– Common equity Tier 1 capital	46,813,524	39,537,092
– Tier 2 capital	-	1,783,785
Total risk exposure amount	**169,731,381**	**161,128,914**
– Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	147,828,367	133,659,351
– Total risk exposure amount for position, foreign exchange and commodities risks	2,010,051	2,946,250
– Total risk exposure amount for operational risk	19,892,963	24,523,313
– Total exposure amounts for credit valuation adjustment	-	-
Capital adequacy ratios		
– Common equity Tier 1 Capital ratio	27,58%	24,54%
– Surplus (+) / Deficit (-) of Common equity Tier 1 capital (4.5%)	39,175,612	32,286,291
– Tier 1 Capital ratio	27,58%	24,54%
– Surplus (+) / Deficit (-) of Tier 1 capital (6%)	36,629,641	29,869,357
– Total capital ratio	27,58%	25,64%
– Surplus (+) / Deficit (-) of total capital (8%)	33,235,014	28,430,564
– Capital conservation buffer (%)	2.5%	2.5%
– Capital conservation buffer	4,243,285	4,028,223

On 2 November 2021, the Financial and Capital Market Commission recalculated the capital adequacy requirement applicable both individually to the Bank and collectively at the Group level and assessed it at 10.90% and capital conservation buffer at 2.5% . The Group and the Bank observed and complied with the individually determined capital adequacy requirements in 2021.

The Group's and the Bank's equity ratio and capital adequacy ratio are calculated applying the transitional arrangements to lessen the impact of IFRS 9 on capital ratios according to Regulation 2017/2395 of the European Parliament and of the Council. Had the transitional arrangements not been applied, the Group's and the Bank's capital adequacy ratio as at 31 December 2021 would have been 26,41% and 26,31% (31 December 2021: 25.68% and 23.76%) respectively.

30. Analysis of assets and liabilities by currency profile

The table below provides the analysis of the Group's financial assets and liabilities as at 31 December 2021 by currency profile:

	USD EUR	EUR EUR	Other EUR	Total EUR
Assets				
Cash and balances with the Bank of Latvia	506,779	82,393,452	-	82,900,231
Balances due from banks	38,033,154	110,416	250,092	38,393,662
Financial assets measured at FVPL	627,296	980,014	-	1,607,310
Debt instruments measured at FVOCI	30,902,143	-	-	30,902,143
Equity instruments measured at FVOCI	4,617	231,001	-	235,618
Loans and advances to customers	23,650,271	59,608,822	-	83,259,093
Other financial assets	1,629,537	713,042	-	2,342,579
Prepaid expense	-	-	181,858	181,858
Total financial assets	**95,353,797**	**144,036,747**	**431,950**	**239,822,494**
Liabilities				
Deposits from customers	94,985,745	113,225,964	121,451	208,333,160
Other liabilities	332,611	993,389	260	1,326,260
Deferred income and accrued expense	44	803,908	31,074	835,026
Current income tax liabilities	-	594,315	-	594,315
Total liabilities	**95,318,400**	**115,617,576**	**152,785**	**211,088,761**
Net long / (short) position for statement of financial position items	*35,397*	*28,419,171*	*279,165*	*28,733,733*
Off-balance sheet receivables arising from foreign exchange contracts	-	-	-	-
Off-balance sheet liabilities arising from foreign exchange contracts	-	-	-	-
Net long / (short) position on foreign exchange	-	-	-	-
Net long / (short) position	**35,397**	**28,419,171**	**279,165**	**28,733,733**
As at 31 December 2020				
Total financial assets	**113,901,744**	**148,450,833**	**2,191,699**	**264,544,276**
Total liabilities	**114,057,119**	**150,008,094**	**479,063**	**264,544,276**
Net long / (short) position for statement of financial position items	*(155,375)*	*(1,557,261)*	*1,712,636*	-
Off-balance sheet receivables arising from foreign exchange contracts	-	-	-	-
Off-balance sheet liabilities arising from foreign exchange contracts	-	-	-	-
Net long / (short) position on foreign exchange	-	-	-	-
Net long / (short) position	***(155,375)***	***(1,557,261)***	***1,712,636***	-

30. Analysis of assets and liabilities by currency profile *(cont'd)*

The table below provides the analysis of the Bank's financial assets and liabilities as at 31 December 2021 by currency profile:

	USD EUR	EUR EUR	Other EUR	Total EUR
Assets				
Cash and balances with the Bank of Latvia	506,779	82,393,452	-	82,900,231
Balances due from banks	38,033,154	110,416	250,092	38,393,662
Financial assets measured at FVPL	627,296	980,014	-	1,607,310
Debt instruments measured at FVOCI	30,902,143	-	-	30,902,143
Equity instruments measured at FVOCI	4,617	231,001	-	235,618
Loans and advances to customers	23,650,271	59,608,822	-	83,259,093
Other financial assets	1,629,537	697,116	-	2,326,653
Prepaid expense	-	-	181,858	181,858
Total financial assets	**95,353,797**	**144,020,821**	**431,950**	**239,806,568**
Liabilities				
Deposits from customers	94,985,745	114,623,127	121,451	209,730,323
Other liabilities	332,611	883,260	260	1,216,131
Deferred income and accrued expense	44	803,908	31,074	835,026
Current income tax liabilities	-	1,645	-	1,645
Total liabilities	**95,318,400**	**116,311,940**	**152,785**	**211,783,125**
Net long / (short) position for statement of financial position items	*35,397*	*27,708,881*	*279,165*	*28,023,443*
Off-balance sheet receivables arising from foreign exchange contracts	-	-	-	-
Off-balance sheet liabilities arising from foreign exchange contracts	-	-	-	-
Net long / (short) position	**35,397**	**27,708,881**	**279,165**	**28,023,443**
As at 31 December 2020				
Total financial assets	**113,901,744**	**145,978,865**	**2,191,699**	**262,072,308**
Total liabilities and equity	**114,057,119**	**147,536,126**	**479,063**	**262,072,308**
Net long / (short) position for statement of financial position items	*(155,375)*	*(1,557,261)*	*1,712,636*	-
Off-balance sheet receivables arising from foreign exchange contracts	-	-	-	-
Off-balance sheet liabilities arising from foreign exchange contracts	-	-	-	-
Net long / (short) position on foreign exchange	-	-	-	-
Net long / (short) position	***(155,375)***	***(1,557,261)***	***1,712,636***	**-**

31. Analysis of assets and liabilities by maturity profile

The table below provides the analysis of the Group's finacial assets and liabilities by contractual maturity as at 31 December 2021.

	Past due EUR	Within 1 month EUR	1 – 3 months EUR	3 – 6 months EUR	6 –12 months EUR	1–5 years EUR	Over 5 years and undated EUR	Total EUR
Assets								
Cash and balances with the Bank of Latvia	-	82,900,231	-	-	-	-	-	82,900,231
Balances due from banks	-	38,393,662	-	-	-	-	-	38,393,662
Financial assets measured at FVPL	-	-	1,224,359	-	375,057	-	7,894	1,607,310
Debt instruments measured at FVOCI	-	13,243,772	17,658,371	-	-	-	-	30,902,143
Equity instruments measured at FVOCI	-	-	-	-	-	-	235,618	235,618
Loans and advances to customers	4,118,840	6,549,714	2,312,066	9,660,515	7,970,014	51,993,488	654,456	83,259,093
Other financial assets	-	491,792	659,656	-	4,936	-	1,186,195	2,342,579
Total financial assets	**4,118,840**	**141,579,171**	**21,854,452**	**9,660,515**	**8,350,007**	**51,993,488**	**2,084,163**	**239,640,636**
Liabilities and equity								
Deposits from customers	-	193,453,968	2,679,276	2,686,687	7,198,754	2,314,475	-	208,333,160
Other financial liabilities	-	1,267,785	-	8,190	-	50,285	-	1,326,260
Corporate income tax	-	594,315	-	-	-	-	-	594,315
Total Liabilities	**-**	**195,316,068**	**2,679,276**	**2,694,877**	**7,198,754**	**2,364,760**	**-**	**210,253,735**
Off-balance sheet liabilities	-	2,347,615	412,862	1,554,393	17,821,682	14,999,531	15,438,158	52,574,241
Liquidity	**4,118,840**	**(56,084,512)**	**18,762,314**	**5,411,245**	**(16,670,429)**	**34,629,197**	**(13,353,995)**	**(23,187,340)**
As at 31 December 2020								
Total financial assets	**2,408,261**	**135,337,436**	**32,962,325**	**7,320,399**	**17,453,394**	**42,191,202**	**26,871,259**	**264,544,276**
Total liabilities and equity	**-**	**177,155,010**	**8,925,883**	**21,744,055**	**8,942,832**	**8,530,988**	**39,245,508**	**264,544,276**
Off-balance sheet liabilities	-	13,384	100,398	3,580,135	5,483,413	7,173,065	6,922,020	23,272,415
Liquidity	**2,408,261**	**(41,830,958)**	**23,936,044**	**(18,003,791)**	**3,027,149**	**26,487,149**	**(19,296,269)**	**(23,272,415)**

31. Analysis of assets and liabilities by maturity profile *(cont'd)*

The table below provides the analysis of the Bank's financial assets and liabilities by contractual maturity as at 31 December 2021.

	Past due EUR	Within 1 month EUR	1 – 3 months EUR	3 – 6 months EUR	6 – 12 months EUR	1–5 years EUR	Over 5 years and undated EUR	Total EUR
Assets								
Cash and balances with the Bank of Latvia	-	82,900,231	-	-	-	-	-	82,900,231
Balances due from banks	-	38,393,662	-	-	-	-	-	38,393,662
Financial assets measured at FVPL	-	-	1,224,359	-	375,057	-	7,894	1,607,310
Debt instruments measured at FVOCI	-	13,243,772	17,658,371	-	-	-	-	30,902,143
Equity instruments measured at FVOCI	-	-	-	-	-	-	235,618	235,618
Loans and advances to customers	4,118,840	6,549,714	2,312,066	9,660,515	7,970,014	51,993,488	654,456	83,259,093
Other financial assets	-	475,866	659,656	-	4,936	-	1,186,195	2,326,653
Total fianacial assets	**4,118,840**	**141,563,245**	**21,854,452**	**9,660,515**	**8,350,007**	**51,993,488**	**2,084,163**	**239,624,710**
Liability and equity								
Deposits from customers	-	194,851,131	2,679,276	2,686,687	7,198,754	2,314,475	-	209,730,323
Other financial liabilities	-	1,157,656	-	8,190	-	50,285	-	1,216,131
Corporate income tax	-	1,645	-	-	-	-	-	1,645
Total liabilities	-	**196,010,432**	**2,679,276**	**2,694,877**	**7,198,754**	**2,364,760**	-	**210,948,099**
Off-balance sheet liabilities	-	2,347,615	412,862	1,554,393	17,821,682	14,999,531	15,438,158	52,574,241
Liquidity	**4,118,840**	**(56,794,802)**	**18,762,314**	**5,411,245**	**(16,670,429)**	**34,629,197**	**(13,353,995)**	**(23,897,630)**
As at 31 December 2020								
Total assets	**2,408,261**	**133,424,656**	**32,962,325**	**7,320,399**	**17,453,394**	**45,839,102**	**22,664,171**	**262,072,308**
Total liabilities and equity	-	**177,971,342**	**8,925,887**	**21,744,055**	**8,942,832**	**8,530,988**	**35,957,204**	**262,072,308**
Off-balance sheet liabilities	-	13,384	100,398	3,580,135	5,483,413	7,173,065	6,922,020	23,272,415
Liquidity	**2,408,261**	**(44,560,070)**	**23,936,040**	**(18,003,791)**	**3,027,149**	**30,135,049**	**(20,215,053)**	**(23,272,415)**

The management of the Group and the Bank believes that short-term liquidity is not endangered. The Bank's liquidity ratio calculated according to the FCMC requirements was 62.28% as at 31 December 2021 (31 December 2020: 83.51%). In accordance with the FCMC requirements, the Bank has to ensure a sufficient amount of liquid assets to settle its liabilities, but not less than 40% of the total amount of its current liabilities

Deposits serving as security for customer liabilities are disclosed according to the maturity of the underlying liability.

31. Analysis of assets and liabilities by maturity profile *(cont'd)*

The table below presents the Group's contractual undiscounted cash flows of financial liabilities as at 31 December 2021:

	Past due EUR	Within 1 month EUR	1 – 3 months EUR	3 – 6 months EUR	6 –12 months EUR	1–5 years EUR	Over 5 years and undated EUR	Total EUR
Deposits from customers	-	193,485,378	2,707,569	2,711,347	7,270,930	2,335,017	-	208,510,241
Other liabilities	-	1,267,785	-	-	8,190	50,285	-	1,326,260
Total liabilities		**194,753,163**	**2,707,569**	**2,711,347**	**7,279,120**	**2,385,302**	**-**	**209,836,501**
Off-balance sheet liabilities	-	*2,347,615*	*412,862*	*1,554,393*	*17,821,682*	*14,999,531*	*15,438,158*	*52,574,241*

The table below presents the Bank's contractual undiscounted cash flows of financial liabilities as at 31 December 2021:

	Past due EUR	Within 1 month EUR	1 – 3 months EUR	3 – 6 months EUR	6 –12 months EUR	1–5 years EUR	Over 5 years and undated EUR	Total EUR
Deposits from customers	-	194,882,541	2,707,569	2,711,347	7,270,930	2,335,017	-	209,907,404
Other liabilities	-	1,157,656	-	-	8,190	50,285	-	1,216,131
Total liabilities	**-**	**196,040,197**	**2,707,569**	**2,711,347**	**7,279,120**	**2,385,302**	**-**	**211,123,535**
Off-balance sheet liabilities	-	*2,347,615*	*412,862*	*1,554,393*	*17,821,682*	*14,999,531*	*15,438,158*	*52,574,241*

The table below presents the Group's contractual undiscounted cash flows of financial liabilities as at 31 December 2020:

	Past due EUR	Within 1 month EUR	1 – 3 months EUR	3 – 6 months EUR	6 –12 months EUR	1–5 years EUR	Over 5 years and undated EUR	Total EUR
Balances due to banks	-	5,400	-	-	-	-	-	5,400
Debt securities	-	115,516	-	13,501,691	2,852,253	-	-	16,469,460
Deposits from customers	-	176,667,315	8,273,341	5,298,610	6,195,158	8,486,696	-	204,921,120
Other liabilities	-	442,794	-	-	-	95,856	-	538,650
Subordinated loans	-	16,878	30,659	3,047,293	-	-	-	3,094,830
Total liabilities		**177,247,903**	**8,304,000**	**21,847,594**	**9,047,411**	**8,582,552**	**-**	**225,029,460**
Off-balance sheet liabilities	-	*13,384*	*100,398*	*3,580,135*	*5,483,413*	*7,173,065*	*6,922,020*	*23,272,415*

The table below presents the Bank's contractual undiscounted cash flows of financial liabilities as at 31 December 2020:

	Past due EUR	Within 1 month EUR	1 – 3 months EUR	3 – 6 months EUR	6 –12 months EUR	1–5 years EUR	Over 5 years and undated EUR	Total EUR
Balances due to banks	-	5,400	-	-	-	-	-	5,400
Debt securities	-	115,516	-	13,501,691	2,852,253	-	-	16,469,460
Deposits from customers	-	177,485,937	8,273,341	5,298,610	6,195,158	8,486,696	-	205,739,742
Other liabilities	-	440,504	-	-	-	95,856	-	536,360
Subordinated loans	-	16,878	30,659	3,047,293	-	-	-	3,094,830
Total liabilities	**-**	**178,064,235**	**8,304,000**	**21,847,594**	**9,047,411**	**8,582,552**	**-**	**225,845,792**
Off-balance sheet liabilities	-	*13,384*	*100,398*	*3,580,135*	*5,483,413*	*7,173,065*	*6,922,020*	*23,272,415*

Notes to the financial statements *(cont'd)*

32. Maturity analysis of assets and liabilities based on interest rate changes

The Group's assets and liabilities categorized by the earlier of contractual repricing or maturity dates as at 31 December 2021:

	Within one month EUR	1–3 months EUR	3–6 months EUR	6–12 months EUR	1–5 years EUR	Over 5 years EUR	Positions not sensitive to the interest risk EUR	Total EUR
Assets								
Cash and balances with the Bank of Latvia	81, 939,113	-	-	-	-	-	961,118	82,900,231
Balances due from banks	38,379,161	14,501	-	-	-	-		38,393,662
Financial assets measured at FVPL	-	1,224,358	-	375,058	-	-	7,894	1,607,310
Debt instruments measured at FVOCI	13,243,772	17,658,371	-	-	-	-	-	30,902,143
Equity instruments measured at FVOCI	-	-	-	-	-	-	235,618	235,618
Loans and advances to customers	21,725,326	18,795,449	9,096,565	3,130,916	30,506,137	-	4,700	83,259,093
Other assets	-	-	-	-	-	-	2,342,579	2,342,579
Total assets	**155,287,372**	**37,692,679**	**9,096,565**	**3,505,974**	**30,506,137**	**-**	**3,551,909**	**239,640,636**
Liabilities and equity								
Deposits from customers	194,478,369	2,679,277	2,001,066	7,173,755	2,000,693	-	-	208,333,160
Other liabilities	-	-	-	-	-	-	1,326,260	1,326,260
Corporate income tax	-	-	-	-	-	-	594,315	594,315
Total liabilities	**194,478,369**	**2,679,277**	**2,001,066**	**7,173,755**	**2,000,693**	**-**	**1,920,575**	**210,253,735**
Sensitivity of statement of financial position items to interest rate risk	(39,190,997)	35,013,402	7,095,499	(3,667,781)	28,505,444		1,631,334	29,386,901

	Within one month EUR	1–3 months EUR	3–6 months EUR	6–12 months EUR	1–5 years EUR	Over 5 years EUR	Positions not sensitive to the interest risk EUR	Total EUR
As at 31 December 2020								
Total assets	**145,224,199**	**47,952,671**	**2,866,766**	**10,349,447**	**17,580,485**	**3,915,009**	**7,841,003**	**235,729,580**
Total liabilities and equity	**177,081,377**	**8,213,144**	**20,766,086**	**8,657,502**	**4,608,517**	**-**	**44,477,740**	**263,804,366**
Sensitivity of statement of financial position items to interest rate risk	*(31,857,178)*	*39,739,527*	*(17,899,320)*	*1,691,945*	*12,971,968*	*3,915,009*	*(36,636,737)*	*(28,074,786)*

32. Maturity analysis of assets and liabilities based on interest rate changes *(cont'd)*

The Bank's assets and liabilities categorized by the earlier of contractual repricing or maturity dates as at 31 December 2021:

	Within one month EUR	1–3 months EUR	3–6 months EUR	6–12 months EUR	1–5 years EUR	Over 5 years EUR	Positions not sensitive to the interest risk EUR	Total EUR
Assets								
Cash and balances with the Bank of Latvia	81, 939,113	-	-	-	-	-	961,118	82,900,231
Balances due from banks	38,379,161	14,501	-	-	-	-	-	38,393,662
Financial assets measured at FVPL	-	1,224,358	-	375,058	-	-	7,894	1,607,310
Debt instruments measured at FVOCI	13,243,772	17,658,371	-	-	-	-	-	30,902,143
Equity instruments measured at FVOCI	-	-	-	-	-	-	235,618	235,618
Loans and advances to customers	21,725,326	18,795,449	9,096,565	3,130,916	30,506,137	-	4,700	83,259,093
Other assets	-	-	-	-	-	-	2,326,653	2,326,653
Total assets	**155,287,372**	**37,692,679**	**9,096,565**	**3,505,974**	**30,506,137**	**-**	**3,535,983**	**239,624,710**
Liabilities and equity								
Deposits from customers	195,875,532	2,679,277	2,001,066	7,173,755	2,000,693	-		209,730,323
Other liabilities	-	-	-	-	-	-	1,216,131	1,216,131
Corporate income tax	-	-	-	-	-	-	1,645	1,645
Total liabilities	**195,875,532**	**2,679,277**	**2,001,066**	**7,173,755**	**2,000,693**	**-**	**1,217,776**	**210,948,099**
Sensitivity of statement of financial position items to interest rate risk	(40,588,160)	35,013,402	7,095,499	(3,667,781)	28,505,444		2,318,207	28,676,611
As at 31 December 2020								
Total assets	**145,225,010**	**51,599,761**	**2,866,766**	**10,349,447**	**17,580,485**	**3,915,009**	**7,489,366**	**239,025,844**
Total liabilities and equity	**177,899,999**	**8,213,144**	**20,766,086**	**8,657,502**	**4,608,517**	**-**	**41,187,146**	**261,332,394**
Sensitivity of statement of financial position items to interest rate risk	*(32,674,989)*	*43,386,617*	*(17,899,320)*	*1,691,945*	*12,971,968*	*3,915,009*	*(33,697,780)*	*(22,306,550)*

33. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party, are under common control or one exercises significant influence over the other party in making financial or operational decisions.

Related parties are defined as shareholders, members of the Council and the Board, key management personnel of the Group and the Bank, their close relatives and companies in which they have a controlling interest as well as companies, where they have significant influence.

Notes to the financial statements *(cont'd)*

33. Related party disclosures *(cont'd)*

Transactions with related parties as at 31 December 2021 can be specified as follows:

	Parent company of the Bank	Bank's shareholders and entities owned by them	Subsidiary of the Bank	Other related parties
Total loans and advances to customers (contractual interest rate: 6%-20%)	-	-	-	1,295
Correspondent account	571,511	-	-	-
Deposits from customers (contractual interest rate: -0.6%-0.0%)	-	323,178	1,397,163	240,165

Income and expense from transactions with related parties in 2021 can be specified as follows:

	Parent company of the Bank	Bank's shareholders and entities owned by them	Subsidiary of the Bank	Other related parties
Interest income	61,872	2,161	100,121	4,522
Interest expense	-	(48,388)	-	-
Dividends	-	-	10,000,000	-
ECL allowances	768	186,264	31,918	(75)
Fee and commission income	310	24,954	320	999
Other income	978	213	600	1
Fee and commission expense	(9,387)	-	-	-
Administrative and other operating expense	(5,224)	-	-	-

Off-balance sheet liabilities towards related parties as at 31 December 2021 can be specified as follows:

	Bank's shareholders and entities owned by them	Subsidiaries of the Bank	Other related parties
Undrawn credit lines	-	-	6,305
Assets under management*	11,607,471	-	919,021

* In November 2021, the Bank together with related to the Bank parties with assets was under management acquired a credit-impaired asset (POCI). Asset is fully secured with real estate (see also Note 13).

Loans issued to and repaid by related parties in 2021 can be specified as follows:

	Parent company of the Bank	Bank's shareholders and entities owned by them	Subsidiary of the Bank	Other related parties
Issued to related parties	8,000,000	30	-	61,867
Repaid by related parties	17,000,000	749,006	3,679,000	65,626

33. Related party disclosures *(cont'd)*

Transactions with related parties as at 31 December 2020 can be specified as follows:

	Parent company of the Bank	Bank's shareholders and entities owned by them	Subsidiary of the Bank	Other related parties
Total loans and advances to customers (contractual interest rate: 4-20%)	8,999,108	427,254	3,647,899	4,618
Correspondent account	4,740,105	-	-	-
Deposits from customers (contractual interest rate: 0.0%)	5,400	423,125	818,622	232,459
Debt securities	-	-	-	410,775
Subordinated loans (contractual interest rate: 7.0-8.5%)	-	692,844	-	407,555

Income and expense from transactions with related parties in 2020 can be specified as follows:

	Parent company of the Bank	Bank's shareholders and entities owned by them	Subsidiary of the Bank	Other related parties
Interest income	144,217	42,836	166,382	298
Interest expense	-	(136,118)	-	(38,996)
ECL allowances	360	105,589	(4,191)	(447)
Fee and commission income	780	2,261	264	3,121
Other income	903	7,870	-	1,055
Fee and commission expense	7,425	-	-	-
Administrative and other operating expense	(8,900)	-	(600)	-

Off-balance sheet liabilities towards related parties as at 31 December 2020 can be specified as follows:

	Bank's shareholders and entities owned by them	Subsidiaries of the Bank	Other related parties
Undrawn credit lines	-	-	2,546
Assets under management	-	-	4,002,831

Loans issued to and repaid by related parties in 2020 can be specified as follows:

	Parent company of the Bank	Bank's shareholders and entities owned by them	Subsidiary of the Bank	Other related parties
Issued to related parties	9,000,000	-	-	69,499
Repaid by related parties	-	351,964	875,000	64,445

Remuneration to the Board and Council of the Bank can be specified as follows:

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Short-term benefits:				
- Salaries	825,368	812,917	874,723	869,563
- State statutory social insurance contributions	157,246	154,308	181,939	180,696
Total	**982,614**	**967,225**	**1,056,662**	**1,050,259**

34. Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is quoted prices in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Group and the Bank disclose information on fair values of assets and liabilities in such a way as to enable its comparison with their carrying amounts.

When determining fair values of assets and liabilities, the Group and the Bank use three hierarchical measurement levels of fair value:

Level 1 – Quoted prices in an active market;

Level 2 – Valuation techniques for which the input that is significant to the fair value measurement is observable in the market;

Level 3 – Other valuation techniques for which the input that is significant to the fair value measurement is unobservable.

Instruments within **Level 1** include financial instruments traded on the stock exchange.

Fair value for such financial instruments as financial assets at fair value through profit and loss is mainly determined based on publicly available quoted prices (bid price obtained from the Bloomberg system).

Instruments within **Level 2** include assets, for which no active market exists, such as over-the-counter (OCT) derivative financial instruments and currency swaps financial assets at fair value through profit and loss.

Level 2 valuation techniques include using discounted cash flows, option pricing models, recent transactions and the price of another instrument that is substantially the same.

Level 3 equity instruments measured at FVOCI . There are instruments for which there is currently no active market or binding quotes, such as unlisted equity instruments and private equity holdings.

In the reporting year, the equity instruments measured at FVOCI was based on an indicative price offer received from a potential buyer and which is considered to be the best estimate of the fair value.

The Group and the Bank conducts assessment of fair value of financial assets and liabilities which are not presented in the Group's and the Bank's statement of financial position at their fair value. All financial instruments not measured at fair value are specified at Level 3 in hierarchy of valuation of fair value, because of using unobservable inputs.

When calculating fair value for floating interest rate loans and for fixed-interest rate lending, future cash flows are discounted based on the market interest curve, which has been adjusted for applicable margins of new lending. Fixed interest rate deposits, floating interest rate and fixed-interest rate balances due to credit institutions, have been calculated similarly.

The fair value of debt securities is based on estimated present value of discounted future cash flows. Discount rate applied in the calculation is based on the interest rate applied to last transaction adjusted for the decline in the market rates observed in the respective period.

34. Fair value of financial assets and liabilities *(cont'd)*

The carrying amounts of the Group's assets measured at amortized cost and their fair values can be specified as follows:

	31.12.2021 Carrying amount EUR	Fair value EUR	31.12.2020 Carrying amount EUR	Fair value EUR
Assets measured at amortized cost				
Cash and balances with the Bank of Latvia	82,900,231	82,900,231	67,749,254	67,749,254
Balances due from banks	38,393,662	38,393,662	40,859,902	40,859,902
Loans to legal entities	82,153,973	82,252,760	63,881,539	68,862,155
Loans to private individuals, except for mortgages	980,155	980,671	1,018,693	1,124,497
Mortgages	124,964	125,029	80,024	92,188
Other financial assets	2,383,901	2,383,901	2,143,348	2,143,348
Total assets measured at amortized cost	**206,936,886**	**207,036,254**	**175,732,760**	**180,831,344**
Liabilities measured at amortized cost				
Deposits from customers	208,333,160	208,421,211	204,612,329	204,618,850
Debt securities	-	-	16,384,025	16,384,025
Subordinated loans	-	-	3,016,117	3,030,481
Other financial liabilities	1,326,260	1,326,260	538,650	538,650
Total liabilities measured at amortized cost	**209,659,420**	**209,747,471**	**224,551,121**	**224,572,006**

The carrying amounts of the Bank's assets measured at amortized cost and their fair values can be specified as follows:

	31.12.2021 Carrying amount EUR	Fair value EUR	31.12.2020 Carrying amount EUR	Fair value EUR
Assets measured at amortized cost				
Cash and balances with the Bank of Latvia	82,900,231	82,900,231	67,749,254	67,749,254
Balances due from banks	38,393,662	38,393,662	40,859,902	40,859,902
Loans to legal entities	82,153,973	82,252,760	67,529,440	72,675,876
Loans to private individuals, except for mortgages	980,155	980,671	1,018,693	1,124,497
Mortgages	124,964	125,029	80,024	92,188
Other financial assets	2,367,975	2,367,975	1,791,713	1,791,713
Total assets measured at amortized cost	**206,920,960**	**207,020,328**	**179,029,026**	**184,293,430**
Liabilities measured at amortized cost				
Deposits from customers	209,730,323	209,818,376	205,430,951	205,437,472
Debt securities	-	-	16,384,025	16,384,025
Subordinated loans	-	-	3,016,117	3,030,481
Other financial liabilities	1,216,131	1,216,131	536,360	536,360
Total liabilities measured at amortized cost	**210,946,454**	**211,034,507**	**225,367,453**	**225,388,338**

34. Fair value of financial assets and liabilities *(cont'd)*

The Group's and Bank's assets by fair value hierarchy levels (at carrying amounts) can be specified as follows):

	31.12.2021			31.12.2020		
	Level 1 EUR	Level 2 EUR	Level 3 EUR	Level 1 EUR	Level 2 EUR	Level 3 EUR
Assets measured at fair value						
Debt instruments measured at FVOCI	30,902,143	-	-	46,448,754	-	-
Equity instruments measured at FVOCI	-	-	235,618	-	-	221,711
Financial assets measured at FVPL	1,232,253	375,057	-	12,242,994	1,151,919	-
Total assets measured at fair value	**32,134,396**	**375,057**	**235,618**	**58,691,748**	**1,151,919**	**221,711**

The Latvian government bonds in the Group's and Bank's portfolio are specified at Level 2 in hierarchy of valuation of fair value and stated at their fair (market) value, taking into account the information published by Bloomberg.

35. Subordinated loans

Subordinated loans as at 31 December of 2021 and 31 December 2020 can be specified as follows:

	31.12.2021 Group EUR	%	31.12.2021 Bank EUR	%	31.12.2020 Group EUR	%	31.12.2020 Bank EUR	%
Villa Flora SIA (maturing in 2021)	-	-	-	-	692,844	8,00	692,844	8,00
Ļubov Bekker (maturing in 2021)	-	-	-	-	1,915,718	8,00	1,915,718	8,00
Mark Bekker (maturing in 2021)	-	-	-	-	407,555	8,00	407,555	8,00
Total subordinated loans	-	-	-	-	**3,016,117**	-	**3,016,117**	-

36. Assets under management

Assets under management are securities and other customer assets acquired under trust agreements.

	31.12.2021 Group EUR	31.12.2021 Bank EUR	31.12.2020 Group EUR	31.12.2020 Bank EUR
Legal entities:				
- residents	8,801,243	8,801,243	-	-
- non–residents	21,885,353	21,885,353	37,454,060	37,454,060
Private individuals:				
- non–residents	34,145,481	34,145,481	17,253,906	17,253,906
Total	**64,832,077**	**64,832,077**	**54,707,966**	**54,707,966**

37. Return on equity and return on assets

	31.12.2021 Group	31.12.2021 Bank	31.12.2020 Group	31.12.2020 Bank
Return on equity (ROE) (%)	18.36%	22.28%	1.41%	1.96%
Return on assets (ROA) (%)	3.39%	3.32%	0.21%	0.27%

Both ratios are calculated according to the FCMC regulations on the basis of annual averages month by month. ROE is calculated as annualized net profit for the reporting period divided by the average of total equity. Return on average assets (ROA) is calculated as annualized net profit for the reporting period divided by the average of total assets.

38. Events after reporting date

Military conflict between Ukraine and Russia, its impact on the Group's and Bank's business continuity

Due to the military conflict between Ukraine and Russia and the start of a military operation by the Russian National Armed Forces in Ukraine on February 24, 2022, the Bank carefully assessed its structure of assets in this region. This military conflict has caused high risks for Ukraine's internal and external finances, as well as for the Ukraine's macroeconomic and political stability. There is a great uncertainty with regard to the duration and effects of the conflict. Since the beginning of the military conflict, the volume of the Group's and Bank's financial liabilities subject to the Ukraine country risk has increased, while assets slightly decreased. Taking into account the existing uncertainty with regard to the further development of the situation, the Bank is currently evaluating the necessity of creating additional provisions.

The Bank has performed an additional stress test assuming , in the Management's view , the worst-case scenario in these uncertain circumstances, i.e., the possible loss of assets and deposits due to the military conflict in Ukraine, to assess how the maximum possible losses in the Ukraine region might affect the Bank's equity capital and liquidity.

The stress test has been performed according to the situation as at 31.12.2021 and taking into consideration loan and deposit portfolio subsequent performance after 24th of February when the military conflict between Ukraine and Russia begun, using the following factors and parameters:

1) Impact on the equity capital of the Group and the Bank
   - the complete write-off of the assets classified by risk country as Ukrainian (EUR 31, 746 million as at 31.12.2021 less the loan repayments received after year end; see also Note 2). Based on the Group's and the Bank's analysis the risk country reflects the country where the Client has a collateral or office facilities. These assumptions are made according to the complete portfolio re- assessment subsequent to the military conflict starting date;
   - lost proceeds from transactions in Ukraine in the amount of income for 2021 (EUR 2.5 million) taking into consideration that part of proceeds have been already received subsequently to the year-end;
   - Russian exposure is not significant to the Group's and Bank's portfolio, therefore no additional considerations were made;
   - the assets of other countries classified by the risk country remain unchanged according to the complete portfolio re- assessment subsequent to the military conflict starting date.

In performing the stress test, the calculations included the originally forecasted profit for the year 2021 (EUR 8.5 million), as well as the fact that the right of claim associated with the credit-impaired asset (POCI) was assigned at the end of February 2022, thus reducing the exposure in Ukraine by EUR 3.8 million (see also Assignment of the credit-impaired asset (POCI)_ below). As the result of the

38. Events after reporting date *(cont'd)*

Military conflict between Ukraine and Russia, its impact on the Group's and Bank's business continuity (cont'd)

stress test, the equity capital indicator of the Group and the Bank amounted to 14.4%, which exceeds the individual capital indicator determined by the regulator at 13.6% (consisting of the capital adequacy requirement 11.10% and capital conservation buffer at 2.5%). It is to be noted that capital conservation buffer of 2.5% the Bank can use in case of a crisis situation.

2) Impact on liquidity:
   - loss of funds in correspondents accounts of Ukrainian banks in the amount of EUR 0.06 million;
   - outflow of funds classified by risk country as Ukrainian in the amount of EUR 41.8 million;
   - outflow of arrested funds of Latvian customer in the amount of EUR 33 million;
   - outflow of deposits of Latvian residents in relation to regular operational activity EUR 3.6 million according to subsequently available information to the year-end;
   - Russian exposure is not significant to the Group's and Bank's portfolio, therefore no additional considerations were made;
   - the deposit outflow of other countries classified by risk country is not considered.

According to the results of the stress test, the Bank's liquidity indicator is 44,73% with the special liquidity requirement being determined at 40%. It was concluded by the Management of the Bank that the military conflict between Ukraine and Russia will have a negative effect on the Group's and Bank's operations. As stated above in Note 3(a) and taking into consideration the stress test results, the financial statements are prepared on the basis that the Group and the Bank will continue to be a going concern.

The Management acknowledge that it is not possible to determine the exact effect of geopolitical conflict between Russia and Ukraine, and the key assumptions used in the worst-case scenario supporting the use of the going concern assumption in preparation of these financial statements do not assume any worse economic conditions and possible impact on the Group's and Bank's customers than stated above.

The Bank continues to constantly monitor the development of the situation in order to promptly and effectively respond to current events, if necessary, to maintain business continuity and financial stability of the Group and the Bank.

Assignment of the credit-impaired asset (POCI)

In February 2022, an agreement was signed on the assignment of the right of claim of the credit-impaired asset (POCI) acquired in 2021 (see also Note 13). The Bank has recovered its investment in full as the result of this transaction.

As of the last day of the reporting year until the date of signing these financial statements there have been no other events, except the aforementioned, requiring adjustment of or disclosure in the financial statements or notes thereto.

Aleksandrs Jakovlevs Chairman of the Board	Yuriy Rodin Chairman of the Council

Riga, 29 April 2022