Reģionālā Investīciju Banka

AS Reģionālā investīciju banka

Consolidated and Bank's annual report for the year ended 31 December 2020

Prepared in accordance with International Financial Reporting Standards adopted by the European Union

05.03.2021.

*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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Management Report

AS "Reģionālā investīciju banka" is a joint stock company registered in the Republic of Latvia. The registered office address is: 2 Jura Alunāna Str., Riga, LV-1010, Latvia, registration no: 40003563375. On 3 October 2001, Financial and Capital Market Commission of the Republic of Latvia (FCMC), approved AS "Reģionālā investīciju banka" as a credit institution and issued Banking Licence No. 170. Supervisory authority of the Bank is FCMC.

In 2019 and 2020, the Bank's operation was determined by the new development strategy, the key direction of which is lending and project financing to Latvian and EU companies. This sustainable development strategy was developed and approved by the Bank in the spring of 2019. It requires the Bank to systematically strengthen its position in the market, create a stable image of a specialized credit institution and build a highly profitable and loyal customer base. This work was successfully carried out in 2020 and will continue in 2021 without a significant change in the course of development.

The 19-year long experience in the banking sector, the difficulties and crises that the Bank has successfully overcome during these years as well as the ability to change and the high professionalism of the Bank's employees enable the Bank to feel confident even in the conditions of the global economic crisis of 2020. Due to the COVID-19 pandemic, serious restrictions were imposed on global businesses - the introduction of a state of emergency and lockdowns in most of the European countries, closed borders and difficulties with logistics, a general economic downturn and the impossibility to plan long-term business growth, a high degree of uncertainty about further developments. Despite this , the Bank continued to work actively, developing its priority line of business - lending.

Overall economic situation

According to the latest data in 2020, Latvia's annualized GDP decreased by 3.5%. On a quarterly basis, the largest decline was in the second quarter, when the economy decreased by 8.9%. However, this is a relatively good indicator, as in that period the average European Union GDP decreased by 13.9%. In the third quarter, the annualized slump of the Latvian economy slowed down, GDP decreased by 2.6%, while in the fourth quarter of 2020, notwithstanding the rapid spread of COVID-19 and precautions taken to stamp out the disease, GDP grew by 1.1% compared to the previous quarter. Such an annualized increase showed the economic slowdown of only 1.4% in the fourth quarter. Development trends vary widely across different spheres. As a result of the COVID-19 crisis, in 2020, the largest notable decline was in the following sectors: hospitality and catering, arts, entertainment and leisure. The restrictions, imposed with COVID-19, have also affected airlines, ground transportation and railways. There was also a significant decline in financial and insurance activities, information and communication services and commercial services. Agriculture and forestry, construction and utilities were some of the few sectors that continued to grow during the 2020. As a result of rising unemployment and falling incomes caused by COVID-19, household consumption in 2020 was 10.5% lower than in the previous year. The COVID-19 crisis had a relatively more moderate impact on investments, but had a negative impact on the export of goods and services.

The Latvian banking sector as a whole demonstrates resilience to the economic shock caused by COVID-19. Owing to government aid measures (moratoriums and guarantee schemes), the negative impact of COVID-19 on asset quality is not yet fully clear. In the third quarter, the assets of the banking sector increased by EUR 373 million or 1.6%. At the same time, there were changes in the asset structure, namely, balances due to the Central Bank decreased, investments in securities increased.

Bank's financial performance and deposits

Throughout 2020, the Bank's financial performance was stable and the liquidity and capital indicators demonstrated nearly doubling of the required standards (83.51% and 25.64% against the set requirements of 40% and 13.4%, respectively). In 2020, the total volume of deposits did not undergo significant changes and as of the end of the year amounted to 92.4% of the respective indicator of 2019. At the same time, the deposit volume of residents of Latvia increased by 29.75%, which is an important element of the Bank's Development Strategy.

Lending and business development

In 2020, the Bank has been issued new loans for a total of EUR 33 million. In contrast to 2019, when, as a result of portfolio amortization, at the end of the year the Bank's gross loan portfolio decreased by EUR 39 million, in 2020, its total increased by EUR 8 million. The focus was on the development of lending in Latvia, which brought a visible result - the loan portfolio of Banks clients, residents of Latvia, increased by 55% during 2020 and at the end of the year amounted to EUR 36 million. In 2020, the Bank steadily increased its activities in the Latvian lending-project market - new loans of EUR 22 million were issued to the Latvian business, compared with EUR 4.6 million in 2019. According to the Finance Latvia Association, such a growth rate at the end of the 3rd quarter ranked the Bank third among the Association members (14 banks and branches of foreign banks) in terms by volume of the corporate loan portfolio, which confirms the correctness of the Bank's strategy and its positioning in the market. At the end of 2020, the share of loans with exposures in Latvia in the Bank's total loan portfolio reached 45%.

Undoubtedly, the general decline in economic activity and the difficulties faced by many customers could not but affect the Bank's performance. Many clients were forced to postpone previously planned investments and development projects and focus on maintaining their business in the face of constraints and crisis. Some clients suspended investments from already approved loan funds or postponed the signing of loan agreements with the Bank. This did not allow the Bank to achieve the ambitious growth rates of the Bank's loan portfolio planned by the development strategy and to show more convincing business development results. In 2020, the Bank's interest income decreased by 26.4%. Nevertheless, most of the loan projects considered by the Bank and not implemented in 2020 remain in the portfolio of potential projects with good prospects for completion in the first half or later in 2021 or 2022.

Since the spring 2020, the number of payment card settlements and the number of payments have decreased. Even taking into account a slight increase in economic activity in the summer of 2020, on average for the year the Bank recorded a drop by 15% in fee and commission income, incl. for opening and maintaining accounts, which mainly reflects the general decline in the activity of the customer base.

In the context of any economic crisis, the quality of the Bank's loan portfolio becomes especially important. During the period 2018-2020, the Bank demonstrated an extremely conservative approach to assessing credit risk in the projects it financed. The Bank began cooperation only with those clients whose business plan was carefully built and the financial indicators for the previous period demonstrated high professionalism and business knowledge. The given approach enabled the Bank to create a stable loan portfolio, which withstood the impact of the first two waves of the 2020 crisis without significant shocks.

In April 2020, the Bank joined the "non-legislative" COVID-19 moratorium initiated by the Finance Latvia Association, under which customers had the opportunity to apply to the Bank for restructuring loan repayment schedules (credit holidays) under a simplified scheme. The total volume of loan projects thus

Lending and business development *(cont'd)*

restructured was less than 5% of the loan portfolio. This is a low indicator demonstrating the high quality of the Bank's loan portfolio and its resilience to market shocks.

Products, processes and technologies

Throughout 2020, the Bank systematically strengthened its core corporate values - competence, speed and flexibility in cooperation with clients. To this effect, many internal processes were revised, IT solutions were optimized and the staff was increased and strengthened primarily in those departments that are responsible for relationships with customers. The Bank strictly focused on personal contacts with customers and ensured a targeted offer of high-level banking services.

We continued our work improving our offering to customers in 2020. Compliance with the requirements and needs of the Latvian business environment has been the main criterion for the optimization and development of the Bank's products and systems In September 2020, the Bank released a mobile version of the Internetbank with a built-in payment authorization tool - a modern and secure solution that meets the market standard. In the autumn, 2020, the Bank started and on 2 February 2021, the project on instant payments was successfully completed - the Bank became the 6th commercial bank in Latvia, offering this modern solution that ensures the Bank's customers to make real time payments to other banks participating in the system. Attention was also paid to the security of payments - in 2020 the Bank implemented launching of the modern version of FMS (Fraud Monitoring System); the 3D Secure project providing a two-factor authentication system is at the completion stage, the time of preparation of this Report.

Throughout the year, the Bank took the necessary measures to ensure the highest workplace safety standards for the Bank's employees in the context of the COVID-19 pandemic. This was achieved not affecting the Bank's performance quality and safety. In 2020, there were tested for the first time many solutions for remote work and communication; those that demonstrated a high degree of efficiency will be practiced in the Bank after the end of the pandemic.

Profit distribution as suggested by the Board

The Board recommends that the profit for the reporting year should be retained and included in retained earnings

Future plans and perspectives

In February 2021, the Bank's Council approved the Bank's Development Strategy for the period 2021-2025, which integrated the experience of previous years and the changes in the Bank's approach to its development, the need of which had become apparent.

Bank is developing in above chosen course according to the new version of the strategy, focusing on medium-sized and large businesses in Latvia and the EU in the field of lending and project financing. The previous experience and the team of ambitious specialists with experience in the leading commercial banks of Latvia ensure the Bank to focus on the highest market standards and offer its clients high quality banking services. In 2021, the quality standard of the Bank's products and banking services will continue to grow and be optimized for the needs of corporate customers. Each customer of the Bank can count on a personal manager, competent advice on banking services and prompt resolution of any issues related to their business and personal needs.

The Bank continues to develop its competence in the priority sectors of the Latvian economy as defined by the strategy and it is ready to offer its customers individual solutions in terms of both the financing

Future plans and perspectives *(cont'd)*

structure and the rates of banking services. In 2021, the Bank focuses on the systematic and stable growth of an active customer (legal entities) base and a dynamic increase in the corporate loan portfolio with exposures in Latvia.

In 2021 and beyond, the Bank will focus on issues related to environmental, social and governance (ESG) risks. A particular emphasis will be laid on the principles of "Responsible banking" and "Sustainable finance". These are projects that share the values of the "green growth" and "sustainable development" and will receive the most favorable treatment for cooperation and priority consideration by the Bank.

This path of transformation and business development outlined in the Bank's Development Strategy 2021-2025 will lead in the 5-year period the Bank to become a premium corporate bank for medium-sized and large businesses in Latvia and the EU.

Aleksandrs Jakovlevs
Chairman of the Board

Mark Bekker
Deputy Chairman of the Council

Riga, 5 March 2021

Council and Board of the Bank

As at 31 December 2020 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	30.11.2016
Alda Odiņa	Member of the Board	15.04.2019
Dace Gaigala	Member of the Board	15.04.2019
Vita Matvejeva	Member of the Board	06.02.2020

Aleksandrs Jakovlevs
Chairman of the Board

Mark Bekker
Deputy Chairman of the Council

Riga, 5 March 2021

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 17 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 2020 and the results of their operations and cash flows for the reporting year 2020.

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

Mark Bekker
Deputy Chairman of the Council

Riga, 5 March 2021

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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 17 to 100 of the accompanying Annual Report, which comprise the statements of financial position as at 31 December 2020, 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 2020 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.

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)	
In 2018, the amendments to the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing (AML/CFT) came into force. The banks in Latvia were prohibited to establish and maintain business relationships with shell-companies that possessed certain indications. As the Group and the Bank historically have cooperated with shell-companies, these events required the Group and the Bank to revise their AML policies as well as the clients' base. 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 38 to the financial statements, is extension of lending in Latvia and European Union with focus on the segment of medium and large companies. Budget for year 2021 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, indicating that a material uncertainty exists that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. 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 and uncertainty on whether and how the Group and the Bank will continue to implement the Development Strategy remains; 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 2019–2022 and its implementation status based on year 2020 actual results. We reviewed and discussed the updated Development Strategy for years 2021-2025 with the Group's and the Bank's management. We reviewed the implementation status of the updated Development Strategy based on the actual financial results for January and February 2021. We discussed the implementation status of the Group's and the Bank's initial and updated Development Strategy with the Financial Capital and Market Commission (FCMC). We obtained the year 2021 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 the matter in Note 38 to the financial statements.

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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 2020 amounted to EUR 68 628 thousand in the Bank's separate financial statements and EUR 64 980 thousand in the Consolidated financial statements; the total impairment loss allowance as at 31 December 2020 amounted to EUR 10 146 thousand in the Bank's separate financial statements and EUR 10 114 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 Ukraine. The basis of the Bank's and the Group's impairment provision policy is presented in the accounting policies section in Notes 3(l) 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(l), 4(a) and 13 to the financial statements. In order to provide for expected credit losses, management uses a model-based approach, individual assessments and model overlay assessments to consider factors not captured by the models. 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 is 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.	Our audit procedures included, among others, the following: We gained understanding and tested the key controls over the loan issuance, accounting and monitoring and loan impairment provisioning processes. We gained understanding of how management applied 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 data to models and the general IT-controls including the handling of authorizations 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. For a sample of the loans we 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 and assessed whether the Group and the Bank has calculated 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 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 (by involving our valuation specialists), 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 (l), 4(a) and 13.

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 November 2020 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 requisite 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 and significant impact on the future operations, we have identified this as a key audit matter.	Our audit procedures included, among others, the following: We reviewed the Bank's AML/CFT risk management strategy for 2019-2021 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, the improvement plan and its implementation. We reviewed and evaluated the Bank's remediation plan in relation to the FCMC findings and its implementation by inspecting the implementation status reports and correspondence on the implementation with the regulator. We gained understanding of Bank's internal policies and procedures and involved our internal AML specialists in the assessment of policy compliance with AML/CFT laws and regulations. We gained understanding and tested the key controls over the Client Onboarding, Enhanced due diligence, Transaction monitoring processes and reviewed their compliance with AML/CFT laws and regulations. We reviewed communication with the FCMC in order to identify undisclosed or unrecorded violations noted by the regulatory institution and, if such identified, to assess 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.
Valuation of repossessed assets (the Consolidated and the Bank's separate financial statements)	
As disclosed in Note 20 to the financial statements the Group and the Bank have repossessed real estate as part of the loan recovery process and have accounted them both in the Consolidated and the Bank's separate financial statements as at 31 December 2020 amounting to EUR 13 441 thousand and EUR 1 572 thousand, respectively. The largest repossessed property recorded in the Consolidated financial statements amounting to EUR 11 868 thousand is located in Germany (Berlin) and there are certain legal restrictions to be resolved. Some of the real estate is located in Ukraine (the Consolidated and the Bank's separate financial statements) and selling of the respective properties might require considerable time. Determining whether impairment for any of the repossessed real estate should be recognized requires the Group's and the Bank's management to make significant assumptions and involves judgements. As a result of the Group's and the Bank's management	Our audit procedures included, among others, the following: We obtained understanding about the management's approach to the accounting and assessment of the recoverable amounts applied to the respective repossessed assets. We assessed the ownership of the repossessed real estate by reviewing the respective country's land registry documents. We obtained and reviewed initial valuations and their updates of the repossessed real estate made by independent certified third party valuators. We assessed the objectivity and competence/ experience of the engaged third party valuators. We involved valuation specialists to assist us in reviewing the initial valuation reports and their updates on the selected largest repossessed real estate objects. Our valuation specialists reviewed and assessed the estimates and key assumptions used and methodologies applied to determine the recoverable amounts of the repossessed real estate. For the additional work done on the largest repossessed real estate located in Germany see the key audit matter

impairment assessment, impairment charge amounting to EUR 33 thousand has been recognized in year 2020. Due to the above circumstances, we consider the impairment assessment of repossessed real estate to be a key audit matter.	"Recoverability of investment in and loan issued to the subsidiary Grunewald Residence Ltd". We assessed the classification and valuation of the assets according to IFRS. We considered the adequacy of the disclosures included in Notes 3(o), 3(cc) and 20 to the financial statements and whether the disclosures on the application of judgement in estimating the recoverable amount and the sensitivity of the results of those estimates reflect the risks associated with impairment of repossessed real estate.
Recoverability of investment in and loan issued to the subsidiary Grunewald Residence Ltd (the Bank's separate financial statements)	
In the Bank's separate financial statements as at 31 December 2020 the carrying amount of EUR 6 100 thousand of investment in the subsidiary, Grunewald Residence Ltd, was reported. The loan issued to the subsidiary amounted to EUR 3 648 thousand as at 31 December 2020. The core business of the subsidiary is holding the repossessed asset located in Germany taken over in the year 2017. As described in Note 16, the ultimate goal of the Bank's management is successful sale of the respective asset (in a development stage) once legal restrictions related to the asset are resolved. In order to increase the value of the asset and also to strengthen the Grunewald Residence Ltd position in court, German architects have been contracted to develop the site project and obtain construction permits for the potential future development of the land when the legal restrictions are removed and the old buildings demolished. The sales process of the respective asset has been also delayed due to COVID-19 pandemic environment. The determination of the recoverable amounts of the investment in the subsidiary and the loan to the subsidiary is a complex process and requires the management to make subjective judgements, including those in respect of resolution of the legal restrictions and future operating cash flows, growth rates and discount rates related to the development of the repossessed asset. Due to the above circumstances, we consider recoverability of investment in the subsidiary and the loan issued to the subsidiary to be a key audit matter.	Our audit procedures included, among others, the following: We obtained understanding about the management's approach to the accounting and assessment of the recoverable amounts applied to the respective repossessed asset. We assessed the ownership of the land in Berlin, Germany, by reviewing the Germany Land register documentation. We obtained and reviewed the initial valuation and its update of the repossessed real estate made by the independent certified third party valuator as a key evidence supporting recoverability of the investment in the subsidiary and related loan to the subsidiary. We assessed the objectivity and competence/ experience of the engaged third party valuator. We involved valuation specialists to assist us in reviewing the updated valuation report. Our valuation specialists reviewed and assessed the estimates and key assumptions used and methodologies applied to determine the recoverable amount of the land plot. We reviewed the legal opinion on the potential outcome of the legal proceedings in respect of the restrictions and assessed how the management had incorporated this information in its projections on estimation of recoverability of the investment in the subsidiary and loan issued to the subsidiary. We discussed the facts mentioned in the legal opinion with the Bank's management. We discussed with the management their intentions in respect of the repossessed asset, reviewed the agreements with lawyers and architects working on resolving the legal restrictions as well as discussed future development of the asset. We considered the adequacy of the disclosures included in Notes 3(cc), 16 and 20 to the financial statements and whether the Bank's disclosures on the application of judgement in estimating the recoverable amount and the sensitivity of the results of those estimates reflect the risks associated with impairment of the investment in and loan issued to the subsidiary.

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 7 of the accompanying Annual Report;
- the Statement on Management Responsibility, as set out on page 8 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. 46 "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. 46 "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.

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.

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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 4 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
License No. 17

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

Riga, 5 March 2021

Consolidated and Bank's Financial Statements

Consolidated and Bank's Statement of Comprehensive Income

	Notes	2020 Group EUR	2020 Bank EUR	2019 Group EUR	2019 Bank EUR
Interest revenue calculated using effective interest rate method	5	5,178,893	5,345,275	7,070,371	7,228,565
Other interest and similar income	5	344,255	344,255	505,574	505,574
Interest expense	5	(2,308,714)	(2,303,194)	(2,747,097)	(2,747,097)
Net interest income	5	**3,214,434**	**3,386,336**	**4,828,848**	**4,987,042**
Reversal of allowances for loan impairment	12,13,20,28	1,299,010	1,294,819	1,144,377	1,117,346
Net interest income after allowances for loan impairment		**4,513,444**	**4,681,155**	**5,973,225**	**6,104,388**
Fee and commission income	6	3,520,495	3,520,759	4,197,457	4,197,670
Fee and commission expense	6	(356,723)	(356,591)	(455,234)	(455,129)
Net fee and commission income	6	**3,163,772**	**3,164,168**	**3,742,223**	**3,742,541**
Profit/(loss) from sale of financial assets at fair value through profit or loss, net		43,138	43,138	(213)	(213)
Loss from revaluation of securities at fair value through profit or loss, net		(63,129)	(63,129)	22,971	22,971
Profit from derivative financial instruments revaluation, net		(32,359)	(32,359)	32,088	32,088
Gain from trading in foreign currencies, net		808,468	808,468	854,677	854,677
Gain/(loss) from foreign exchange translation, net		(4,989)	(4,989)	170,330	170,330
Other operating income	8	453,866	431,480	1,278,044	404,880
Total operating income		**8,882,211**	**9,027,932**	**12,073,345**	**11,331,662**
Administrative expense	7	(7,244,796)	(7,145,649)	(7,814,251)	(7,694,484)
Amortization and depreciation charges	17,18	(367,690)	(367,690)	(519,574)	(519,574)
Other income	9	453,317	453,317	284,237	284,237
Other expense	9	(1,117,096)	(1,114,629)	(255,263)	(255,263)
Profit before corporate income tax		**605,946**	**853,281**	**3,768,494**	**3,146,578**
Corporate income tax	10	(139,596)	(138,603)	(149,521)	(149,521)
Net profit for the year attributable to:		**466,350**	**714,678**	**3,618,973**	**2,997,057**
shareholders of the Bank		549,838	714,678	3,571,832	2,997,057
non-controlling interest		(83,488)	-	47,141	-
Items that cannot be reclassified subsequently to profit or loss:					
Gain/(loss) on equity instruments at fair value through other comprehensive income		(190,299)	(190,299)	128,122	128,122
Items that can be reclassified subsequently to profit or loss:					
Gain/(loss) on debt instruments at fair value through other comprehensive income		5,617	5,617	-	-
Other comprehensive income		**(184,682)**	**(184,682)**	**128,122**	**128,122**
Total comprehensive income for the year attributable to:		**281,668**	**529,996**	**3,747,095**	**3,125,179**
shareholders of the Bank		365,156	529,996	3,699,954	3,125,179
non-controlling interest		(83,488)	-	47,141	-

The Consolidated and Bank's financial statements on pages 17 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	Mark Bekker Deputy Chairman of the Council

Riga, 5 March 2021

The accompanying notes on pages 22 through 100 form an integral part of these financial statements.

Consolidated and Bank's Statement of Financial Position

	Notes	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Assets					
Cash and balances with the Bank of Latvia	11	67,749,254	67,749,254	113,348,256	113,348,256
Balances due from banks	12	40,859,902	40,859,902	50,350,422	50,350,422
Derivative financial instruments	26	-	-	42,340	42,340
Financial assets at fair value through profit or loss	14	13,394,913	13,394,913	31,015,724	31,015,724
Debt instruments at fair value through other comprehensive income	15	46,448,754	46,448,754	-	-
Equity instruments at fair value through other comprehensive income	19	221,711	221,711	412,205	412,205
Loans and advances to customers	13	64,980,255	68,628,156	54,754,717	59,297,802
Other assets	20	17,210,951	4,991,082	24,142,900	11,812,637
Investment in subsidiary	16	-	6,100,000	-	6,100,000
Property and equipment, and right-of-use assets	18	13,092,753	13,092,753	13,250,539	13,250,539
Intangible assets	17	437,088	437,088	450,545	450,545
Prepaid expense		148,695	148,695	229,801	229,801
Total assets		**264,544,276**	**262,072,308**	**287,997,449**	**286,310,271**
Liabilities					
Balances due to banks		5,400	5,400	-	-
Deposits from customers	22	204,612,329	205,430,951	221,959,053	222,413,176
Other financial liabilities	24	538,650	536,360	2,145,768	951,099
Deferred income and accrued expense	25	739,910	739,914	872,589	872,589
Debt securities	23	16,384,025	16,384,025	17,896,420	17,896,420
Subordinated loans	35	3,016,117	3,016,117	8,748,647	8,748,647
Current income tax liabilities		2,337	2,337	1,132	1,132
Total liabilities		**225,298,768**	**226,115,104**	**251,623,609**	**250,883,063**
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		32,934	32,934	223,233	223,233
Revaluation reserve on debt instruments at fair value		5,617	5,617	-	-
Retained earnings		3,831,829	3,583,891	3,281,991	2,869,213
Equity attributable to equity holders of the parent		**36,205,142**	**-**	**35,839,986**	**-**
Non-controlling interest		3,040,366	-	533,854	-
Total equity		**39,245,508**	**35,957,204**	**36,373,840**	**35,427,208**
Total liabilities and equity		**264,544,276**	**262,072,308**	**287,997,449**	**286,310,271**
Off-balance sheet items					
Contingent liabilities	28	9,550,225	9,550,225	5,242,483	5,242,483
Financial commitments	28	13,722,190	13,722,190	32,006,395	32,006,395
Assets under management	**36**	**54,707,966**	**54,707,966**	**68,177,202**	**68,177,202**

The Consolidated and Bank's financial statements on pages 17 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

Mark Bekker
Deputy Chairman of the Council

Riga, 5 March 2021

The accompanying notes on pages 22 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 2018	**32,334,756**	**6**	**(289,841)**	**-**	**95,111**	**32,140,032**	**486,713**	**32,626,745**
Profit for the year	-	-	3,571,832	-	-	3,571,832	47,141	**3,618,973**
Change in the revaluation reserve	-	**-**	**-**	-	128,122	128,122	-	128,122
Total comprehensive income for the year	**-**		**3,571,832**	**-**	**128,122**	**3,699,954**	**47,141**	**3,747,095**
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**
Increase in subsidiary's share capital (see Note 16)	-	-	-	-	-	-	2,590,000	**2,590,000**
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**	**2,506,512**	**2,871,668**
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**

The accompanying notes on pages 22 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 2018	**32,334,756**	**6**	**(127,844)**	**-**	**95,111**	**32,302,029**
Profit for the year	-	-	2,997,057	-	-	2,997,057
Change in the revaluation reserve	-	-	-	-	128,122	**128,122**
Total comprehensive income for the year	**-**	**-**	**2,997,057**	**-**	**128,122**	**3,125,179**
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 the 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**

The accompanying notes on pages 22 through 100 form an integral part of these financial statements.

Consolidated and Bank's Statement of Cash Flows

	Notes	2020 Group EUR	2020 Bank EUR	2019 Group EUR	2019 Bank EUR
Cash flows from/(used in) operating activities					
Interest received		5,607,514	5,773,896	8,177,937	8,319,671
Interest paid		(2,371,473)	(2,349,175)	(2,671,667)	(2,671,576)
Fees and commission received		3,520,495	3,520,759	4,197,457	4,197,670
Fees and commission paid		(356,723)	(356,591)	(455,234)	(455,129)
Income received from sale of securities at fair value through profit or loss		5,990	5,990	31,875	31,875
Income received from foreign exchange		850,808	850,808	812,337	812,337
Other operating income received		445,597	437,291	1,265,084	404,880
Personnel expenses paid		(5,431,410)	(5,425,007)	(5,858,977)	(5,852,040)
Administrative and other operating expenses paid		(2,687,337)	(2,404,155)	(2,160,814)	(2,097,677)
Income tax paid		(138,016)	(137,398)	(144,919)	(144,919)
Cash flows generated from operating activities before changes in operating assets and liabilities		**(554,555)**	**(83,582)**	**3,193,079**	**2,545,092**
Changes in operating assets and liabilities					
(Increase)/decrease in securities at fair value through profit or loss		12,868,040	12,868,040	(5,531,274)	(5,531,274)
(Increase)/decrease in securities at fair value through other comprehensive income		(46,448,754)	(46,448,754)	-	-
(Increase)/decrease in balances due from banks		(31,058,469)	(31,058,469)	432,159	432,159
(Increase)/decrease in loans and advances to customers, net		(14,072,300)	(13,197,300)	33,573,512	31,780,955
(Increase)/decrease in other assets		7,610,563	7,490,090	(4,315,224)	(1,317,620)
Increase/(decrease) in deposits from customers, net		(8,952,365)	(8,587,865)	2,128,999	2,575,939
Increase/(decrease) in balanced due to banks		5,400	5,400	-	-
Increase/ (decrease) in other liabilities, net		419,181	1,419,181	1,957,937	953,937
Net cash flows (used in) operating activities		**(80,183,259)**	**(77,593,259)**	**31,439,188**	**31,439,188**
Cash flows to/ from investing activities					
Purchase of intangible assets		(120,463)	(120,463)	(99,034)	(99,034)
Purchase of property and equipment		(48,395)	(48,395)	(30,190)	(30,190)
Net cash flows generated from /(used in) investing activities		**(168,858)**	**(168,858)**	**(129,224)**	**(129,224)**
Cash flows to/ from financing activities					
Increase in subsidiary's share capital	16	2,590,000		-	-
Dividends paid		-	-	(2,656,244)	(2,656,244)
Repayment of the Subordinated loans		(5,381,701)	(5,381,701)	(2,694,576)	(2,694,576)
Repayment of the principal amount of lease liabilities		(67,169)	(67,169)	(35,038)	(35,038)
Net cash flows generated from /(used in) financing activities		**(2,858,870)**	**(5,448,870)**	**(5,385,858)**	**(5,385,858)**
Effect of exchange rates on cash and cash equivalents		(1,669,181)	(1,669,181)	(797,635)	(797,635)
Net increase/(decrease) in cash and cash equivalents		**(84,880,168)**	**(84,880,168)**	**25,126,471**	**25,126,471**
Cash and cash equivalents at the beginning of the year	21	164,304,970	164,304,970	139,178,499	139,178,499
Cash and cash equivalents at the end of the year	**21**	**79,424,802**	**79,424,802**	**164,304,970**	**164,304,970**

The accompanying notes on pages 22 through 100 form an integral part of these financial statements.

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. The Bank has established the following representative offices: in Odessa, Ukraine, in 2005; in Dnipro (Dnepropetrovsk), Ukraine, in 2007; in Kiev, Ukraine, at the beginning of 2009, and, in Brussels, the capital of Belgium, in 2010. On 12 December 2018, after the changes in the client base of the Bank and in the course of optimization of the expenses, the Board of the Bank made a decision on the liquidation of representative offices in Kiev and Dnipro (Ukraine).

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

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 5 March 2021.

1. Operating environment of the Group and the Bank

Operations of the Bank are affected by tendencies in Ukrainian market, as the parent of the Bank is a Ukrainian public joint stock company – the bank *Pivdennij*, as well as significant portion of the loans issued by the Bank have been issued to Ukrainian companies and companies whose business is related to Ukraine.
The table below presents the total risk exposure of the Bank and the Group in Ukraine as at 31 December 2020 and 31 December 2019:

	31.12.2020 Group EUR '000	**31.12.2020** Bank EUR '000	**31.12.2019** Group EUR '000	**31.12.2019** Bank EUR '000
Statement of financial position assets subject to Ukraine country risk:				
Balances due from banks	9,051	9,051	5,487	5,487
Loans issued and other receivables	24,371	24,371	21,823	21,823
Total	**33,422**	**33,422**	**27,310**	**27,310**
Off-balance sheet items subject to the Ukraine country risk:				
Off-balance sheet financial commitments	2,700	2,700	15,447	15,447
Total	**2,700**	**2,700**	**15,447**	**15,447**

Ukraine's economy has proved more resilient to the crisis than forecast at the beginning of the Covid-19 pandemic. In the third quarter, real GDP grew by 8.5% compared to the previous quarter, and was

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

only by 3.5% lower than a year ago. The main reasons for this increase are the stabilization of consumer demand and favorable price situation in foreign markets. It is wholesale and retail trade that became the absolute leader in terms of investment in the country's total GDP in 2020. In January-September alone, these sectors, despite the economic crisis, generated by 22 billion hryvnia[1] more GDP than in the previous period (at constant prices, according to the State Statistics Service). The construction sector also demonstrated relatively positive indicators with a partial increase in budget expenditures for the development of various infrastructure facilities. In the manufacturing sectors, the decline was caused by the reduction of domestic and external demand. Transport turnover suffered negative impact both ways – freight transport due to the deterioration of the agricultural situation caused by low yields while passenger transport – due to the quarantine measures. Virtually all sectors of the economy have experienced the effects of the spread of Covid-19 in terms of the imposed restrictions, falling demand, and declining investment. The high prevalence of Covid-19 increases uncertainty about the future epidemiological situation and adversely affects the mood of the population and businesses. The Ukrainian government has decided to continue quarantine as well as tighten restrictions in early 2021. To support the population and the economy during the pandemic, government support programs have been expanded. Cooperation with the International Monetary Fund (IMF) will also continue in 2021. It is expected that the next tranche of funds under the Stand-By program could be received from the IMF in February-March 2021. The 18-month program worth a total of USD 5 billion was approved to address the Covid-19 issues.

The Covid-19 crisis had a significant impact on the profitability of the banking sector whose total profit in January-September was 37.6 billion hryvnia, which is by 22% less than in 2019. With economic activity gradually recovering, banks expect lending to increase over the next 12 months. At the same time, forecasts for changes in the loan portfolio quality remain negative, although overall credit quality indicators have been improving so far. Non-performing loans (NPL) accounted for 43.4% in the Ukrainian banking system at the end of October. The allowances for the loan portfolio established by banks in the three quarters of 2020 reached 20.9 billion hryvnia, which is 2.5 times more than in the corresponding period in 2019. Liquidity ratios of Ukrainian banks remain high, supported by relatively low loan-to-deposit ratios, deposit stability in the context of the crisis and a gradual decline in US dollar deposits. The capital adequacy ratio of the banking system exceeds 21% and it did not decrease significantly in 2020.

According to the estimates of the Central Bank of Ukraine, Ukraine's GDP will decrease by about 6% in 2020, and the growth by about 4% is the forecast for 2021. Inflation is projected at 4.1% in 2020 and around 6% in 2021.

Impact on borrowers

The solvency of the borrowers of the Bank may be affected by the reduction of their liquidity. Deteriorating operating conditions for borrowers may also have an impact on the management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent of the available information, the management has properly reflected the revised estimates of expected future cash flows in its impairment assessments.

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[1] According to National Bank of Ukraine exchange rate for hryvna as on December 31st, 2020 was 0.029286 EUR.

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

1. Operating environment of the Bank *(cont'd)*

Impact on collateral

The amount of allowance for impaired loans is based on the management's appraisals of these assets at the reporting date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. As a result of possible economy downturn, the actual realizable value on foreclosure may differ from the value used in estimating the allowances for impairment

2. Summary of significant accounting principles

A summary of significant accounting principles of the Group and the Bank, all of which were applied consistently throughout 2020 and 2019, are set out below:

(a) The currency used in the preparation of the financial statements

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

(b) Principals of preparation of the financial statements

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 and Bank's financial position, access to financial resources and analyzed the impact of the recent financial crisis on the future operations of the Group and the Bank.
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 2020, if compared to those of 2019.

(c) 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, plus costs directly attributable to the acquisition. The excess of the net assets purchased over the purchase price is recorded as a goodwill.

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

(c) Consolidation *(cont'd)*

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.

(d) 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.

(e) 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 entity commits 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.

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

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

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 is not irrevocably designated at fair value through other comprehensive income.

Regarding capital expenditures 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;
- at fair value through profit or loss.

The Group and the Bank classify and measure derivative financial instruments and financial assets held for trading at fair value through profit or loss. The Group and the Bank may measure financial instruments at fair value through profit or loss 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 fair value through other comprehensive income.

Financial liabilities, other than loans and borrowings and financial guarantees, are measured at amortized cost or at fair value through profit or loss if held for trading or are derivative financial instruments

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.

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

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

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 newly generated or newly purchased 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 applies judgment and considers 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 fair value through profit or loss.

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.

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

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

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

Financial assets 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. Other accumulated loss recognized in other comprehensive income is taken 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 benefits 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. 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 under IFRS 9 – according to the forward-looking ECL model.

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. Allowances for financial guarantee contracts were established, as in case of onerous contracts; under IFRS 9 these contracts are subject to the ECL model.

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

(f) 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.

(g) 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 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 2020	1.2271
31 December 2019	1,1234

(h) 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.

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

(i) 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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

(j) Cash and it's equivalents

Cash and it's 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.

(k) Requirement on 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.

(l) Loans and allowances for loan impairment

The Group and Bank only measure amounts due from credit institutions, loans to customers and other financial investments at amortized cost if both of the following conditions are met:

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

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.

In order to decide whether forborne loans are to be classified as Stage 3 assets for ECL assessment purposes, 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;

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

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

- 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;
- The borrower is classified as unlikely to pay.

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.

(m) 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 and Bank's statement of financial position and are subject to the Group and Bank's usual accounting policies, with the purchase price received included as a liability owed to the transferee. Where the Bank is a transferee, the assets are not included in the Group 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.

(n) 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 causes 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)).

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

(o) 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 at 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 necessary to make the sale.

(p) 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.

(q) Property and equipment

The items of property and equipment are stated at cost less accumulated depreciation and impairment. 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.

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 17).

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.

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

(r) Leases

The Group and the Bank as lessees

At the contract inception, the Group and the Bank assess whether it is or 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 recognizes 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).

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 payments (including in-substance fixed payments) less any lease incentives receivable, variable 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 25).

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.

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

(r) Leases *(cont'd)*

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.

(s) 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
- 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 (see also Note 3(l).

(t) Deposits from customers

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

(u) 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.

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

(v) 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.

(w) 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.

(x) 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 and Bank's financial statements. The legislation of the Republic of Latvia stipulates retained earnings to be the basis of dividend payment.

(y) 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 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.

(z) Off-balance sheet commitments

In the ordinary course of business, the Group and the Bank enter into off-balance sheet commitments, related to undrawn credit lines, letters of credit and financial guarantees.

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. These contracts are subject to the ECL model. The provisions for off-balance sheet transactions are established in accordance with the principles described in the paragraph on provisions of Note 3(w).

(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 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.

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

(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 both in accordance with IFRS 9 and IAS 39 for all categories of financial assets, 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)).

Initial recognition of related party transactions

In the ordinary course of business, the Group and the Bank perform transactions with related parties. IAS 39 requires initial recognition of financial instruments at fair value. Cases where the transactions carried out do not have an active market are subject to the management's judgment in determining interest rates on transactions and their correspondence with market interest rates. The assessment is based on similar types of transactions with unrelated parties and effective interest rate analysis.

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 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. The discount rate equals the Return on equity (ROE) rate. 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. Information on impairment assessment under IFRS 9 is presented in Note 4.

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

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

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.

Information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term is provided in Note 4.

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).

(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 2020:

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

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

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

IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. According to the management assessment, the adoption of these amendments does not have a material effect on the Group and Bank's financial statements.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of material is consistent across all IFRS Standards. These amendments have not yet been endorsed by the EU. According to the management assessment, the adoption of these amendments does not have a material effect on the Group and Bank's financial statements.

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provide temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (RFR). According to the management assessment, the adoption of these amendments does not have a material effect on the Group and Bank's 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 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.

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

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

IFRS 17: Insurance Contracts (cont'd)

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 standard has not been yet endorsed by the EU

IFRS 17: Insurance Contracts (Amendments), IFRS 4: 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 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 Amendments to IFRS 17 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.

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

The amendments are 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

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 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 recognize 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.

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.
The amendments have not yet been endorsed by the EU.

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.

According to the management assessment, the adoption of these amendments does not have a material effect on the Group and Bank's financial statements.

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

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)

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. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. 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. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. The amendments have not yet been endorsed by the EU.

3. Financial and other risk management

Risk management

Risk management is one of the Group and Bank's strategic tasks. Risk Management Strategy has been developed for the Group and 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 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.

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 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 and Bank's operations where the Group and the Bank make claims against another person and which are reflected in the Group and the Bank's statement of financial position and under off-balance sheet items.

The Bank's principles for evaluation, oversight and acceptance of credit risk are described and approved in its 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.

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

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

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

Credit risk exposures are monitored on a revolving basis through regular assessments of borrowers' ability to meet interest and principal maturities and limits are adjusted as appropriate. The Group 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:

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Assets subject to credit risk:				
Balances on demand with the Bank of Latvia	67,749,254	67,749,254	113,348,256	113,348,256
Loans to banks	40,859,902	40,859,902	50,350,422	50,350,422
Loans to customers	64,980,255	68,628,156	54,754,717	59,297,802
Financial assets at fair value through profit or loss	13,394,913	13,394,913	31,015,724	31,015,724
Debt instruments at fair value through other comprehensive income	46,448,754	46,448,754	-	-
Derivative financial instruments	-	-	42,340	42,340
Other financial assets	2,143,348	1,791,713	9,366,209	7,021,120
Total	**235,576,426**	**238,872,692**	**258,877,668**	**261,075,664**
Off-balance sheet items subject to credit risk:				
Contingent liabilities	9,550,225	9,550,225	5,242,483	5,242,483
Financial commitments	13,722,190	13,722,190	32,006,395	32,006,395
Total	**23,272,415**	**23,272,415**	**37,248,878**	**37,248,878**

The Group and the Bank regularly review the quality of the loan portfolio with the aim to identify loss events. In case a loss event is identified, it is assessed whether impairment should be recognized.

The Group and the Bank estimate expected credit losses (ECL), to eliminate 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. 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.

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

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

Credit–related commitments risks (cont'd)

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 Bank reflects 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 Bank assesses whether credit risk with regard to an exposure has increased significantly since initial recognition. The assessment of a significant increase in 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 signals about an increase in credit risk can be used, if these criteria are applicable and significant with regard to the borrower.

The Bank uses quantitative information in PD 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.

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 Bank (watch list);
- which will not reduce significantly the amount of financial commitments;
- the Bank considers 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.

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

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

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.

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 and Stage 3 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.

Definitions 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 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.

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

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

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 rate is calculated for each of the following groups of delay:

- not past due;
- increased credit risk;
- past due for 1-30 days;
- past due for 31-60 days;
- past due for 61-90 days;
- forborne not past due;
- forborne past due 1-30 days;
- non-performing loans.

PD rates are calculated using Markov's transmission matrices (TM) which reflect the movement of the lending portfolio between the groups of delays within one month. The transfer to another category is determined by using the number of migrations of loans. The calculation is based on TM data for 36 months before the end of the reporting period.

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 , Stage 3, in case of default, events over the lifetime of the respective instruments are considered. 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 Bank and the Group assess the LGD values and the Bank's Asset and Liability Committee reviews and approves thereof at least quarterly as well as whenever the Bank becomes 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.

Forward- looking information

In calculating ECL, the Group and the Bank consider if adjustments are needed in respect to the relevant forward-looking information. The Group and the Bank obtain forward-looking information from reliable third-party sources (such as external rating agencies, governmental bodies and international financial institutions). 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.

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

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

Forward- looking information (cont'd)

When the Bank identifies relevant correlations with available macroeconomic data, it uses these correlations to adjust relevant inputs and estimates used in the expected credit losses calculation. At the end of 2020, based on the results of the statistical analysis, the management considers that the forward looking component does not have a significant impact in the observed parameters. Given the protracted Covid-19 pandemic, it is expected that the economic assumptions the Bank has applied and disclosed regarding the forward-looking information will need an adjustment over time to reflect the evolution of the pandemic.

Due to the global COVID-19 crisis as well as according to the information provided by the regulator "On the Flexibility of Applying COVID-19-related Regulation", the suspension of principal payments to a Client who has suffered/could suffer from the COVID-19 impact is not considered a restructuring if the Client does not request additional reliefs.

Taking into account the probability of the loan portfolio deteriorating due to the impact of the COVID-19 pandemic, 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 Bank has identified as vulnerable to the effects of the pandemic the following sectors: trade, real estate operations and construction, accommodation and food services.

The Bank has analyzed the loan portfolio data at the end of the year and transferred from Stage 1 to Stage 2 loans to customers who were granted credit holidays during the first wave of COVID-19 and whose repeated request about deferred payments and applied to these loan exposures the same probability of default (PD) ratio as to the group of delay "forborne not past due".

For customers with Stage 2 loans who are related to and operating in the COVID-19 affected sectors and who might experience a significant pandemic impact, a probability of default (PD) ratio of 1.2 has been applied, the probability of default (PD) was multiplied by 1.2 based on the expert judgement. Overall, the Bank considers the impact of the pandemic on the loan portfolio to be moderate. The increase of ECL for the above-mentioned customers at the end of the year amounted to EUR 59.5 thousand.

The table below presents the ECL sensitivity of Stage 3 loans depending on collateral, if the price increases or drops at the end of the reporting period, with all other variables held constant (in thousand EUR):

31.12.2020	Effect on ECL	
	+10%	-10%
ECL	(200)	135
Total	**(200)**	**135**

In addition, the Bank has performed an ECL sensitivity analysis regarding changes in PD - if PD grows or decreases by 10% at the end of the year, the allowances for TOP 15 exposures (accounting for 86% of the total loan portfolio) increase or decrease by 8.5% with all other variables held constant (in thousand EUR):

31.12.2020	Effect on EC	
	+10%	-10%
ECL	221	(221)
Total	**221**	**221**

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

(b) Market risk

The Group and the Bank are exposed to market risks which arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements.

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 and Bank's equity and that the total foreign currency open position may not exceed 20% of the equity. In 2020 and 2019 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.

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

- assessment is made of changes in the Group and Bank's assets, liabilities and off-balance sheet items as a result of exchange rate fluctuations;
- how the Group 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.

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

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

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

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

31.12.2020	Effect on net profit/loss and equity		31.12.2019	Effect on net profit/loss and equity	
	+10%	-10%		+10%	-10%
USD	(31)	31	USD	(55)	55
Total	**(31)**	**31**	Total	**(55)**	**55**

(d) Interest rate risk

Interest rate risk is the sensitivity of the Group and 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.

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.

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

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

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

31.12.2020	Effect on net profit/loss and equity		31.12.2019	Effect on net profit/loss and equity	
USD	(280)	280	USD	(117)	117
EUR	(46)	46	EUR	65	(65)
Total	**(325)**	**325**	**Total**	**(52)**	**52**

(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 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.

The Bank performed a deposit analysis for the period February 2020–the end of 2020, when the Covid-19 related restrictive measures were implemented and the situation with the attracted deposits was

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

(e) Liquidity risk *(cont'd)*

assessed as stable. As a result, as at 31 December 2020, the Bank maintained a high liquidity ratio of 83.51%.

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.

(f) Capital adequacy

Capital adequacy refers to the sufficiency of the Group 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 Financial and Capital Market Commission (FCMC), the following approaches and methods are used:

- credit risk capital requirements are calculated using the standardized approach;
- the Financial Collateral Simple Method is used in order to decrease credit risk;
- 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, country risk, and other substantial risks).

Calculated in accordance with the FCMC requirements, the Group and Bank's capital adequacy ratio as at 31 December 2020 was 27.50% and 25.64% (31 December 2019: 27,58% and 26,95%), which is above the minimum set by European Parliament and the Council Regulation (EU) No 575/2013 requiring capital retention reserve amount (10.5%), being a sum of equity against risk weighted assets and off-balance sheet items being minimum of 8% and capital retention reserve above 2.5% (see Note 29).

On 21 April 2020, 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%. The Group and the Bank observed and complied with the individually determined capital adequacy requirements in 2020.

(g) Operational risk

Operational risk is the possibility of incurring losses as a result of inadequate or unsuccessful developments in the Group 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 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.

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

(g) Operational risk *(cont'd)*

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.

(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 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 following limits were set:

- 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

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

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

Country risk (cont'd)

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.

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-
-	-	Austria	Aa1/AA+	China	A1/A+

The table below reflects the breakdown of assets and liabilities by groups of countries.

	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 fair value through profit or loss	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 fair value through other comprehensive income	-	-	46,448,754	46,448,754	-	-	46,448,754	46,448,754
Equity instruments at fair value through other comprehensive income	-	-	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 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**

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

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

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

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

	Latvia		OECD		Non-OECD		31.12.2019	31.12.2019
	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	113,348,256	113,348,256	-	-	-	-	113,348,256	113,348,256
Balances due from banks	71	71	28,138,850	28,138,850	22,211,501	22,211,501	50,350,422	50,350,422
Loans and advances to customers	11,111,361	15,654,446	15,762,766	15,762,766	27,880,590	27,880,590	54,754,717	59,297,802
Financial assets at fair value through profit or loss	1,216,687	1,216,687	29,610,939	29,610,939	188,098	188,098	31,015,724	31,015,724
Equity instruments at fair value through other comprehensive income	-	-	412,205	412,205	-	-	412,205	412,205
Derivative financial instruments	-	-	42,340	42,340	-	-	42,340	42,340
Other financial assets	108,287	108,287	9,234,041	6,888,951	4,901	4,901	9,347,229	7,002,139
Total assets	**125,784,662**	**130,327,747**	**83,201,141**	**80,856,051**	**50,285,090**	**50,285,090**	**259,270,893**	**261,468,888**

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

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

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

	Latvia		OECD		Non-OECD		31.12.2019	31.12.2019
	Group	Bank	Group	Bank	Group	Bank	Group	Bank
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Liabilities								
Deposits from customers	45,994,255	46,448,378	82,048,140	82,048,140	93,916,658	93,916,658	221,959,053	222,413,176
Other financial liabilities	1,922,206	921,423	204,285	10,399	19,277	19,277	2,145,768	951,099
Deferred income and accrued expense	864,533	864,533	9,174	9,174	14	14	873,721	873,721
Debt securities	-	-	17,017,479	17,017,479	878,941	878,941	17,896,420	17,896,420
Subordinated loans	-	-	5,706,141	5,706,141	3,042,506	3,042,506	8,748,647	8,748,647
Total liabilities	**48,780,994**	**48,234,334**	**104,985,219**	**104,791,333**	**97,857,396**	**97,857,396**	**251,623,609**	**250,883,063**

(i) Money laundering and terrorism financing risk

The main policies and procedures as well as control mechanisms of the Group and the Bank in the area of combating money laundering and financing of terrorism and proliferation are based on the following documents:

- laws and regulations of the Republic of Latvia and European Union in the area of combating money laundering and financing of terrorism and proliferation;
- FATF (Financial Action Task Force) recommendations;
- Wolfsberg standards;
- Basel Committee Principles, etc.

The Group and Bank's internal regulations include the following programs:

- Money Laundering and Terrorism Financing Risk Management Strategy 2020 – 2022;
- Sanctions risk management policy;
- Program for customer identification and examination and for determination and identification of ultimate beneficial owner;
- Program for mandatory monitoring of customer operations and identification of suspicious transactions and activities;
- Program for customer information verification;
- Program for documenting the necessary information
- Program for information and documentation maintenance;
- Program for the training of the Bank's employees in the areas of AML/CFT and sanctions;
- Program setting forth limits for cash transactions and transactions with other assets;
- Program for threshold declarations and suspicious transaction reporting.

When meeting the above mentioned regulatory requirements and implementing the policies 'Know Your Customer' and 'Know Your Customers' Partners', the Bank performs customer and transaction party due diligence during which it:

- Identifies and verifies ultimate beneficial owners;
- Obtains information on the nature of the intended cooperation;
- Obtains information on the customer's business or personal life as well as about the origin of funds;
- Establishes the customer ML/FT risk category;

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

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

- Establishes the customer sanctions risk category;
- Obtains information on the ultimate beneficial owner;
- Obtains information on the objective of the transaction and its expected nature;
- Monitors transactions and obtains information and documents supporting the account transactions;
- Ensures security of the documentations, data and information obtained during the customer investigation as well as updates it on a regular basis.

A more detailed description of the management of money laundering and terrorism and proliferation financing risk is provided in the Policy for the Prevention of Money Laundering and Financing of Terrorism and Proliferation as well as in the Group and Bank's instructions.

The Bank continuously improves its internal control procedures, inter alia, internal regulatory documents, following the constantly changing external requirements.

In 2020, the regulatory framework concerning AML/CTPF/Sanctions continued to improve, however, compared to previous years, without introducing fundamentally new requirements, but making them more specific and consistent, and promoting a more common understanding of them. Greater focus was on the risk-based approach in custom due diligence, i.e. the depth and scope depending on the customer risk level.

In 2020, there was observed digitalization of information exchange between financial and law enforcement institutions alongside with progress towards automated information transfer to and retrieval from public registers. The Bank's mechanisms for identifying groups of inter-related customers, complex transactions and customer monitoring have been improved. New registers, limits, risk factors and monitoring alerts were introduced.

In 2020, the Methodology for Customer ML/TPF and Sanctions Risk Assessment and related algorithms were improved and supplemented. It involved achieving individual risk assessment more detailed and structured, consequently ensuring the customer risk assessment and ranking more accurate (the scoring performed according to FCMC Regulations No 135 and the additional risk indicators specified by the Bank shows that in general there is no grouping of customers at certain risk points).

The Bank has reviewed and updated the Money Laundering and Terrorism Financing Risk Management Strategy 2020-2022, significantly reducing the thresholds for certain positions, thus further approaching the strategic goal of developing in the Bank a ML/TPF risk management culture and maintaining its good reputation.

In the third quarter of 2019, the Financial Capital and Market Commission (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 first extended scope inspection of the FCMC has been concluded without identifying any systematic deficiencies. Based on the results from the targeted specific scope FCMC inspection, related to the narrow scope of the operations and past period of 2017-2018, on the 3rd November 2020 the FCMC announced a regulatory fine amounting to EUR 473 thousand imposed on the Bank. 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 requisite for the Group's and the Bank's successful operations in the future.

The Bank ensures regular independent compliance assessment of the operation of the Internal Control System (ICS) by engaging external auditors. A number of external audits have been carried out in the areas of AML/CTPF, compliance with sanctions and provision of IT systems in the ML/TPF risk management, with the aim of obtaining assurance on the compliance of these areas with external and internal regulatory requirements. The results of the inspection confirm the Bank's ICS overall compliance with regulatory requirements concerning ML/TPF and sanctions risk management and its effectiveness in all aspects and related processes.

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

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

The Bank continues ongoing improvement of IT systems ensuring automated AML/TPF and sanctions risk management processes (processing and managing customer information; determining ML/TF and sanction risk scores; sanction 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.).

The Bank continuously invests in developing an effective AML/TPF risk management and internal control system and its ongoing improvement, namely, enhancing the staff competence and system improvement, ensuring regular updating of AML/TPF and sanctions risk assessment (calculation) and reviewing of basic criteria, including evaluation of scores to be assigned for specific factors, taking into account current laws and regulations, suggestions, international recommendations and best practices, performing continuous improvement and optimization of ICS operations, ensuring the implementation of the Quality Assurance function on a daily basis, as a result of which the Bank is able to assume and manage the risks inherent in the Bank.

5. Interest income and expense

	2020 Group EUR	2020 Bank EUR	2019 Group EUR	2019 Bank EUR
Interest income at effective interest rate:				
Loans and advances to legal entities	4,605,842	4,772,224	5,961,255	6,119,449
Loans and advances to private individuals	286,517	286,517	510,341	510,341
Balances due from banks	286,534	286,534	598,775	598,775
Other income and similar income:				
Debt securities held for trading	339,423	339,423	505,574	505,574
Debt securities at fair value through other comprehensive income	4,832	4,832	-	-
Total interest income	**5,523,148**	**5,689,530**	**7,575,945**	**7,734,139**
Interest expense				
Due to private individuals	(169,945)	(169,945)	(142,208)	(142,208)
Due to legal entities	(151,717)	(151,717)	(240,022)	(240,022)
Subordinated loans	(517,153)	(517,153)	(846,400)	(846,400)
Debt securities issued	(790,012)	(790,012)	(803,970)	(803,970)
Other interest and related expense	(679,237)	(673,717)	(710,877)	(710,877)
Interest expense on lease liabilities (see also Note 18)	(650)	(650)	(3,620)	(3,620)
Total interest expense	**(2,308,714)**	**(2,303,194)**	**(2,747,097)**	**(2,747,097)**
Net interest income	**3,214,434**	**3,386,336**	**4,828,848**	**4,987,042**

Other interest and related expenses include payments to the deposit guarantee fund of EUR 131,028 (2019: EUR 131,288), 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 112,589 (2019: EUR 43,855); negative interest rate applied to correspondent accounts of EUR 328,860 (2019: EUR 395,717) and deposit referral fee of EUR 101,240 (2019: 69,940 EUR).

6. Fee and commission income and expense

	2020 Group EUR	2020 Bank EUR	2019 Group EUR	2019 Bank EUR
Fee and commission income:				
Account servicing	1,251,897	1,251,897	1,969,553	1,969,553
Commission income on asset management	1,042,396	1,042,396	636,230	636,230
Money transfers	614,689	614,953	835,876	836,089
Commissions on letters of credit	189,461	189,461	205,193	205,193
Commission on transactions with settlement cards	149,566	149,566	251,117	251,117
Interbank commission income	84,787	84,787	133,604	133,604
Commission income on transactions with securities	60,236	60,236	67,780	67,780
Commission income on current accounts servicing	59,114	59,114	2,178	2,178
Income from general services	42,519	42,519	69,203	69,203
Other commissions (DIGIPAS)	13,971	13,971	12,398	12,398
Fees on registration of changes in loan agreements	7,240	7,240	5,027	5,027
Income from currency exchange	263	263	1,477	1,477
Other income	4,356	4,356	7,821	7,821
Total fee and commission income	**3,520,495**	**3,520,759**	**4,197,457**	**4,197,670**
Fee and commission expense:				
Money transfers	(304,226)	(304,094)	(402,585)	(402,480)
Other expense	(52,497)	(52,497)	(52,649)	(52,649)
Total fee and commission expense	**(356,723)**	**(356,591)**	**(455,234)**	**(455,129)**
Net fee and commission income	**3,163,772**	**3,164,168**	**3,742,223**	**3,742,541**

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

7. Administrative expense

	2020 Group EUR	2020 Bank EUR	2019 Group EUR	2019 Bank EUR
Remuneration paid to personnel	(3,512,558)	(3,512,558)	(3,894,320)	(3,894,320)
State statutory social insurance contributions	(1,044,129)	(1,042,886)	(1,162,072)	(1,160,829)
Remuneration paid to the Members of the Council and the Board	(874,723)	(869,563)	(802,051)	(796,891)
Communications expense	(442,824)	(442,823)	(460,770)	(460,770)
Set-up and maintenance costs of information systems	(293,339)	(293,339)	(280,182)	(280,182)
Non-deductible VAT	(206,476)	(206,476)	(135,729)	(135,729)
Fee paid to the certified auditor*	(184,900)	(184,900)	(239,240)	(239,240)
Real estate tax	(122,478)	(122,478)	(98,534)	(84,761)
Consulting and professional fees	(123,113)	(103,278)	(194,359)	(131,568)
Office and equipment maintenance	(115,235)	(115,235)	(26,416)	(26,416)
Public utilities	(81,690)	(81,690)	(89,739)	(89,739)
Health insurance	(31,251)	(31,251)	(38,336)	(38,336)
Postal charges	(21,479)	(21,479)	(28,173)	(28,173)
Business trips	(16,075)	(13,247)	(61,309)	(57,056)
Stationary	(10,600)	(10,600)	(19,172)	(19,172)
Advertising and marketing	(5,215)	(5,215)	(7,641)	(7,641)
Expense related to short-term leases	-	-	(9,297)	(9,297)
Transport expense	(4,162)	(4,162)	(5,839)	(5,839)
Security	(1,266)	(1,266)	(1,202)	(1,202)
Other administrative expense	(153,283)	(83,203)	(259,870)	(227,323)
Total administrative expense	**(7,244,796)**	**(7,145,649)**	**(7,814,251)**	**(7,694,484)**

The average number of staff employed by the Group and the Bank in 2020 was 148, including 5 Members of the Board, 5 Members of the Council and 138 other employees (2019: 159, including 4 members of the Board, 5 Members of the Council and 150 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 163,400 (2019: EUR 216,140), other audit tasks - EUR 6,000 (2019: EUR 6,000); to other specialists – EUR 15,500 (2019: EUR 17,100).

8. Other operating income

	2020 Group EUR	2020 Bank EUR	2019 Group EUR	2019 Bank EUR
Rentals	405,302	385,622	319,662	284,142
Penalties	18,611	18,611	109,957	109,957
Dividends	10,854	10,854	4,197	4,197
Other income	19,099	16,393	844,228	6,584
Total other operating income	**453,866**	**431,480**	**1,278,044**	**404,880**

Due to the introduction of the Covid-19 restrictive measures, the Bank granted to the tenants affected by the said restrictions rent discounts of 30-10% for the period April-the end of 2020.

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

9. Other income and expense

	2020 Group EUR	2020 Bank EUR	2019 Group EUR	2019 Bank EUR
Profit from the sale of foreclosed assets	441,474	441,474	2,322	2,322
Profit from loan cession transactions	10,000	10,000	97,596	97,596
Income from recovery of written - off loans	1,843	1,843	184,319	184,319
Total other income	**453,317**	**453,317**	**284,237**	**284,237**
Payments to funds and membership fees	(209,387)	(209,387)	(253,915)	(253,915)
Impairment of repossessed collateral	(426,327)	(426,327)	-	-
Other expense	(7,256)	(4,789)	-	-
Penalties	(474,126)	(474,126)	(1,348)	(1,348)
Total other expense	**(1,117,096)**	**(1,114,629)**	**(255,263)**	**(255,263)**

On 3 November 2020, the Board of the Financial and Capital Market Commission (FCMC) decided to impose a fine of EUR 473 076 on the Bank for irregularities in detecting the source of funds that the FCMC inspection identified in the large value cash transactions carried out by the Bank high-risk clients from high-risk jurisdictions. This FCMC decision relates to the discussion about past (2017-2018) shortcomings in several cases concerning the sufficiency of implementation of the internal controls with regard to the examination and documentation of the source of funds used in transactions.. The Bank holds the opinion that the identified weaknesses in the Bank's internal control system are minor and associate only with the complexity of reviewing individual customer transactions. The case is closed and the penalty was paid on 9 December 2020.

10. Corporate income tax

	2020 Group EUR	2020 Bank EUR	2019 Group EUR	2019 Bank EUR
Corporate income tax for the reporting year	(4,426)	(3,433)	(7,531)	(7,531)
Amount of tax paid abroad*	(135,170)	(135,170)	(141,990)	(141,990)
Total corporate income tax	**(139,596)**	**(138,603)**	**(149,521)**	**(149,521)**

* 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

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Cash	827,093	827,093	729,668	729,668
Balances on demand with the Bank of Latvia	66,922,228	66,922,228	112,629,851	112,629,851
ECL allowances	(67)	(67)	(11,263)	(11,263)
	67,749,254	**67,749,254**	**113,348,256**	**113,348,256**

Balances on demand with the Bank of Latvia represent the Group and Bank's correspondent account balance.

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

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Allowances for balances due from the Bank of Latvia at the beginning of the year	11,263	11,263	9,417	9,417
Increase in the reporting year	15,191	15,191	29,689	29,689
Decrease in the reporting year	(26,387)	(26,387)	(27,843)	(27,843)
Allowances for balances due from the Bank of Latvia at the end of the year	67	67	11,263	11,263

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 16 December 2020 to 26 January 2021 was set at EUR 1,814,331 (2019: EUR 1,850,969). The Bank was in compliance with the reserve requirement of the Bank of Latvia in 2020 and 2019.

12. Balances due from banks

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Due from banks registered in Latvia	-	-	71	71
Due from banks registered in non-OECD countries	21,283,322	21,283,322	22,216,967	22,216,967
Due from banks registered in OECD countries	19,578,071	19,578,071	28,774,383	28,774,383
Balances due from banks, gross	**40,861,393**	**40,861,393**	**50,991,421**	**50,991,421**
ECL allowances	(1,491)	(1,491)	(640,999)	(640,999)
Balances due from banks, net	**40,859,902**	**40,859,902**	**50,350,422**	**50,350,422**

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

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
On demand	11,686,986	11,686,986	21,100,270	21,100,270
Balances with maturity of three months or less	29,161,023	29,161,023	29,876,531	29,876,531
Other balances due from banks	13,384	13,384	14,620	14,620
Balances due from banks, gross	**40,861,393**	**40,861,393**	**50,991,421**	**50,991,421**
ECL allowances	(1,491)	(1,491)	(640,999)	(640,999)
Balances due from banks, net	**40,859,902**	**40,859,902**	**50,350,422**	**50,350,422**

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 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 an analysis of changes in gross carrying amount and corresponding ECL allowance on balances due from credit institutions during the year ended 31 December 2019:

Balances due from banks	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2019	**44,182,506**	**-**	**-**	**44,182,506**
New assets originated or purchased	121,988,504	-	-	121,988,504
Assets repaid	(115,548,575)	-	-	(115,548,575)
Foreign exchange adjustments	368,986	-	-	368,986
Gross carrying amount as at 31.12.2019	**50,991,421**	**-**	**-**	**50,991,421**

Balances due from banks	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2019	**50,135**	**-**	**-**	**50,135**
New assets originated or purchased	3,109,816	-	-	3,109,816
Assets repaid	(2,519,493)	-	-	(2,519,493)
Foreign exchange adjustments	541	-	-	541
ECL allowances as at 31.12.2019	**640,999**	**-**	**-**	**640,999**

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

	31.12.2020		**31.12.2019**	
Ratings	**Due from banks**		**Due from banks**	
	EUR	%	EUR	%
A1 to A3	20,179,282	49.38%	1,656,517	3.25%
Baa1 to Baa3	6,410,050	15.69%	37,927,029	74,38%
Ba1 to Ba3	369	0.00%	1,422	0.00%
B1 to B3	13,753,214	33.66%	579,974	1,14%
Below B3	-	-	10,811,787	21,20%
	40,342,915	**98.73%**	**50,976,729**	**99,97%**
Without rating	518,478	1.27%	14,692	0.03%
ECL allowances	(1,491)	-	(640,999)	-
Balances due from banks, net	**40,859,902**	**100%**	**50,350,422**	**100%**

13. Loans and advances to customers

Analysis of loans by customer profile and type of loans:

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Loans to legal entities	72,992,631	76,672,449	62,943,049	67,513,861
Loans to private individuals, except for mortgages	2,020,962	2,020,962	3,537,150	3,537,150
Mortgages	81,053	81,053	108,763	108,763
Total loans and advances to customers, gross	**75,094,646**	**78,774,464**	**66,588,962**	**71,159,774**
Allowances for loan impairment	(10,114,391)	(10,146,308)	(11,834,245)	(11,861,972)
Total loans and advances to customers, net	**64,980,255**	**68,628,156**	**54,754,717**	**59,297,802**

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.

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**

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 2019:

Loans to legal entities	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2019	**58,392,313**	**18,252,004**	**24,677,882**	**101,322,199**
New assets originated or purchased	27,071,329	-	-	27,071,329
Assets increase[1]	75,984,610	3,484,556	62,472	79,531,638
Assets repaid	(116,475,060)	(14,561,948)	(4,578,960)	(135,615,968)
Assets sold	-	(3,271,242)	-	(3,271,242)
Transfers to Stage 2	(2,637,319)	2,637,319	-	-
Transfers to Stage 3	(101)	(401,510)	401,611	-
Amounts written off	-	-	(7,684,246)	(7,684,246)
Accrued interest	66,532	13,691	-	80,223
Foreign exchange adjustments	1,070,640	333,493	104,983	1,509,116
Gross carrying amount as at 31.12.2019	**43,472,944**	**6,486,363**	**12,983,742**	**62,943,049**

Loans to legal entities	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2019	**824,935**	**2,318,224**	**15,874,385**	**19,017,544**
New assets originated or purchased	586,551	-	-	586,551
Assets increase[1]	1,749,634	1,105,538	179,914	3,035,086
Assets repaid	(1,951,367)	(2,808,085)	(547,769)	(5,307,221)
Assets sold	-	(97,596)	-	(97,596)
Transfers to Stage 2	(11,439)	11,439	-	-
Transfers to Stage 3	-	(93,899)	93,899	-
Impact on ECL of transfers	-	115,836	(107)	115,729
Amounts written off	-	-	(7,684,246)	(7,684,246)
Foreign exchange adjustments	12,103	53,162	71,553	136,818
ECL allowances as at 31.12.2019	**1,210,417**	**604,619**	**7,987,629**	**9,802,665**

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2019	**45,723**	**5,442,833**	**749,080**	**6,237,636**
New assets originated or purchased	18,426	-	-	18,426
Assets increase[1]	535,637	459,280	422	995,339
Assets repaid	(585,968)	(2,601,411)	(17,975)	(3,205,354)
Transfers to Stage 2	(18)	18	-	-
Transfers to Stage 3	(376)	-	376	-
Amounts written off	-	-	(538,806)	(538,806)
Accrued interest	14	29,738	-	29,752
Foreign exchange adjustments	157	-	-	157
Gross carrying amount as at 31.12.2019	**13,595**	**3,330,458**	**193,097**	**3,537,150**

[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 01.01.2019	**1,158**	**2,447,866**	**749,081**	**3,198,105**
New assets originated or purchased	143	-	-	143
Assets increase[1]	12,761	708,363	8	721,132
Assets repaid	(13,594)	(1,332,681)	(17,381)	(1,363,656)
Impact on ECL of transfers	-	11	365	376
Amounts written off	-	-	(538,977)	(538,977)
ECL allowances as at 31.12.2019	**468**	**1,823,559**	**193,096**	**2,017,123**

Mortgages	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2019	**154,972**	**-**	**10,684**	**165,656**
New assets originated or purchased	-	-	-	-
Assets increase[1]	9,432	-	3,143	12,575
Assets repaid	(72,153)	-	(18)	(72,171)
Accrued interest	175	-	-	175
Foreign exchange adjustments	2,528	-	-	2,528
Gross carrying amount as at 31.12.2019	**94,954**	**-**	**13,809**	**108,763**

Mortgages	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2019	**679**	**-**	**10,684**	**11,363**
New assets originated or purchased	-	-	-	-
Assets increase[1]	491	-	3,143	3,634
Assets repaid	(536)	-	(18)	(554)
Foreign exchange adjustments	14	-	-	14
ECL allowances as at 31.12.2019	**648**	**-**	**13,809**	**14,457**

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 2019:

Loans to legal entities	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2019	**61,154,983**	**18,252,004**	**24,677,882**	**104,084,869**
New assets originated or purchased	27,071,329	-	-	27,071,329
Assets increase[1]	79,152,609	3,484,556	62,472	82,699,637
Assets repaid	(117,851,729)	(14,561,948)	(4,578,960)	(136,992,637)
Assets sold	-	(3,271,242)	-	(3,271,242)
Transfers to Stage 2	(2,637,319)	2,637,319	-	-
Transfers to Stage 3	(101)	(401,510)	401,611	-
Amounts written off	-	-	(7,684,246)	(7,684,246)
Accrued interest	83,344	13,691	-	97,035
Foreign exchange adjustments	1,070,640	333,493	104,983	1,509,116
Gross carrying amount as at 31.12.2019	**48,043,756**	**6,486,363**	**12,983,742**	**67,513,861**

Loans to legal entities	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2019	**825,630**	**2,318,224**	**15,874,385**	**19,018,239**
New assets originated or purchased	586,551	-	-	586,551
Assets increase[1]	1,847,569	1,105,538	179,914	3,133,021
Assets repaid	(2,022,270)	(2,808,085)	(547,769)	(5,378,124)
Assets sold	-	(97,596)	-	(97,596)
Transfers to Stage 2	(11,439)	11,439	-	-
Transfers to Stage 3	-	(93,899)	93,899	-
Impact on ECL of transfers	-	115,836	(107)	115,729
Amounts written off	-	-	(7,684,246)	(7,684,246)
Foreign exchange adjustments	12,103	53,162	71,553	136,818
ECL allowances as at 31.12.2019	**1,238,144**	**604,619**	**7,987,629**	**9,830,392**

[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
Gross carrying amount as at 01.01.2019	**45,723**	**5,442,833**	**749,080**	**6,237,636**
New assets originated or purchased	18,426	-	-	18,426
Assets increase[1]	535,637	459,280	422	995,339
Assets repaid	(585,968)	(2,601,411)	(17,975)	(3,205,354)
Transfers to Stage 2	(18)	18	-	-
Transfers to Stage 3	(376)	-	376	-
Amounts written off	-	-	(538,806)	(538,806)
Accrued interest	14	29,738	-	29,752
Foreign exchange adjustments	157	-	-	157
Gross carrying amount as at 31.12.2019	**13,595**	**3,330,458**	**193,097**	**3,537,150**

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2019	**1,158**	**2,447,866**	**749,081**	**3,198,105**
New assets originated or purchased	143	-	-	143
Assets increase[1]	12,761	708,363	8	721,132
Assets repaid	(13,594)	(1,332,681)	(17,381)	(1,363,656)
Impact on ECL of transfers	-	11	365	376
Amounts written off	-	-	(538,977)	(538,977)
ECL allowances as at 31.12.2019	**468**	**1,823,559**	**193,096**	**2,017,123**

Mortgages	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2019	**154,972**	**-**	**10,684**	**165,656**
New assets originated or purchased	-	-	-	-
Assets increase[1]	9,432	-	3,143	12,575
Assets repaid	(72,153)	-	(18)	(72,171)
Accrued interest	175	-	-	175
Foreign exchange adjustments	2,528	-	-	2,528
Gross carrying amount as at 31.12.2019	**94,954**	**-**	**13,809**	**108,763**

Mortgages	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2019	**679**	**-**	**10,684**	**11,363**
New assets originated or purchased	-	-	-	-
Assets increase[1]	491	-	3,143	3,634
Assets repaid	(536)	-	(18)	(554)
Foreign exchange adjustments	14	-	-	14
ECL allowances as at 31.12.2019	**648**	**-**	**13,809**	**14,457**

[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)*

Risk concentration in the loan portfolio by industry profile:

	31.12.2020 group EUR	%	31.12.2020 Bank EUR	%	31.12.2019 Group EUR	%	31.12.2019 Bank EUR	%
Construction and operations with real estate	26,921,847	35,85	30,601,665	38,85	21,433,557	32,19	21,433,557	30,12
Trade and commercial activities	22,788,230	30,35	22,788,230	28,93	20,253,885	30,42	20,253,885	28,46
Transport and communications	15,863,875	21,13	15,863,875	20,14	8,377,738	12,58	12,948,550	18,20
Manufacturing	4,129,991	5,50	4,129,991	5,24	3,823,132	5,74	3,823,132	5,37
Private individuals	2,102,015	2,80	2,102,015	2,67	3,645,913	5,48	3,645,913	5,12
Agriculture and food industry	1,481,318	1,96	1,481,318	1,88	2,981,978	4,48	2,981,978	4,19
Financial services	665,953	0,89	665,953	0,85	2,020,385	3,03	2,020,385	2,84
Forestry and logging	440,364	0,58	440,364	0,56	1,453,953	2,18	1,453,953	2,04
Other	379,343	0,51	379,343	0,47	903,491	1,36	903,491	1,27
Tourism and hotel services, restaurant business	321,710	0,43	321,710	0,41	858,372	1,29	858,372	1,21
Information and communications services	-	-	-	-	424,435	0,64	424,435	0,60
Power, heat or gas supply	-	-	-	-	412,123	0,61	412,123	0,58
Total loans and advances to customers (carrying amount)	**75,094,646**	**100,00**	**78,774,464**	**100,00**	**66,588,962**	**100.00**	**71,159,774**	**100.00**

As at 31 December 2020, the total amount of loans issued to the 10 largest Group and Bank's customers was EUR 45,593,790 (2019: EUR 44,558,037), which comprised 57,88% of the total credit portfolio (2019: 62,62%).

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 of asset EUR	Recoverable amount of collateral EUR	Carrying amount of asset EUR	Recoverable amount of collateral 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 of asset EUR	Recoverable amount of collateral EUR	Carrying amount of asset EUR	Recoverable amount of collateral 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**

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

The analysis of the Group's collateral as at 31 December 2019:

	Assets with collateral value exceeding the loan balance		Assets with insufficient collateral	
	Carrying amount of asset	Recoverable amount of collateral	Carrying amount of asset	Recoverable amount of collateral
	EUR	EUR	EUR	EUR
Loans to legal entities	48,504,092	107,653,598	14,241,980	6,034,510
Loans to individuals – consumer loans	3,330,440	11,218,717	206,710	-
Mortgages	94,954	428,062	13,031	-
Total	**51,929,486**	**119,300,377**	**14,461,721**	**6,034,510**

The analysis of the Bank's collateral as at 31 December 2019:

	Assets with collateral value exceeding the loan balance		Assets with insufficient collateral	
	Carrying amount of asset	Recoverable amount of collateral	Carrying amount of asset	Recoverable amount of collateral
	EUR	EUR	EUR	EUR
Loans to legal entities	53,074,872	114,803,598	14,241,980	6,034,510
Loans to individuals – consumer loans	3,330,440	11,218,717	206,710	-
Mortgages	94,954	428,062	13,031	-
Total	**56,500,266**	**126,450,377**	**14,461,721**	**6,034,510**

14. Financial assets at fair value through profit or loss

	31.12.2020	31.12.2020	31.12.2019	31.12.2019
	Group	Bank	Group	Bank
	EUR	EUR	EUR	EUR
Latvian government bonds	1,151,919	1,151,919	1,216,687	1,216,687
OECD government bonds	8,148,178	8,148,178	24,461,073	24,461,073
OECD corporate bonds	4,087,530	4,087,530	5,149,866	5,149,866
Non-OECD corporate bonds	-	-	180,139	180,139
Unquoted shares	7,286	7,286	7,959	7,959
	13,394,913	**13,394,913**	**31,015,724**	**31,015,724**

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

Ratings	31.12.2020 Securities		31.12.2019 Securities	
	EUR	%	EUR	%
Aaa to Aa3	8,435,230	62.97%	24,772,972	79,87%
A1 to A3	4,952,397	36.97%	5,559,015	17,92%
Baa1 to Baa3	-	-	675,779	2,18%
Below B3	7,286	0.04%	7,959	0,03%
	13,394,913	**100%**	**31,015,725**	**100%**

15. Debt instruments at fair value through other comprehensive income

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
OECD government bonds	46,448,754	46,448,754	-	-
	46,448,754	**46,448,754**	**-**	**-**

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

Ratings	31.12.2020 Securities EUR	%	31.12.2019 Securities EUR	%
Aaa to Aa3	46,448,754	100%	-	-
	46,448,754	**100%**	**-**	**-**

The table below shows the changes in the carrying amounts of the Group 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)	-	-	(9379,338)
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**

The table below shows the changes in the ECL allowances for the Group 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

On 13 May 2020, the shareholders of the of the Bank's subsidiary resolved to increase the share capital of SIA Grunewald Residence by issuing new shares amounting to EUR 2,590,000 and to attract a new shareholder to purchase all new shares. The decision was justified by the need of SIA Grunewald Residence to cover the real estate maintenance costs and fees paid to lawyers, real estate managers and accountants; moreover, it is to be able to finance potential settlements with sub-tenants if such agreements are reached under legal proceedings.

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)

The table below discloses the Bank's investment in its subsidiary as at 31 December 2019.

Company	Address	Share capital	Bank's interest	Equity	Assets as at 31.12.2019	Profit for the reporting year
Grunewald Residence SIA	Jura Alunāna iela 2, Riga, LV-1010	6,600,000	92,42%	7,018,905	12,784,387	594,885

At the end of 2017, a real estate – a land plot with buildings in an exclusive district of Berlin, Germany – was acquired by the subsidiary within a framework of the debt recovery procedure against a Bank's borrower. The acquisition was carried out with a view to developing and selling the property. The real estate was encumbered with rent agreements which all have been terminated at present. Some tenants had signed sub-lease agreements, and to terminate them and fully vacate the premises as well as for providing legal assistance concerning the real estate as such, the subsidiary had hired one of the leading law firms in Berlin. With the aid of the said law firm, all initiated legal proceedings ended with a positive outcome for the Subsidiary and the takeover of real estate is practically completed. Taking full possession of the real estate is planned until the end of April 2021. At the same time, the Subsidiary continues to prepare a real estate sale transaction and negotiates with several potential real estate buyers who are ready to conclude a purchase transaction as soon as possible. The Bank forecasts the given transaction to be concluded in the first half of 2021. According to the estimates of an independent valuer, the value of the real estate as at the end of the year 2020 was EUR 31.1 million (see Note 20 on the estimates used in the valuation).

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

17. Intangible assets

Changes in the Group and Bank's intangible assets in 2020 and 2019 can be specified as follows:

	Software 2020 EUR	Pre-payments 2020 EUR	Total software 2020 EUR	Software 2019 EUR	Pre-payments 2019 EUR	Total software 2019 EUR
Cost						
At the beginning of the year	2,189,319	129,493	2,318,812	2,149,643	70,134	2,219,777
Additions	140,337	-	140,337	39,676	59,359	99,035
Reclassified	-	(19,874)	(19,874)	-	-	-
Disposals	(1,023)	-	(1,023)	-	-	-
At the end of the year	**2,328,633**	**109,619**	**2,438,252**	**2,189,319**	**129,493**	**2,318,812**
Amortization						
Accumulated amortization at the beginning of the year	1,868,267	-	1,868,267	1,716,891	-	1,716,891
Charge for the year	133,920	-	133,920	151,376	-	151,376
On disposals	(1,023)	-	(1,023)	-	-	-
Accumulated amortization at the end of the year	**2,001,164**	**-**	**2,001,164**	**1,868,267**	**-**	**1,868,267**
Net carrying amount at the beginning of the year	**321,052**	**129,493**	**450,545**	**432,752**	**70,134**	**502,886**
Net carrying amount at the end of the year	**327,469**	**109,619**	**437,088**	**321,052**	**129,493**	**450,545**

As at 31 December 2020, 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 1,574,308 (31 December 2018: EUR 1,490,306).

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 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 (see also Note 20).

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 and the Bank's lease liabilities are secured with the leased assets (see also Note 25). 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.

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**

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

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

Changes in the Group's and Bank's property and equipment in 2019 can be specified as follows:

	Land and building	Transport vehicles	Computers	Office equipment	Other assets	Pre-payment	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Cost as at 31.12.2018	**13,335,000**	**65,179**	**1,088,761**	**604,559**	**100,927**	**11,521**	**15,205,947**
Additions	-	-	4,990	5,790	-	19,410	30,190
Disposals	-	-	(3,178)	-	-	-	(3,178)
Revaluation	-	-	-	-	-		-
As at 31.12.2019	**13,335,000**	**65,179**	**1,090,573**	**610,349**	**100,927**	**30,931**	**15,232,959**
Depreciation as at 31.12.2018	**150,899**	**61,046**	**905,219**	**566,924**	**61,164**	**-**	**1,745,252**
On disposals	-	-	(3,142)	-	-	-	(3,142)
Revaluation	-	-	-	-	-	-	-
Charge for 2019	150,899	4,133	157,476	13,566	6,116	-	332,190
As at 31.12.2019	**301,798**	**65,179**	**1,059,553**	**580,490**	**67,280**	**-**	**2,074,300**
Net carrying amount as at 31.12.2018	**13,184,101**	**4,133**	**183,542**	**37,635**	**39,763**	**11,521**	**13,460,695**
Net carrying amount as at 31.12.2019	**13,033,202**	**-**	**31,020**	**29,859**	**33,647**	**30,931**	**13,158,659**

As at 31 December 2019, 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 1,293,734 (31 December 2018: EUR 1,123,567).

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 2019, 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 13,410 million.

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 and the Bank's lease liabilities are secured with the leased assets (see also Note 25). 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.

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

	Premises	Total
	EUR	EUR
Right-of-use assets as at 1 January 2019	**109,846**	**109,846**
Additions	15,239	15,239
Depreciation	(36,008)	(36,008)
Foreign exchange adjustments	2,803	2,803
Right-of-use assets as at 31 December 2019	**91,880**	**91,880**

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

Amounts recognized in the statement of comprehensive income in 2020 and 2019:

	2020	2019
	EUR	EUR
Depreciation of right-of-use assets	(33,755)	(36,008)
Lease interest expense	(651)	(3,620)
Expense related to short-term and low value asset leases (included in administrative expense)	-	(9,297)
Total amount recognized in the statement of comprehensive income	**(34,406)**	**(48,925)**

The Group and Bank's total lease payments in 2020 amounted to EUR 43,728 (2019: EUR: 38,686).

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.

20. Other assets

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

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Financial assets, incl.:	2,143,348	1,791,713	9,366,209	7,021,120
- security deposits	1,384,462	1,095,462	3,613,340	1,293,340
- accounts receivable	79,056	52,176	51,933	29,379
- interbank settlements in progress	498,189	498,189	556,401	556,400
- other financial assets	181,641	145,886	5,144,535	5,142,001
Non-financial assets	15,119,287	3,251,053	14,795,673	4,810,499
- repossessed collaterals	13,440,566	1,572,332	13,312,078	3,326,904
- investment gold	1,678,721	1,678,721	1,483,595	1,483,595
Total other assets, gross	**17,262,635**	**5,042,766**	**24,161,882**	**11,831,619**
Impairment allowances for financial assets	(51,684)	(51,684)	(18,982)	(18,982)
Total other assets, net:	**17,210,951**	**4,991,082**	**24,142,900**	**11,812,637**

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**

The analysis of the changes in ECL allowances for other financial assets in the year ended 31 December 2019:

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	**5,627**	**-**	**86,360**	**91,987**
New assets originated or purchased	-	-	218,895	218,895
Assets repaid	(3,499)	-	(287,277)	(290,776)
Transfers to Stage 2	(625)	625	-	-
Amounts written off	-	-	(1,350)	(1,350)
Foreign exchange adjustments	226	-	-	226
ECL as at 31 December 2019	**1,729**	**625**	**16,628**	**18,982**

20. Other assets *(cont'd)*

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 (see Note 16). Non-financial assets are is stated at 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 the fair value of non-financial assets.

No	Property	Municipality	City	Carrying amount EUR	Methods used in fair 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	Odes	Odes	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

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Cash and balances with the Bank of Latvia (Note 11)	67,749,321	67,749,321	113,359,519	113,359,519
Balances due form other banks with original maturity of 3 months or less	11,675,481	11,675,481	50,945,451	50,945,451
Total	**79,424,802**	**79,424,802**	**164,304,970**	**164,304,970**

22. Deposits from customers

(a) Analysis of deposits by customer profile

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Legal entities				
- - current/ settlement accounts	103,946,822	104,765,444	148,318,628	148,772,751
- - term deposits	7,215,084	7,215,084	5,665,073	5,665,073
Private individuals				
- - current/ settlement accounts	70,550,980	70,550,980	29,730,419	29,730,419
- - term deposits	22,899,443	22,899,443	38,244,933	38,244,933
Total deposits from customers:	**204,612,329**	**205,430,951**	**221,959,053**	**222,413,176**
Sector:				
Private companies	77,496,794	78,315,416	120,746,648	121,200,771
Private individuals	93,450,423	93,450,423	67,975,353	67,975,353
Financial institutions	32,900,589	32,900,589	33,023,194	33,023,194
Non-profit institutions	208,911	208,911	205,342	205,342
Institutions of financial institutions and money lenders	555,612	555,612	8,516	8,516
Total deposits from customers:	**204,612,329**	**205,430,951**	**221,959,053**	**222,413,176**

(b) Analysis of deposits by place of residence

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Residents	58,853,245	59,671,867	45,987,268	46,441,391
Non-residents	145,759,084	145,759,084	175,971,785	175,971,785
Total deposits from customers:	**204,612,329**	**205,430,951**	**221,959,053**	**222,413,176**

The average interest rate on term deposits in 2020 was 2.40% (2019: 3,48%) and the average interest rate on demand deposits was 0,00% (2019: 0,00%). All deposits bear a fixed interest rate.

Deposits from customers by industry can be specified as follows:

	31.12.2020 Group EUR	%	31.12.2020 Bank EUR	%	31.12.2019 Group EUR	%	31.12.2019 Bank EUR	%
Manufacturing	318,519	0.16	318,519	0.16	245,271	0,11	245,271	0,11
Construction and real estate	16,046,935	7.84	16,865,557	8.21	4,641,910	2,09	5,096,033	2,29
Trade and commercial activities	27,377,106	13.38	27,377,106	13.33	80,289,470	36,10	80,289,470	36,10
Financial and insurance services	58,522,404	28.60	58,522,404	28.49	58,622,369	26,36	58,622,369	26,36
Transport and communications	7,254,125	3.55	7,254,125	3.53	9,485,943	4,27	9,485,943	4,27
Agriculture and food industries	103,586	0.05	103,586	0.05	37,285	0,02	37,285	0,02
Private individuals	93,450,423	45.67	93,450,423	45.49	67,975,353	30,56	67,975,353	30,56
Other	1,539,231	0.75	1,539,231	0.74	661,452	0,30	661,452	0,30
Total deposits from customers	**204,612,329**	**100**	**205,430,951**	**100**	**221,959,053**	**100**	**222,413,176**	**100**

The total amount of deposits attributable to 20 largest depositors as at 31 December 2020 was EUR 138,483,502 (2019: EUR 140,831,778) comprising 67,41% of the Bank's portfolio (2019: 63,32%).

23. Debt securities

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Debt securities issued	16,384,025	16,384,025	17,896,420	17,896,420
	16,384,025	**16,384,025**	**17,896,420**	**17,896,420**

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.

The debt securities issued represent 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 2020 amounted to EUR 1,807,412 (31 December 2019: EUR 1,974,253);

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 2020 amounted to EUR 11,666,602 (31 December 2019: EUR 12,743,535);

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 2020 amounted to EUR 2,910,011 (31 December 2019: EUR 3,178,632).

24. Other financial liabilities

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Liability suspense account*	2,788	2,788	90,506	90,506
Settlements on behalf of a closed bank	16,585	16,585	16,585	16,585
Cash in transit	-	-	19,865	19,865
Accounts payable	133,639	131,349	1,264,854	70,185
ECL for off-balance sheet liabilities (see Note 28)	299,372	299,372	660,976	660,976
Lease liabilities	86,266	86,266	92,982	92,982
	538,650	**536,360**	**2,145,768**	**951,099**

* The liability suspense account as at 31 December 2020 and 31 December 2019 includes the amounts erroneously transferred to the Bank, which were returned to the senders at the beginning of 2021 and 2020 respectively.

25. Deferred income and accrued expense

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Vacation pay reserve	465,733	465,733	380,211	380,211
Accrual for the guarantee fund and FCMC financing	85,310	85,310	86,865	86,865
State statutory social insurance contributions	111,775	111,775	252,495	252,495
Deferred income	34,137	34,137	-	-
Other accrued expense	42,955	42,959	153,018	153,018
	739,910	**739,914**	**872,589**	**872,589**

25. Deferred income and accrued expense *(cont'd)*

Carrying amount of lease expense and changes therein:

	2020 Premises EUR	2020 Total EUR	2019 Premises EUR	2019 Total EUR
Lease liabilities as at 1 January	**92,982**	**92,982**	**109,846**	**109,846**
Increase	39,987	39,987	15,239	15,239
Payments	(43,728)	(43,728)	(35,038)	(35,038)
Foreign exchange adjustments	(2,975)	(2,975)	2,935	2,935
Lease liabilities as at 31 December	**86,266**	**86,266**	**92,982**	**92,982**

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.

The Group and Bank's notional amounts and fair values of derivative instruments held for trading are set out in table below.

	31.12.2020			31.12.2019		
	Notional amount EUR	Fair value Assets EUR	Fair value Liabilities EUR	Notional amount EUR	Fair value Assets EUR	Fair value Liabilities EUR
Options	-	-	-	142,800	42,340	-
Total	**-**	**-**	**-**	**142,800**	**42,340**	**-**

The Group and Bank's notional amounts of derivative instruments by counterparty credit rating are set out in the table below:

	31.12.2020			31.12.2019		
	Notional amount EUR	Fair value Assets EUR	Fair value Liabilities EUR	Notional amount EUR	Fair value Assets EUR	Fair value Liabilities EUR
Without rating	-	-	-	142,800	42,340	-
Total	**-**	**-**	**-**	**142,800**	**42,340**	**-**

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

27. Share capital

The Bank's issued and fully paid share capital as at 31 December 2020 was EUR 32,334,756 (31 December 2019: EUR 32,334,762). The nominal value of one share was EUR 1.00 (31 December 2019: 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 2020 and 31 December 2019:

	31.12.2020 EUR	%	31.12.2019 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 paid	**32,334,756**	**100%**	**32,334,756**	**100%**

28. Off-balance items and encumbered assets

Contingent liabilities

Contingent liabilities can be specified as follows:

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Guarantees, incl.:	9,550,225	9,550,225	5,242,483	5,242,483
- Financial guarantees	8,915,845	8,915,845	4,806,837	4,806,837
- Non-financial guarantees	634,380	634,380	435,646	435,646
	9,550,225	**9,550,225**	**5,242,483**	**5,242,483**

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.

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**

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**

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

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
Financial guarantees as at 01.01.2019	**6,639,520**	**-**	**-**	**6,639,520**
New assets originated or purchased	4,833,322	-	-	4,833,322
Decrease	(6,741,269)	-	-	(6,741,269)
Foreign exchange adjustments	75,264	-	-	75,264
Financial guarantees as at 31.12.2019	**4,806,837**	**-**	**-**	**4,806,837**

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

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
ECL as at 01.01.2019	**-**	**-**	**-**	**-**
New assets originated or purchased	76,714	-	-	76,714
Decrease	(76,379)	-	-	(76,379)
Foreign exchange adjustments	(335)	-	-	(335)
ECL as at 31.12.2019	**-**	**-**	**-**	**-**

Guarantees are secured by cash or loans which are blocked or reserved at the Group and the Bank and secure the Group 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 01.01.2020	**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**

Non-financial guarantees	Stage 1	Stage 2	Stage 3	Total
Non-financial guarantees as at 01.01.2019	**294,993**	**-**	**-**	**294,993**
New assets originated or purchased	269,079	-	-	269,079
Decrease	(128,836)	-	-	(128,836)
Foreign exchange adjustments	410	-	-	410
Non-financial guarantees as at 31.12.2019	**435,646**	**-**	**-**	**435,646**

Loan commitments

The outstanding loan commitments can be specified as follows:

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Loan commitments	3,899,604	3,899,604	7,690,897	7,690,897
Undrawn credit lines	9,822,586	9,822,586	24,315,498	24,315,498
Total loan commitments	**13,722,190**	**13,722,190**	**32,006,395**	**32,006,395**

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.

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

The loan commitments are denominated in the following currencies:

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
EUR	1,304,269	1,304,269	6,160,000	6,160,000
USD	2,595,335	2,595,335	1,530,897	1,530,897
Total loan commitments	**3,899,604**	**3,899,604**	**7,690,897**	**7,690,897**

The undrawn credit lines are denominated in the following currencies:

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
EUR	8,187,627	8,187,627	15,285,067	15,285,067
USD	1,634,959	1,634,959	9,030,431	9,030,431
Total undrawn credit lines	**9,822,586**	**9,822,586**	**24,315,498**	**24,315,498**

Loan commitments	Stage 1	Stage 2	Stage 3	Total
Loan 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)
Loan commitments as at 31.12.2020	**13,690,059**	**-**	**32,131**	**13,722,190**

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

Loan 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**

Loan commitments	Stage 1	Stage 2	Stage 3	Total
Loan commitments as at 01.01.2019	**9,706,536**	**608,693**	**1,232,474**	**11,547,703**
New assets originated or purchased	69,907,610	2,500,000	-	72,407,610
Increase[1]	129,660,378	7,212,949	906,239	137,779,566
Decrease	(179,376,759)	(8,377,143)	(2,138,326)	(189,892,228)
Transfers to Stage 2	(1,427,952)	1,427,952	-	-
Transfers to Stage 3	(73,523)	-	73,523	-
Foreign exchange adjustments	167,606	(3,848)	(14)	163,744
Loan commitments as at 31.12.2019	**28,563,896**	**3,368,603**	**73,896**	**32,006,395**

[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.

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

The analysis of the changes in ECL allowance in the year ended 31 December 2019 can be specified as follows:

Loan commitments	Stage 1	Stage 2	Stage 3	Total
ECL as at 01.01.2019	**65,068**	**46,239**	**-**	**111,307**
New assets originated or purchased	428,763	211	-	428,974
Increase[1]	908,755	346,560	-	1,352,134
Decrease	(1,004,287)	(347,847)	-	(1,352,134)
Transfers to Stage 3	(941)	-	941	-
Impact on ECL of transfers	-	213,552	-	213,552
Foreign exchange adjustments	2,299	662	-	2,961
ECL as at 31.12.2019	**399,657**	**259,377**	**941**	**659,975**

Encumbered assets

The pledged and restricted assets can be specified as follows:

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Balances due from banks	4,699,229	4,699,229	4,821,456	4,821,456
Other assets	1,109,880	1,109,880	6,320,924	6,320,924
Total	**5,809,109**	**5,809,109**	**11,142,380**	**11,142,380**

All encumbered assets serve as security for the Group and Bank's financial liabilities as at 31 December 2020 and 31 December 2019. The carrying amount of encumbered assets approximate their fair value both as at 31 December 2020 and as at 31 December 2019.

As at 31 December 2020, the encumbered assets of the Group and the Bank consisted of the following:

- security deposits of EUR 4,685,845 (31 December 2019: EUR 4,806,836) 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 1,109,880 (31 December 2019: EUR 6,320,924) for potential claims from Visa Inc, MasterCard Europe SPRL and Interactive Brokers 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 13,384 (31 December 2019: EUR 14,620) for letters of credit issued. The total amount of these encumbered assets is included under the balances due from other banks.

[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.

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	31.12.2020 EUR	31.12.2019 EUR
Total own funds	**44,615,281**	**48,133,227**
- Tier 1 capital	42,831,496	40,849,926
- Common equity Tier 1 capital	42,831,496	40,849,926
- Tier 2 capital	1,783,785	7,283,301
Total risk exposure amount	**162,248,338**	**174,507,178**
- Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	134,302,150	142,501,990
- Total risk exposure amount for position, foreign exchange and commodities risks	2,946,250	3,273,600
- Total risk exposure amount for operational risk	24,999,938	28,731,588
- Total exposure amounts for credit valuation adjustment	-	-
Capital adequacy ratios		
- Common equity Tier 1 Capital ratio	26,40%	23,41%
- Surplus (+) / Deficit (-) of Common equity Tier 1 capital (4.5%)	35,530,321	32,997,103
- Tier 1 Capital ratio	26,40%	23,41%
- Surplus (+) / Deficit (-) of Tier 1 capital (6%)	33,096,596	30,379,495
- Total capital ratio	27,50%	27,58%
- Surplus (+) / Deficit (-) of total capital (8%)	31,635,414	34,172,653
- Capital retention reserve (%)	2.5%	2.5%
- Capital retention reserve	4,056,208	4,362,679

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

Description	31.12.2020 EUR	31.12.2019 EUR
Total own funds	**41,320,877**	**47,180,495**
- Tier 1 capital	39,537,092	39,897,194
- Common equity Tier 1 capital	39,537,092	39,897,194
- Tier 2 capital	1,783,785	7,283,301
Total risk exposure amount	**161,128,914**	**175,066,897**
- Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	133,659,351	143,091,634
- Total risk exposure amount for position, foreign exchange and commodities risks	2,946,250	3,273,600
- Total risk exposure amount for operational risk	24,523,313	28,701,663
- Total exposure amounts for credit valuation adjustment	-	-
Capital adequacy ratios		
- Common equity Tier 1 Capital ratio	24,54%	22,79%
- Surplus (+) / Deficit (-) of Common equity Tier 1 capital (4.5%)	32,286,291	32,019,184
- Tier 1 Capital ratio	24,54%	22,79%
- Surplus (+) / Deficit (-) of Tier 1 capital (6%)	29,869,357	29,393,180
- Total capital ratio	25,64%	26,95%
- Surplus (+) / Deficit (-) of total capital (8%)	28,430,564	33,175,143
- Capital retention reserve (%)	2.5%	2.5%
- Capital retention reserve	4,028,223	4,376,672

On 21 April 2020, 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 retention reserve 2.5% . The Group and the Bank observed and complied with the individually determined capital adequacy requirements in 2020.

29. Capital adequacy *(cont'd)*

The Group 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 2017/2395. Had the transitional arrangements not been applied, the Group and the Bank's capital adequacy ratio as at 31 December 2020 would have been 25.68% and 23.76% (31 December 2019: 25,46% and 24,82%) respectively.

30. Analysis of assets and liabilities by currency profile

The table below provides the analysis of the Group's assets, liabilities and equity as at 31 December 2020 by currency profile:

	USD EUR	EUR EUR	Other EUR	Total EUR
Assets				
Cash and deposits with the Bank of Latvia	414,129	67,335,125	-	67,749,254
Balances due from banks	30,504,854	9,851,482	503,566	40,859,902
Loans and advances to customers	24,630,742	40,349,513	-	64,980,255
Financial assets measured at FVPL	10,424,093	2,970,820	-	13,394,913
Debt instruments measured at FVOCI	46,448,754	-	-	46,448,754
Equity instruments measured at FVOCI	4,270	217,441	-	221,711
Intangible assets	-	437,088	-	437,088
Property and equipment	-	13,086,341	6,412	13,092,753
Prepaid expenses	3,211	142,776	2,708	148,695
Other assets	1,471,691	14,060,247	1,679,013	17,210,951
Total assets	**113,901,744**	**148,450,833**	**2,191,699**	**264,544,276**
Liabilities and equity				
Balances due to banks	-	-	5,400	5,400
Deposits from customers	94,475,147	109,693,365	443,817	204,612,329
Debt securities	16,384,025	-	-	16,384,025
Deferred income and accrued expense	-	714,250	25,660	739,910
Other liabilities	172,721	361,743	4,186	538,650
Subordinated loans	3,016,117	-	-	3,016,117
Current income tax liabilities	-	2,337	-	2,337
Equity	9,109	39,236,399	-	39,245,508
Total liabilities and equity	**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 claims 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***	**-**
As at 31 December 2019				
Total assets	**107,417,503**	**178,200,149**	**2,379,797**	**287,997,449**
Total liabilities and equity	**108,037,084**	**178,907,872**	**1,052,493**	**287,997,449**
Net long / (short) position for statement of financial position items	*(619,581)*	*(707,723)*	*1,327,304*	-
Off-balance sheet items arising from foreign exchange				
Off-balance sheet claims 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	**(619,581)**	**(707,723)**	**1,327,304**	**-**

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

The table below provides the analysis of the Group's assets, liabilities and equity as at 31 December 2020 by currency profile:

	USD EUR	EUR EUR	Other EUR	Total EUR
Assets				
Cash and deposits with the Bank of Latvia	414,129	67,335,125	-	67,749,254
Balances due from banks	30,504,854	9,851,482	503,566	40,859,902
Loans and advances to customers	24,630,742	43,997,414	-	68,628,156
Financial assets measured at FVPL	10,424,093	2,970,820	-	13,394,913
Debt instruments measured at FVOCI	46,448,754	-	-	46,448,754
Equity instruments measured at FVOCI	4,270	217,441	-	221,711
Intangible assets	-	437,088	-	437,088
Property and equipment	-	13,086,341	6,412	13,092,753
Investment in subsidiary	-	6,100,000	-	6,100,000
Prepaid expenses	3,211	142,776	2,708	148,695
Other assets	1,471,691	1,840,378	1,679,013	4,991,082
Total assets	**113,901,744**	**145,978,865**	**2,191,699**	**262,072,308**
Liabilities and equity				
Balances due to banks	-	-	5,400	5,400
Deposits from customers	94,475,147	110,511,987	443,817	205,430,951
Debt securities	16,384,025	-	-	16,384,025
Deferred income and accrued expense	-	714,254	25,660	739,914
Other liabilities	172,721	359,453	4,186	536,360
Subordinated loans	3,016,117	-	-	3,016,117
Current income tax liabilities	-	2,337	-	2,337
Equity	9,109	35,948,095	-	35,957,204
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 claims 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***	**-**
As at 31 December 2019				
Total assets	**107,417,503**	**176,512,971**	**2,379,797**	**286,310,271**
Total liabilities and equity	**108,037,084**	**177,220,694**	**1,052,493**	**286,310,271**
Net long / (short) position for statement of financial position items	*(619,581)*	*(707,723)*	*1,327,304*	-
Off-balance sheet items arising from foreign exchange				
Off-balance sheet claims 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	**(619,581)**	**(707,723)**	**1,327,304**	**-**

31. Analysis of assets and liabilities by maturity profile

The table below provides the analysis of the Group's assets and liabilities by contractual maturity 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
Assets								
Cash and balances with the Bank of Latvia	-	67,749,254	-	-	-	-	-	67,749,254
Balances due from banks	-	35,868,452	305,606	-	285,225	4,400,619	-	40,859,902
Loans and advances to customers	2,408,261	4,804,979	1,212,737	6,443,083	14,489,307	35,607,252	14,636	64,980,255
Financial assets measured at FVPL	-	-	9,442,502	877,316	884,478	2,183,331	7,286	13,394,913
Debt instruments measured at FVOCI	-	24,447,424	22,001,330	-	-	-	-	46,448,754
Equity instruments measured at FVOCI	-	-	-	-	-	-	221,711	221,711
Intangible assets	-	-	-	-	-	-	437,088	437,088
Property and equipment	-	-	-	-	-	-	13,092,753	13,092,753
Prepaid expense	-	-	-	-	148,695	-	-	148,695
Other assets	-	2,467,327	150	-	1,645,689	-	13,097,785	17,210,951
Total 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**
Liabilities and equity								
Balances due to banks	-	5,400	-	-	-	-	-	5,400
Deposits from customers	-	176,645,825	8,213,143	5,254,749	6,090,474	8,408,138	-	204,612,329
Debt securities	-	57,758	-	13,474,014	2,852,253	-	-	16,384,025
Deferred income and accrued expense	-	18	712,740	53	105	26,994	-	739,910
Corporate income tax	-	2,337	-	-	-	-	-	2,337
Other liabilities	-	442,794	-	-	-	95,856	-	538,650
Subordinated loans	-	878	-	3,015,239	-	-	-	3,016,117
Equity	-	-	-	-	-	-	39,245,508	39,245,508
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)**
As at 31 December 2019								
Total assets	**2,506,331**	**192,529,878**	**2,106,974**	**7,328,819**	**21,950,946**	**34,669,011**	**26,905,490**	**287,997,449**
Total liabilities and equity	-	**186,443,341**	**16,154,302**	**18,650,870**	**5,131,878**	**25,151,597**	**36,465,461**	**287,997,449**
Off-balance sheet liabilities	2,670,465	5,253	587,010	8,368,517	8,896,912	16,720,721	-	37,248,878
Liquidity	**(164,134)**	**6,081,284**	**(14,634,338)**	**(19,690,568)**	**7,922,156**	**(7,203,307)**	**(9,559,971)**	**(37,248,878)**

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

The table below provides the analysis of the Bank's assets and liabilities by contractual maturity 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
Assets								
Cash and balances with the Bank of Latvia	-	67,749,254	-	-	-	-	-	67,749,254
Balances due from banks	-	35,868,452	305,606	-	285,225	4,400,619	-	40,859,902
Loans and advances to customers	2,408,261	4,804,980	1,212,737	6,443,083	14,489,307	39,255,152	14,636	68,628,156
Financial assets measured at FVPL	-	-	9,442,502	877,316	884,478	2,183,331	7,286	13,394,913
Debt instruments measured at FVOCI	-	24,447,424	22,001,330	-	-	-	-	46,448,754
Investment in subsidiary	-	-	-	-	-	-	6,100,000	6,100,000
Equity instruments measured at FVOCI	-	-	-	-	-	-	221,711	221,711
Intangible assets	-	-	-	-	-	-	437,088	437,088
Property and equipment	-	-	-	-	-	-	13,092,753	13,092,753
Prepaid expense	-	-	-	-	148,695	-	-	148,695
Other assets	-	554,546	150	-	1,645,689	-	2,790,697	4,991,082
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**
Liabilities and equity								
Balances due to banks	-	5,400	-	-	-	-	-	5,400
Deposits from customers	-	177,464,447	8,213,143	5,254,749	6,090,474	8,408,138	-	205,430,951
Debt securities	-	57,758	-	13,474,014	2,852,253	-	-	16,384,025
Deferred income and accrued expense	-	18	712,744	53	105	26,994	-	739,914
Corporate income tax	-	440,504	-	-	-	95,856	-	536,360
Other liabilities	-	2,337		-	-	-	-	2,337
Subordinated loans	-	878	-	3,015,239	-	-	-	3,016,117
Equity		-	-	-	-	-	35,957,204	35,957,204
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)**
As at 31 December 2019								
Total assets	**2,506,331**	**190,184,670**	**2,106,974**	**10,715,309**	**18,564,456**	**39,212,096**	**23,020,435**	**286,310,271**
Total liabilities and equity	-	**185,702,795**	**16,154,302**	**18,650,870**	**5,131,878**	**25,151,597**	**35,518,829**	**286,310,271**
Off-balance sheet liabilities	2,670,465	5,253	587,010	8,368,517	8,896,912	16,720,721	-	37,248,878
Liquidity	**(164,134)**	**4,476,741**	**(14,634,338)**	**(19,690,568)**	**7,922,156**	**(2,660,222)**	**(12,498,513)**	**(37,248,878)**

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

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 83.51% as at 31 December 2020 (31 December 2019:: 87,03%). 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.

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

	Past due	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	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	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	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*

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

	Within 1 month	1 – 3 months	Over 3 months	Total
	EUR	EUR	EUR	EUR
Derivative financial instruments requiring gross settlement				
Foreign currency derivatives				
Incoming cash flow	-	-	-	**-**
Outgoing cash flow	-	-	-	**-**

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

The table below presents the Group's contractual undiscounted cash flows of the financial liabilities as at 31 December 2019:

	Past due	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Debt securities	-	126,179	-	60,464	-	17,803,098	-	17,989,741
Deposits from customers	-	184,418,028	15,357,973	18,710,285	2,193,798	1,572,604	-	222,252,688
Other liabilities	-	2,025,460	-	8,606	387	109,915	1,400	2,145,768
Subordinated loans	-	41,132	75,768	114,916	3,114,719	5,871,760	-	9,218,295
Total liabilities	-	**186,610,799**	**15,433,741**	**18,894,271**	**5,308,904**	**25,357,377**	**1,400**	**251,606,492**
Off-balance sheet liabilities	-	5,253	587,010	8,368,517	8,896,912	16,720,721	2,670,465	37,248,878

The table below presents the Bank's contractual undiscounted cash flows of the financial liabilities as at 31 December 2019:

	Past due	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Debt securities	-	126,179	-	60,464	-	17,803,098	-	17,989,741
Deposits from customers	-	184,872,151	15,357,973	18,710,285	2,193,798	1,572,604	-	222,706,811
Other liabilities	-	830,791	-	8,606	387	109,915	1,400	951,099
Subordinated loans	-	41,132	75,768	114,916	3,114,719	5,871,760	-	9,218,295
Total liabilities	-	**185,870,253**	**15,433,741**	**18,894,271**	**5,308,904**	**25,357,377**	**1,400**	**250,865,946**
Off-balance sheet liabilities	-	5,253	587,010	8,368,517	8,896,912	16,720,721	2,670,465	37,248,878

The table below presents the Group and Bank's contractual undiscounted cash flows of derivative financial instruments as at 31 December 2019:

	Within 1 month	1 – 3 months	Over 3 months	Total
	EUR	EUR	EUR	EUR
Derivative financial instruments requiring gross settlement				
Foreign currency derivatives				
Incoming cash flow	142,800	-	-	**142,800**
Outgoing cash flow	142,800	-	-	**142,800**

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 2020:

	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	66,922,161	-	-	-	-	-	827,093	67,749,254
Balances due from banks	35,859,879	314,178	-	-	-	-	4,685,845	40,859,902
Loans and advances to customers	17694,507	15,029,613	2,275,730	9,464,969	16,576,151	3,915,009	24,276	64,980,255
Financial assets measured at FVPL	300,228	10,607,550	591,036	884,478	1,004,334	-	7,287	13,394,913
Debt instruments measured at FVOCI	24,447,424	22,001,330	-	-	-	-		46,448,754
Equity instruments measured at FVOCI	-	-	-	-	-	-	221,711	221,711
Other assets	-	-	-	-	-	-	2,074,791	2,074,791
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**
Liabilities and equity								
Balances due to banks	-	-	-	-	-	-	5,400	5,400
Deposits from customers	177,022,741	8,213,144	4,276,833	5,805,249	4,608,517	-	4,685,845	204,612,329
Debt securities	57,758	-	13,474,014	2,852,253	-	-		16,384,025
Other liabilities	-	-	-	-	-	-	538,650	538,650
Corporate income tax	-	-	-	-	-	-	2,337	2,337
Subordinated loans	878	-	3,015,239	-	-	-	-	3,016,117
Total liabilities	177,081,377	8,213,144	20,766,086	8,657,502	4,608,517	-	5,232,232	224,558,858
Equity	-	-	-	-	-	-	39,245,508	39,245,508
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)
As at 31 December 2019								
Total assets	**187,684,575**	**7,969,706**	**2,821,600**	**12,188,000**	**31,823,114**	**26,250**	**16,757,646**	**259,270,891**
Total liabilities and equity	**137,940,728**	**17,129,639**	**21,416,783**	**10,772,026**	**61,199,494**	**-**	**39,538,779**	**287,997,449**
Sensitivity of statement of financial position items to interest rate risk	49,743,847	(9,159,933)	(18,595,183)	1,415,974	(29,376,380)	26,250	(22,781,133)	(28,726,558)

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 2020:

	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	66, 922,161	-	-	-	-	-	827,093	67,749,254
Balances due from banks	35,859,879	314,178	-	-	-	-	4,685,845	40,859,902
Loans and advances to customers	17,695,318	18,676,703	2,275,730	9,464,969	16,576,151	3,915,009	24,276	68,628,156
Financial assets measured at FVPL	300,228	10,607,550	591,036	884,478	1,004,334	-	7,287	13,394,913
Debt instruments measured at FVOCI	24,447,424	22,001,330	-	-	-	-		46,448,754
Equity instruments measured at FVOCI	-	-	-	-	-	-	221,711	221,711
Other assets	-	-	-	-	-	-	1,723,154	1,723,154
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**
Liabilities and equity								
Balances due to banks	-	-	-	-	-	-	5,400	5,400
Deposits from customers	177,841,363	8,213,144	4,276,833	5,805,249	4,608,517	-	4,685,845	205,430,951
Debt securities	57758	-	13,474,014	2,852,253	-	-	-	16,384,025
Other liabilities	-	-	-	-	-	-	536,360	536,360
Corporate income tax	-	-	-	-	-	-	2,337	2,337
Subordinated loans	878	-	3,015,239	-	-	-	-	3,016,117
Total liabilities	177,899,999	8,213,144	20,766,086	8,657,502	4,608,517	-	5,229,942	225,375,190
Equity	**-**	**-**	**-**	**-**	**-**	**-**	35,957,204	35,957,204
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)
As at 31 December 2019								
Total assets	**187,684,575**	**12,512,791**	**2,821,600**	**12,188,000**	**31,823,114**	**26,250**	**14,412,557**	**261,468,887**
Total liabilities and equity	**138,394,851**	**17,129,639**	**21,416,783**	**10,772,026**	**61,199,494**		**37,397,478**	**286,310,271**
Sensitivity of statement of financial position items to interest rate risk	49,289,724	(4,616,848)	(18,595,183)	1,415,974	(29,376,380)	26,250	(22,984,921)	(24,841,384)

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

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.

The parent company of the Group and the Bank is AB Pivdenny bank as it controls the operations of the Group and the Bank. The ultimate beneficiary of the Bank is Yuriy Rodin.

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

	Parent company of the Bank	Entities owned by the Bank's shareholders	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	Entities owned by the Bank's shareholders	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:

	Entities owned by the Bank's shareholders	Subsidiary 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	Entities owned by the Bank's shareholders	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

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

Transactions with related parties as at 31 December 2019 can be specified as follows:

	Parent company of the Bank	Entities owned by the Bank's shareholders	Subsidiary of the Bank	Other related parties
Total loans and advances to customers (contractual interest rate: 4-20%)	-	1,024,382	4,570,780	-
Correspondent account	10,291,789	-	-	-
Deposits from customers (contractual interest rate: 0.0%)	-	383,680	454,123	215,052
Subordinated loans (contractual interest rate: 7.0-8.5%)	-	3,249,787	-	-
Dividends paid	-	743,434	-	1,912,810

Income and expense from transactions with related parties in 2019 can be specified as follows:

	Parent company of the Bank	Entities owned by the Bank's shareholders	Subsidiary of the Bank	Other related parties
Interest income	243,373	66,707	157,362	284
Interest expense	-	(431,663)	-	(32,828)
ECL allowances	217	245,811	(27,031)	169
Fee and commission income	-	14,243	213	3,574
Other income	-	2,000	-	-
Fee and commission expense	6,513	-	-	-
Administrative and other operating expense	14,802	-	-	-

Off-balance sheet liabilities towards related parties as at 31 December 2019 can be specified as follows:

	Entities owned by the Bank's shareholders	Subsidiary of the Bank	Other related parties
Undrawn credit lines	-	-	5,900
Assets under management	1,315	-	4,888,987

Loans issued to and repaid by related parties in 2019 can be specified as follows:

	Parent company of the Bank	Entities owned by the Bank's shareholders	Subsidiary of the Bank	Other related parties
Issued to related parties	-	7	3,027,557	67,172
Repaid by related parties	-	819,378	1,235,000	67,172

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

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Short-term benefits:				
- Salaries	874,723	869,563	802,051	796,891
- State statutory social insurance contributions	181,939	180,696	189,719	188,476
Total	**1,056,662**	**1,050,259**	**991,770**	**985,367**

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 specifies as follows:

	31.12.2020		31.12.2019	
	Carrying amount EUR	Fair value EUR	Carrying amount EUR	Fair value EUR
Assets measured at amortized cost				
Cash and balances with the Bank of Latvia	67,749,254	67,749,254	113,348,256	113,348,256
Balances due from banks	40,859,902	40,859,902	50,350,422	50,350,422
Loans to legal entities	63,881,539	68,862,155	53,140,384	58,040,044
Loans to private individuals, except for mortgages	1,018,693	1,124,497	1,520,026	1,709,039
Mortgages	80,024	92,188	94,307	110,468
Other financial assets	2,143,348	2,143,348	9,366,209	9,366,209
Total assets measured at amortized cost	**175,732,760**	**180,831,344**	**227,819,604**	**232,924,438**
Liabilities measured at amortized cost				
Deposits from customers	204,612,329	204,618,850	221,959,053	222,025,911
Debt securities	16,384,025	16,384,025	17,896,420	17,896,420
Subordinated loans	3,016,117	3,030,481	8,748,647	8,846,348
Other financial liabilities	538,650	538,650	2,145,768	2,145,768
Total liabilities measured at amortized cost	**224,551,121**	**224,572,006**	**250,749,888**	**250,914,447**

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

	31.12.2020		31.12.2019	
	Carrying amount EUR	Fair value EUR	Carrying amount EUR	Fair value EUR
Assets measured at amortized cost				
Cash and balances with the Bank of Latvia	67,749,254	67,749,254	113,348,256	113,348,256
Balances due from banks	40,859,902	40,859,902	50,350,422	50,350,422
Loans to legal entities	67,529,440	72,675,876	57,683,469	62,781,645
Loans to private individuals, except for mortgages	1,018,693	1,124,497	1,520,026	1,709,039
Mortgages	80,024	92,188	94,307	110,468
Other financial assets	1,791,713	1,791,713	7,021,120	7,021,120
Total assets measured at amortized cost	**179,029,026**	**184,293,430**	**230,017,600**	**235,320,950**
Liabilities measured at amortized cost				
Deposits from customers	205,430,951	205,437,472	222,413,176	222,480,034
Debt securities	16,384,025	16,384,025	17,896,420	17,896,420
Subordinated loans	3,016,117	3,030,481	8,748,647	8,846,348
Other financial liabilities	536,360	536,360	951,099	951,099
Total liabilities measured at amortized cost	**225,367,453**	**225,388,338**	**250,009,342**	**250,173,901**

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

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:

	31.12.2020.			31.12.2019.		
	Level 1 EUR	Level 2 EUR	Level 3 EUR	Level 1 EUR	Level 2 EUR	Level 3 EUR
Assets measured at fair value						
Derivative financial instruments	-	-	-	-	42,340	-
Debt instruments measured at FVOCI	46,448,754	-	-	-	-	-
Equity instruments measured at FVOCI	-	-	221,711	-	-	412,205
Financial assets measured at FVPL	12,242,994	1,151,919	-	29,799,307	1,216,687	-
Total assets measured at fair value	**58,691,748**	**1,151,919**	**221,711**	**29,799,307**	**1,259,027**	**412,205**

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 2020 and 31 December 2019 can be specified as follows:

	31.12.2020 Group EUR	%	31.12.2020 Bank EUR	%	31.12.2019 Group EUR	%	31.12.2019 Bank EUR	%
Sky Investment Holding SIA (matures in 2021)	-	-	-	-	2,492,988	8,00	2,492,988	8,00
Heshvan Limited (matures in 2020-2021)	-	-	-	-	2,103,918	8,00-8,50	2,103,918	8,00-8,50
Ronby Invest LLP (matures in 2020-2021)	-	-	-	-	1,391,635	8,00-8,50	1,391,635	8,00-8,50
Villa Flora SIA (matures in 2021)	692,844	8,00	692,844	8,00	756,800	8,00	756,800	8,00
UK Industries Group LTD (matures in 2020-2021)	-	-	-	-	690,766	8,00-8,50	690,766	8,00-8,50
Ļubov Bekker (matures in 2021)	1,915,718	8,00	1,915,718	8,00	-	-	-	-
Marks Bekkers (matures in 2021)	407,555	8,00	407,555	8,00	445,176	8,00	445,176	8,00
Zhelizna Viktorija (matures in 2020)	-	-	-	-	377,687	8,50	377,687	8,50
Igor Chudenkov (matures in 2020)	-	-	-	-	373,953	8,50	373,953	8,50
Andrejs Volodin (matures in 2020)	-	-	-		115,724	8,50	115,724	8,50
Total subordinated loans	**3,016,117**		**3,016,117**		**8,748,647**		**8,748,647**	

36. Assets under management

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

	31.12.2020 Group EUR	31.12.2020 Bank EUR	31.12.2019 Group EUR	31.12.2019 Bank EUR
Legal entities:				
- non-residents	37,454,060	37,454,060	62,974,825	62,974,825
Private individuals:				
- non-residents	17,253,906	17,253,906	5,202,377	5,202,377
Total	**54,707,966**	**54,707,966**	**68,177,202**	**68,177,202**

37. Return on equity and return on assets

	31.12.2020 Group	31.12.2020 Bank	31.12.2019 Group	31.12.2019 Bank
Return on equity (ROE) (%)	1.41%	1.96%	10,31%	8,67%
Return on assets (ROA) (%)	0.21%	0.27%	1,39%	1,15%

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. Going concern

In 2020, the Bank's operation was determined by the new development strategy, the main direction of which is lending to Latvian and EU companies and financing of projects. Its activities, successful in 2020, will be continued on the same line in 2021, without significantly changing the direction of development.

In 2020, like other financial institutions, the Bank operated in times of crisis triggered by the COVID-19 pandemic. The crisis continues in 2021, while the macroeconomic indicators for 2020 show a fairly moderate impact of the crisis on banking in general.

> *In general, the Latvian banking sector is resilient to the Covid-19 shocks to the economy. Due to state aid measures (moratoriums and guarantee schemes), the negative effects of Covid-19 are not yet appreciable. In according to the latest data of 2020 , the total assets of the banking sector increased by EUR 373 million or 1.6%. At the same time, there were also changes in the structure of assets - while balances due from the central bank decreased, investments in securities increased significantly. The quality of loans to non-bank customers improved slightly and the share of non-performing loans decreased to 5.0%. In the reporting quarter, the rate of profit decline slowed down, while in the first nine months of the year the profit of the banking sector reached EUR 106.3 million. Although according to the latest data the return on equity (ROE) of the banking sector improved to 5.1%, it was still materially lower than in the previous year (9.5%), indicating that the overall impact of Covid-19 on bank profitability remained significant. The capital ratios of banks did not change essentially and remained high: the Common Equity Tier 1 (CET1) ratio was 23.5% and the total capital ratio was 24.6%. The average EU harmonized Liquidity Coverage Ratio (LCR) for banks was high, reaching 346% at the end of September (the minimum LCR requirement is set at 100%).*

38. Going concern *(cont'd)*

The crisis, as it developed in 2020, has not significantly affected the assets of Latvian banks and the amount of customer deposits the total of which did not change significantly in 2020 and at the end of 2020 was 92.4% of the respective figure at the end of 2019. There is no reason to expect essential changes in the 2021 situation either. As in 2020, in 2021 and beyond the Bank has and will have a solid basis for its operations - a stable and highly diversified liabilities base and a highly liquid asset base.

Throughout 2020, the Bank's core performance indicators were constantly meeting the required benchmarks, with the liquidity and capital indicators demonstrating excellent performance nearly doubling the required standards (83.45% and 25.63% against the set requirements of 40% and 13.4%, respectively). In 2021, the Bank does not plan to significantly increase the overall risk level or individual risk exposures in its operations - the share of non-resident and shell companies, product risk, geographical risk, thus gradually decreasing operational risk. Taking into account the stable ratings of the Bank with the risk demonstrating a declining trend, in 2021 the Bank does not see any grounds for further revision and increase of benchmarks.

As a result of the decrease in the overall economic activity in 2020, the Bank experienced a decrease in the level of commission income and the forecast for 2021 predicts its level to be close to that of 2020. The probability of gradual "opening" of businesses and revival of work during the year is high enough, only it is difficult to predict the exact time of business processes becoming active. Moreover, the growing loan customer base of the Bank, i.e. the number of customers whose economic activity remained at a relatively high level in 2020 as well, ensures a certain amount of income from operations and commissions. This made it possible for the Bank's management to predict with a high degree of confidence only insignificant decrease (by 2.8%) in commission income in 2021 compared to 2020.

In terms of interest income, 2020 was a fairly tough year, falling by 27%. The first reaction to declaring a state of emergency in Latvia in March 2020 was quite radical by both the business and the Bank - to take a break from active lending (issuance of approved loans and consideration of new applications). In fact, the break lasted three months. The pause was long enough for the Bank to assess the trends in the shifts of the Latvian macroeconomic indicators and to develop additional mechanisms for evaluating (testing) loan projects considering the impact of COVID. However, the pause, as well as the overall impact of COVID-19 on the willingness of Latvian companies to invest borrowed funds in their development, significantly reduced the planned Bank's loan portfolio growth rate, i.e., in the 2020 budget, a larger and earlier issuance of loans was planned, which could not but affect the implementation of the plans on operating income.

The 2021 plans are based on the 2020 experience and initially provide for realistic testing against COVID-19 at the earliest stage of loan consideration. The planned volumes of new loans of EUR 27 million are comparable to those of 2020 (EUR 33 million) and are supported by the portfolio of already reviewed (approved, signed) loan projects. Based on the reasonable assumptions of the Bank's management, the dynamics of loan portfolio growth and the amount of interest income set in the financial plan for 2021 are achievable and realistic. Moreover, such growth rates are highly desirable for the Bank to increase its market share and strengthen its position as a specialized and competent financial partner of the Latvian business.

The Bank's management considers the impact of COVID-19 on the Bank's loan portfolio to be insignificant and does not pose any risk on further operations of the Bank. During 2020, the volume of loans restructured because of COVID-19 was not systemically significant. Despite the presence in the Bank's loan portfolio of a certain statistical concentration of loans from the industries affected by

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

38. Going concern *(cont'd)*

COVID-19 (trade, transport sector), the analysis of the individual borrowers' businesses did not reveal any significant risks. According to credit analysts, at the end of 2020, only 4 credit exposures for a total amount not exceeding 3% of the total portfolio required adjusting allowances or transferring from Stage 1 to Stage 2, taking into account the future forecasts.

Thus, the year 2021 is still a transitional period in which the Bank must confirm the efficiency and profitability of the chosen development model. The experience of 2020 and the optimization of sales processes alongside with attracting and servicing customers, the steady growth rate of the Latvian loan portfolio as demonstrated by the Bank as well as stable capital adequacy and liquidity ratios give the Bank's management every reason to look optimistically into 2021 and focus on further successful implementation of the Bank's Development Strategy 2021-2025.

39. Events after reporting date

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

Considering the risks of Covid-19 spread and a more targeted control of the infection, the emergency situation in Latvia will be extended until 6 April 2021. In its day-to-day work, the Bank ensures meeting all epidemiological safety measures set by the Cabinet to limit the Covid-19 spread as well as continues to assess and monitor the way customers affected by the Covid-19 restrictions fulfill their obligations and, if necessary, cooperate to mitigate the negative consequences.

The full impact of the COVID-19 pandemic on the Group's and the Bank's operations is not yet known and the situation continues to evolve. Management believes that the COVID-19 pandemic will not have a huge impact on the Group's and the Bank's operations after the end of the reporting year. However, this assumption is based on information available at the date of signing the financial statements and the effect of future events on the Group's and the Bank's ability to continue as a going concern may differ from management's assessment.

Aleksandrs Jakovlevs Chairman of the Board	Mark Bekker Deputy Chairman of the Council

Riga, 5 March 2021