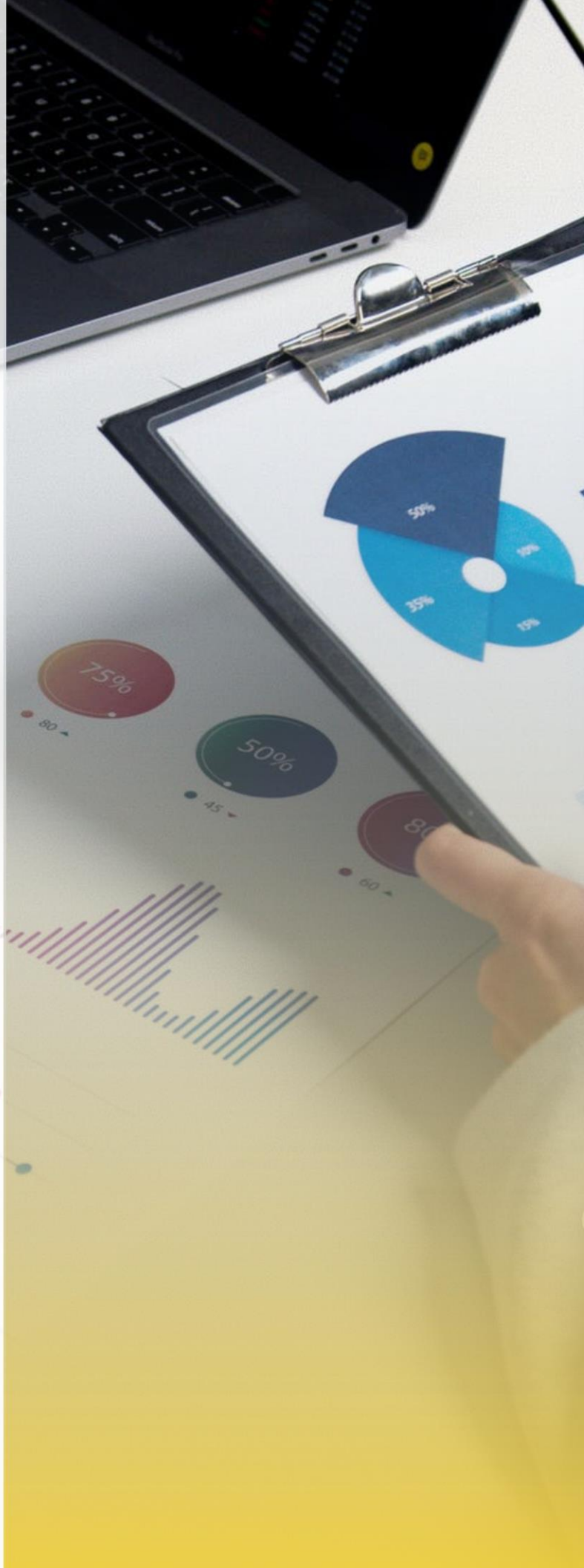




FINANCIAL STATEMENT OF LPB BANK

for the year ended
31 December 2020



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MANAGEMENT REPORT

Dear shareholders, customers and business partners,

Despite the serious global challenges posed by the pandemic to the country's economy and financial sector, we are pleased with the financial results of 2020. Undoubtedly, COVID-19 left some traces in the performance of JSC LPB Bank (AS LPB Bank; hereinafter referred to as the Bank), but the most important financial and efficiency indicators are at a good and stable level due to the development strategy chosen by the Bank, namely, the provision and development of e-commerce services and the successful development of business relations with FinTech companies. Of course, the pandemic has become a serious challenge for many companies, but we clearly see that COVID-19 has given some of our customers the opportunity to develop new business ideas or modernize an existing range of services. We are satisfied that more and more new companies have decided to use the e-commerce services offered by the Bank and reorient their business to online sales.

Type of activity

The Bank is a joint stock company registered on 12 September 2008 in the Register of Enterprises of the Republic of Latvia with the unified registration No. 50103189561. The Bank operates in accordance with the legislation of the Republic of Latvia and the license No. 06.01.02.01.340/491 issued by the Financial and Capital Market Commission and re-registered on 20 December 2017. The Bank's legal address and head office: 54 Brīvības Street (*Brīvības iela*), Riga, LV-1011, Latvia. The Bank has no branches or representatives.

Financial indicators

Due to a significant increase of customer deposits, at the end of 2020 the Bank's assets amounted to EUR 237.6 million, increasing by EUR 43.3 million during the year. The Bank continued to maintain high liquidity of assets while maintaining a well-diversified structure. The share of the debt securities portfolio in assets increased to 43%, of which 98% had an investment grade credit rating. 29% of the Bank's assets consist of receivables from banks, including the Bank of Latvia. The amount of loans issued to customers did not change significantly and accounted for 20% of assets. The liquidity coverage ratio as at 31 December 2020 was 158.83% (regulatory minimum – 100%).

As the period of the negative euro base rate and the ECB's bond purchase program continues, the Bank, while planning its investments in the securities portfolio, expects lower coupon rates and thus a lower return in the form of interest income. As a result, net interest income in 2020 was 4% lower than a year earlier. On the other hand, due to the successful operation of e-commerce services, net commission income showed an increase of 27%. The result of trading and revaluation of financial instruments, which increased by 13.5% compared to the previous period, also showed positive dynamics.

In 2020, the Bank maintained a high profitability, closing the year with a profit of EUR 4.7 million. The return on assets (ROA) according to the financial results of 2020 was 2.32%, while the return on equity (ROE) was 15.01%.

As a prudent approach to creation of provisions for the reduction of the quality of financial assets was applied, the structure of the Bank's profit sources changed during the year, while commission income became more important – the share of net interest income after creation of provisions for financial assets decreased to 11%, net commission income accounted for 49%, net profit from financial instruments – 39%, other income – 2%.

The Bank's total capital adequacy ratio at 31 December 2020 was 24.64% (31 December 2019 – 22.45%). The Bank has not established a trading portfolio, therefore, the Bank's market risk is mainly related to foreign currency risk.

By supporting those customers of the Bank who are temporarily facing financial difficulties caused by the COVID-19 outbreak, the Bank joined the moratorium developed by the Finance Latvia Association (Association) for both, individuals and companies, which provided the possibility to defer repayment of the loan principal. In 2020, the Bank was able to maintain the gross value of the loan portfolio at the previous year's level, i.e., in the amount of EUR 53 million including off-balance-sheet liabilities to customers.

Given that limiting the negative effects of the spread of the Covid-19 virus and its consequences on the economy remain in the spotlight, the Bank continues to follow closely market trends, assessing their impact on the Bank's investments in debt securities and credit portfolio, and ensuring a prudent lending monitoring process by critically assessing customer solvency assessment. The Bank carefully analyzes the signs of changes in customer credit risk and makes appropriate decisions regarding the classification of exposures. For additional information on the Bank's activities regarding the classification of financial assets in the context of Covid-19, see the section “Action during Covid-19” in Annex 24.

Achievements

Despite the fact that the global pandemic has significantly changed the global agenda, 2020 has been no less tense and urgent in the area of prevention of money laundering and terrorism and proliferation financing (PMLTPF). 2020 is considered to be a turning point in terms of PMLTPF risk assessment and risk management. The active participation of the Bank's representatives in the recommendations developed by the Association and the Financial and Capital Market Commission (Commission) for the establishment of PMLTPF and sanction risk management internal control system and customer research clearly shows, that the Bank is innovative not only in regard of the Bank's services but also in modern risk management. The Bank has no doubt that only the risk-based approach makes it possible to effectively and appropriately monitor customers and their transactions, which results in positive benefits for each individual customer and the Latvian economy as a whole. Customers get a more suitable and appropriate level of services and the financial sector – a more transparent and understandable framework in the eyes of the public.

In order to ensure proper application of requirements of regulatory enactments and implementation of best practices in the Bank's internal control system, in 2020 the staff of PMLTPF was significantly increased. The Bank also continued to invest in the knowledge of other Bank employees, providing in-depth and comprehensive training in the area of prevention of money

laundrying and terrorism and proliferation financing with the participation of professionals recognized in Latvia.

During 2020, 17 new professionals joined the Bank's team and the total number of employees reached 238, which is a convincing proof of the Bank's continuous growth and development. On behalf of the Board of the Bank, we would like to thank all employees of the Bank for their loyalty and persistent work.

In 2020, the Bank performed active work in improving the compliance of the Bank's internal regulatory documents and operations in order to ensure compliance with the external regulatory enactments and standards regulating the Bank's operations.

During 2020, significant investments were made in the Bank's technological projects to increase the availability of the Bank's services online.

In February 2020, the Bank participated in the TES Affiliate conference in Lisbon, bringing together professionals from e-commerce, finance and other sectors.

In May 2020, the Bank started offering Apple Pay integration for online stores as another form of payment on websites and mobile applications. This service simplified and accelerated the online shopping process for Apple device owners. The payment is confirmed with Touch ID, Face ID or PIN code and is charged from the linked bank card.

The Bank expanded the range of services in the local market: bundled services for Latvian entrepreneurs were developed and offered. By resuming the provision of POS terminal services, the Bank continued active cooperation with those local companies that wanted to diversify their payment options for their own and customers' convenience.

Thinking about the comfort of entrepreneurs in the environment of global cooperation, the Bank has started issuing new payment cards, which will be supplemented with new Mastercard privileges – LoungeKey and Flight Delay Pass.

In September 2020, changes were made in the composition of the Council of the Bank and the member of the Council *Jūlija Kozlova (Jūlija Kozlova)* was replaced by *Boriss Ulmans*.

In October 2020, the Bank participated in the RIGA COMM 2020 Fintech conference, sharing its experience on the development of electronic commerce and how to promote business using the latest technologies of beneficiary banks.

Continuing the tradition started five years ago, the Bank is also cooperating with the Children's Hospital Foundation to improve the quality of services of the Children's Clinical University Hospital by donating funds for the purchase of Nursing Workstations.

In accordance with the standards set by the European Union's Second Payment Services Directive (PSD2), at the end of the year the Bank complied with all requirements and introduced an improved authentication for online payments.

Priorities for 2021

The Bank's main goal for 2021 is to continue the development of technological solutions, not only for the automation and increase of efficiency of the Bank's internal processes, but also for attracting and servicing new customers, opening new lines of business and improving the service to existing customers. We will continue to adapt to changes in the financial markets and the banking sector and are confident that we will be able to strengthen our Bank's position in the Latvian market as well as the relations with our customers. The Bank determines the following priority development directions:

- Improvement of e-commerce and availability of innovative services;
- Availability of financing for entrepreneurs with development potential and investment opportunities;
- Cooperation with FinTech sector.

The Bank will continue to strengthen the compliance of the internal control system with the requirements and standards of legislation and best practices in order to ensure the effectiveness of the internal control system for the prevention of PMLTPF risks at the highest level.

In 2021, we will continue to improve the Bank's electronic and remote channels, i.e., a new and modern Bank's website with additional functions, which currently is at the final stage of development, will soon be available.

We will proceed to successfully develop the Bank in 2021 and would like to thank the Bank's shareholder and customers for their continued support and trust, as well as all employees for their contribution to the Bank's growth!

THE COUNCIL AND THE BOARD

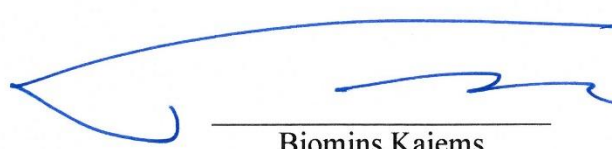
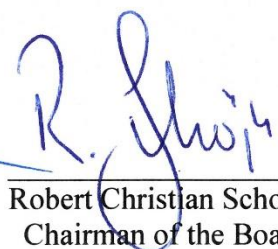

The Council of the Bank as of 31 December 2020

Name, Last name	Position	Date of appointment	Release date
Biomins Kajems	Chairman of the Council	13/10/2008	
Mihails Uļmans	Deputy Chairman of the Council	20/09/2013	
Aleksandr Plotkin	Council Member	14/10/2015	
Julija Kozlova	Council Member	03/10/2018	29/09/2020
Boriss Ulmans	Council Member	29/09/2020	

The Board of the Bank as of 31 December 2020

Name, Last name	Position	Date of appointment
Robert Christian Schoepf	Chairman of the Board	06/11/2019
Arnis Kalveršs	Board Member	05/09/2008
Jurijs Svirčēnkovs	Board Member	29/04/2014
Antons Kononovs	Board Member	03/10/2018
Baiba Preise	Board Member	29/04/2019

On behalf of the Bank:

Biomins Kajems
Chairman of the Council

Robert Christian Schoepf
Chairman of the Board

Baiba Preise
Member of the Board

Riga, 22 March 2021

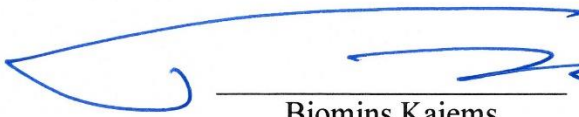
STATEMENT OF MANAGEMENT’S RESPONSIBILITY

The management of AS “LPB Bank” (hereinafter – the Bank) is responsible for the preparation of the Bank’s financial statements for each financial year.

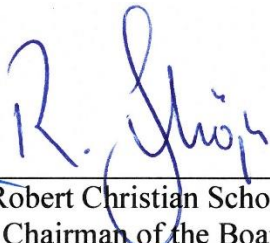
In preparing the financial statements set out on pages 9 to 75 for the year ended 31 December 2020, the management has applied appropriate accounting principles that are based on prudent and reasonable judgments and estimates. The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the regulations of the Financial and Capital Markets Commission.

The Bank’s management is responsible for maintaining proper accounting records and ensuring compliance with the Regulations of the Financial and Capital Market Commission, law on credit institutions and other legislation. The management is also responsible for taking all reasonable efforts to safeguard the Bank’s assets and the prevention and detection of fraud and other irregularities in the Bank. The management’s decisions and judgments used in the preparation of these financial statements were prudent and reasonable.


On behalf of the Bank’s management:



Biomins Kajems
Chairman of the Council



Robert Christian Schoepf
Chairman of the Board



Baiba Preise
Member of the Board

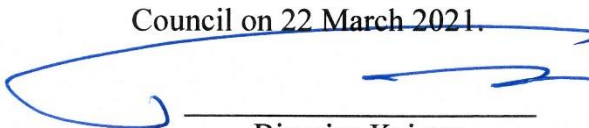
Riga, 22 March 2021

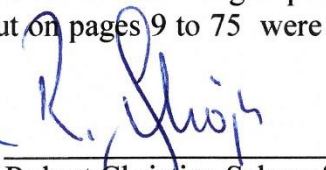
STATEMENT OF COMPREHENSIVE INCOME


(All amounts are expressed in thousands of euro (000'EUR))

	Notes	2020	2019
Interest income	3	4 902	5 070
Interest expense	3	(902)	(915)
Net interest income	3	4 000	4 155
Result of making provisions for doubtful debts	8	(2 503)	14
Net interest income after provision for loan impairment		1 497	4 169
Commission and fee income	4	19 243	17 745
Commission and fee expense	4	(12 334)	(12 300)
Net commission and fee income	4	6 909	5 445
Income from dividends		17	25
Net gain/(loss) on financial assets not at fair value through profit or loss	6	1 031	283
Net gain/(loss) on financial assets at fair value through profit or loss	6	2 610	561
Net gain on foreign exchange	6	1 858	4 001
Other income	5	237	204
Administrative expense	7	(7 934)	(7 061)
Depreciation	14	(373)	(322)
Other expense	5	(1 141)	(926)
Profit before tax		4 711	6 379
Corporate income tax	9	(3)	(1)
Net profit for the year		4 708	6 378
Profit attributable to owners of the Bank		4 708	6 378
Other comprehensive income / (expense)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Accumulated result from other comprehensive income / (expense)		306	1 325
Total other comprehensive income / (expense)		306	1 325
Total other comprehensive income attributable to owners of the Bank		5 014	7 703
Earnings per share (EUR)	20	0.362	0.491

The accompanying notes on pages 13 to 75 form an integral part of these financial statements.
The Bank's financial statements set out on pages 9 to 75 were approved by the Board and by the Council on 22 March 2021.


Biomins Kajems
Chairman of the Council


Robert Christian Schoepf
Chairman of the Board


Baiba Preise
Member of the Board

Riga, 22 March 2021


STATEMENT OF FINANCIAL POSITION

(All amounts are expressed in thousands of euro (000'EUR))

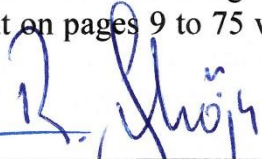
	Notes	31.12.2020	31.12.2019
ASSETS			
Cash and balances with the Bank of Latvia	10	50 457	43 025
Due from credit institutions	11	19 437	6 777
Financial assets measured at fair value through profit or loss		1 324	2 209
- <i>derivatives</i>		199	-
- <i>shares</i>		1 125	2 209
Financial assets measured at fair value through other comprehensive income		57 805	35 673
- <i>debt securities</i>	13	57 805	35 673
Financial assets measured at amortised cost		91 323	91 623
- <i>loans and receivables due from customers</i>	12	47 416	49 464
- <i>debt securities</i>	13	43 907	42 159
Property, plant and equipment	14	6 293	6 420
Intangible assets	14	336	433
Other financial assets	15	10 171	7 652
Other non-financial assets	15	480	433
Total assets		237 626	194 245
LIABILITIES			
Liabilities measured at amortised cost		183 071	153 475
- <i>Deposits from customers</i>	17	183 071	153 475
Other financial liabilities	18	20 728	12 094
Other non-financial liabilities	18	710	573
Total liabilities		204 509	166 142
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK			
Paid-in share capital	19	13 000	13 000
Financial assets measured at fair value through other comprehensive income revaluation reserve		720	414
Retained earnings		19 397	14 689
Total equity attributable to equity holders of the Bank		33 117	28 103
Total equity		33 117	28 103
Total liabilities and equity		237 626	194 245

The accompanying notes on pages 13 to 75 form an integral part of these financial statements.


The Bank's financial statements set out on pages 9 to 75 were approved by the Board and by the Council on 22 March 2021.



Biomins Kajems
Chairman of the Council



Robert Christian Schoepf
Chairman of the Board



Baiba Preise
Member of the Board

Riga, 22 March 2021

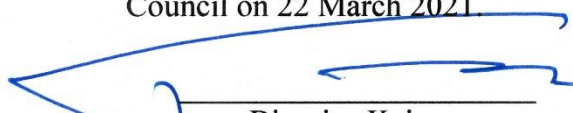
STATEMENT OF CHANGES IN EQUITY

(All amounts are expressed in thousands of euro (000'EUR))

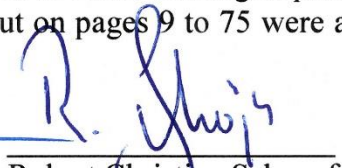
	Paid-in share capital	Financial assets at fair value through other comprehensive income revaluation reserve	Retained earnings	Total
Balance as at 31 December 2018	13 000	(911)	16 211	28 300
<i>Other comprehensive income</i>	-	1 325	-	1 325
<i>Net profit for the year</i>	-	-	6 378	6 378
Total income for the year	-	1 325	6 378	7 703
Dividends paid	-	-	(7 900)	(7 900)
Balance as at 31 December 2019	13 000	414	14 689	28 103
<i>Other comprehensive income</i>	-	306	-	306
<i>Net profit for the year</i>	-	-	4 708	4 708
Total income for the year	-	306	4 708	5 014
Balance as at 31 December 2020	13 000	720	19 397	33 117

The accompanying notes on pages 13 to 75 form an integral part of these financial statements.


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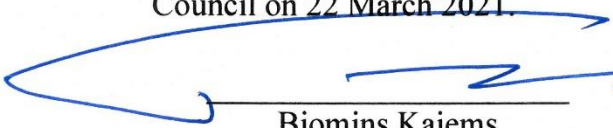
Riga, 22 March 2021

STATEMENT OF CASH FLOWS

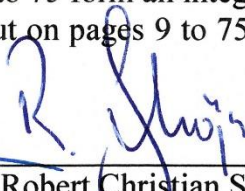
(All amounts are expressed in thousands of euro (000'EUR))

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	4 711	6 379
Amortisation / depreciation	373	322
(Decrease) / increase in impairment allowance for financial assets	2 503	(14)
Interest income	(4 902)	(5 070)
Interest expense	902	915
Unrealised foreign exchange loss / (profit)	1 203	(663)
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	4 790	1 869
(Increase) / decrease in loans and receivables	(191)	3 336
(Increase) decrease in other assets	(1 797)	(1 037)
Increase / (decrease) in deposits from customers	29 570	(3 061)
Increase in other liabilities	8 653	466
Change in cash and cash equivalents from operating activities before income tax	41 025	1 573
Interest received	4 460	5 218
Interest paid	(876)	(933)
Corporate income tax paid	(3)	393
Change in cash and cash equivalents from operating activities	44 606	6 251
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(149)	(144)
(Increase) / decrease of financial assets at fair value through other comprehensive income	(21 375)	(228)
Settlement / (increase) of financial assets at fair value through profit or loss	(1 794)	3 343
Change in cash and cash equivalents from investing activities	(23 318)	2 971
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	-	(7 900)
Change in cash and cash equivalents from financing activities	-	(7 900)
Net cash flows for the year	21 288	1 322
Cash and cash equivalents at the beginning of the year	49 815	47 830
Foreign exchange (loss) / profit	(1 203)	663
Cash and cash equivalents at the end of the year	69 900	49 815

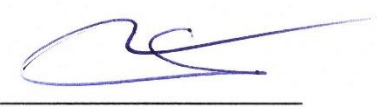
The accompanying notes on pages 13 to 75 form an integral part of these financial statements.
The Bank's financial statements set out on pages 9 to 75 were approved by the Board and by the Council on 22 March 2021.



Biomins Kajems
Chairman of the Council



Robert Christian Schoepf
Chairman of the Board



Baiba Preise
Member of the Board

Riga, 22 March 2021

NOTE 1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Statement of compliance

The Bank's financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”).

Based on Commercial Code of the Republic of Latvia, shareholder meeting has rights and obligations to make decision on approval of financial statements. Shareholder and the Board have rights to amend the financial statements after issue.

(b) Going concern

The financial statements are prepared on the going concern basis. The Bank's management has analysed the Bank's financial position, availability of financial resources as well as the impact of the financial crisis on the future operations of the Bank. The Bank's operating strategy is aimed at further development of a bank servicing certain customers and developing customised products and service technologies.

The Bank's capital adequacy is monitored by the following:

- Analysing the report prepared in accordance with the Bank's Procedure for Calculating the Minimum Capital Requirements at least on a monthly basis;
- Assessing the capital required to cover all significant risks the Bank is exposed to and the extent of the available capital for a three-year planning period at least once every year and by benchmarking the actual financial performance of the Bank against the target indicators on a monthly basis;
- Analysing the asset quality and estimating the required allowances at least on a quarterly basis.

According to the Bank's Recovery Plan the main measures for improvement of own funds will be direct investments in share capital or increasing of subordinated deposits and dispose its capital reserve.

Having analysed the key risks related to the present and potential economic situation, the development of the banking industry as well as the Bank's existing and potential human and financial resources, the Bank has selected to pursue the following strategy:

- Priority line of activities is FinTech, in particular the acquiring. The Bank's service is created in accordance with the requirements and standards of MasterCard and Visa. The Bank holds a MasterCard acquiring license for Europe and a Visa acquiring license for Europe, thus the Bank provides and intends to provide services to Internet sellers throughout Europe;
- In relation to the priority line of activities, to offer services to legal persons, creating a Client portfolio based on personalised service provision;
- Offer personalised services to high and ultra-high income natural persons on an equal basis with legal persons;
- Continue expanding provision of its services in Latvia and outside Latvia, developing the communication of the Bank's new Brand and name “LPB Bank” with the core communication message as “Dynamic, innovative and goal-oriented Bank that respects tradition and is a reliable, long-lasting and valuable partner to every Client of the Bank in pursuit of their business objectives”;
- Actively attract potential Clients through classic and digital marketing channels;
- Continue placement of raised funds:
 - in financial instruments,

- in lending to legal persons, in particular – for current assets and business development investments;
- Priority areas of operations – Latvia, EEA countries, NATO member countries, OECD member countries and other countries that do not pose an increased reputational risk to the Bank.

Currently, the Bank continues the ongoing risks management process improvement and automation projects, with adequate staff, technological and financial resources devoted by the management. The finish of regular independent audit of the ML/TF and proliferation financing and sanctions risk management is planned at the end of 1st quarter of 2021.

The Bank has set a target capital adequacy ratio for 2020 of at least 16 percent.

(c) Functional and presentation currency

These financial statements are reported in thousands of euro (EUR'000), unless otherwise stated. The functional currency of the Bank is euro (EUR).

(d) Basis of presentation

These financial statements are prepared on a historical cost basis, except for assets and liabilities which are reported at fair value:

- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

Income and expense are not offset in the financial statements unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) New Standards and Interpretations

Changes in accounting policies

Except for the changes below, the Bank has consistently applied the accounting policies to all periods presented in these financial statements.

Bank has assessed the further described new standards and the addendums thereof, including the resultant addendums in other standards, the date of applicability of which was January 1, 2020, and has stated that they have not relevant impact on the Bank:

- Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020).

- Definition of a business - Amendments to IFRS 3 (effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (effective for annual periods beginning on or after 1 January 2020).
- Covid-19 Related Rent Concessions – Amendments to IFRS 16 (effective for annual periods beginning on or after 1 January 2020).

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2021 or not yet adopted by the EU, and have not been applied in preparing these financial statements. Those, which may be relevant to the Bank, are set out below. The Bank does not plan to adopt these standards early.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (effective for annual periods beginning on or after a date to be determined by the IASB, not yet adopted by the EU).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2023, not yet adopted by the EU).
- Amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 (effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU).
- Amendments to IFRS 17 and an amendment to IFRS 4 (effective for annual periods beginning on or after 1 January 2023, not yet adopted by the EU).
- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective for annual periods beginning on or after 1 January 2021, not yet adopted by the EU).

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Bank anticipates that the adoption of all other standards, revisions and interpretations will have no material impact on the financial statements of the Bank in the period of initial application, except for the effects mentioned above.

(b) Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the financial statements. The most significant judgments and estimates used are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs.

Impairment losses

The Bank makes accumulations for financial assets, which are debt instruments, as well as for off-balance sheet liabilities with credit risk. The purpose of the developed model is to predict the probability of the expected loan default as accurately as possible in order to make corresponding accumulations in the appropriate amount for the loans to be assessed individually.

The loan default probability is calculated in two stages. In the first stage, it is considered that for the loans with monthly repayments, the delay or non-delay in repaying the loan in the following month depends only on the delay or non-delay in repaying the loan in the current month. Respectively, the future repayment of the loan depends only on the present repayment of the loan. In the second stage, when the probability of default of the loan is determined, its value is adjusted according to the macroeconomic forecast.

For determination of the probability of default of the financial instruments and financial institutions where the Bank's funds are placed and the part of the financial asset lost there, financial indicator information is used for each financial instrument and its issuer. As well as long-term statistical information on financial instruments with similar indicators, migration of their ratings (deterioration or improvement of indicators) and probability of their default.

(c) Foreign currency translation

Transactions and balances

Transactions in foreign currencies are recorded in euro at the functional currency rate of exchange ruling at the date of the transaction set by the European Central Bank. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the official rate of exchange set by the European Central Bank prevailing at the end of the year.

All realised gains and losses are taken to the statement of comprehensive income in the period when incurred. Unrealised gains and losses resulting from the revaluation of assets and liabilities are included in the statement of comprehensive income applying the exchange rates prevailing at the reporting date.

The principal year-end rates of exchange (amount of foreign currency to one EUR) used in the preparation of these financial statements are as follows:

European Central Bank official exchange rate		
	31 December 2020	31 December 2019
USD	1.22710	1.12340
RUB	91.46710	69.95630
GBP	0.88903	0.85080
PLN	4.55970	4.25680

(d) Financial assets and liabilities

Recognition and derecognition of financial assets

Financial assets are recognised in the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized in the statement of financial position on the settlement date representing the date when the financial asset is delivered. In the period between the dates of transaction and settlement, the Bank accounts for the changes in the fair value of the received or

transferred asset based on the same principles as used for any other acquired asset of the respective category. A financial asset is derecognised only when the contractual rights to receive cash flows from the asset have expired, or the Bank has transferred the financial asset and substantially all the risks and rewards of the asset to the counterparty.

All purchases and sales of financial assets, except for loans issued to non-bank customers, are recognised and derecognised on the settlement date. Loans to non-bank customers are recognised in the statement of financial position when cash is transferred to the customer's current account. Change in value of assets between the trading date and settlement date are recognised in the statement of comprehensive income.

Classification of financial instruments

All financial instruments upon initial recognition are classified into one of the following categories:

- Financial assets and liabilities measured at fair value through profit or loss;
- Financial assets and liabilities measured at fair value through other comprehensive income;
- Financial assets and liabilities measured at amortised cost.

The basis for classification is both business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. At acquisition the applicable classification is evaluated based on the guidelines established by the Bank. For financial asset classification in particular category, the Bank at inception has to determine whether the asset meets the relevant business model and contractual cash flow criteria.

Financial instruments measured at fair value through other comprehensive income

The Bank acquires securities evaluated at fair value through other comprehensive income for the purpose of holding these assets in order to receive principal amounts and interest and to sell them. This portfolio includes fixed income debt securities.

The securities evaluated at fair value through other comprehensive income are initially accounted at their fair value, including direct transaction costs, and are subsequently revalued at fair value. The result of revaluation is recognised in the statement of comprehensive income, except for foreign currency profit and losses.

For the securities evaluated at fair value through other comprehensive income that have been acquired at a discount (premium), the discount (premium) amount is gradually amortised using the effective interest rate. Amortisation amounts are included in the statement of comprehensive income as interest income/(expenses) on debt securities.

Profit or losses arising from the alienation of the securities evaluated at fair value through other comprehensive income and the fair value revaluation reserve accumulated until alienation are included in the item “Net realised profit (losses) on financial instrument trading transaction” of the statement of comprehensive income.

Financial assets evaluated at amortised acquisition cost (excluding loans and receivables)

Investment securities evaluated at amortised acquisition cost include non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity and which, by definition, are not loans and receivables. Financial assets evaluated at amortised acquisition cost include debt financial instruments. Financial assets evaluated at amortised acquisition cost are accounted at amortised cost using the effective interest

rate method, taking into account provisions for impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans are carried at amortised cost using the effective interest method. The amortised cost of a loan is the amount at the issue of the loan minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

Finance leases (Bank as a lessor)

For reporting purposes, finance lease receivables are carried as loans and receivables.

Finance lease receivables are recognised as assets at the commencement of the lease term at an amount equal at the inception of the lease to the net investment in the lease. Finance income is recognised over the lease term to produce a constant periodic return on the net investments outstanding in respect of finance leases.

Financial liabilities

Financial instruments carried as deposits from customers, subordinated debt and other financial liabilities are classified as financial liabilities at amortised cost.

After initial measurement, financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount on issue and fees that are an integral part of the effective interest rate. The amortisation is included in interest expense in the statement of comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Impairment of financial assets and expected credit loss

The Bank's impairment requirements are based on an expected credit loss model. Expected credit loss calculations do not represent the losses that the Bank may suffer in a single scenario, but represent a probability weighted loss in a number of reasonably possible scenarios including a normal repayment scenario. Expected credit losses depends on whether the credit risk has increased significantly since initial recognition.

Expected credit losses are measured on either of the following bases:

- 12-month expected credit loss that result from possible default events within the 12 months after the reporting date; and
- lifetime expected credit loss that result from all possible default events over the expected life of a financial instrument.

The Bank performs an assessment at the end of each reporting period of whether the credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument. Financial assets are valued in three

stages:

- Stage 1 classifies financial assets whose credit risk has not increased significantly compared to initial recognition,
- Stage 2 classifies financial assets whose credit risk has increased significantly compared to initial recognition but which do not show signs of default,
- Stage 3 classifies financial assets that has identified signs of default.

For additional information on the characteristics of significant credit risk and the characteristics of default, see the section “Credit quality of financial assets” in Annex 24.

The amount of provisions for the expected amount of credit losses is determined as a product of PD, LGD and EAD parameters, where:

PD (probability of default) — expected probability of default,

LGD (loss given default) — the percentage of the loss asset if the borrower is unable to meet the obligations,

EAD (exposure at default) — the amount of the exposure at the reporting balance sheet date.

The amount of the expected probability of default value depends on the quality stage of the financial asset, where:

- for stage 1 assets, loss allowance equals the 12 month expected credit loss, that is a possible loss if the issuer defaults within the next 12 months,
- for stage 2 assets, loss allowance equals the lifetime expected credit losses,
- for stage 3 assets, the Bank applies 100% probability of expected default.

PD estimates are estimates at a certain date, which is calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. When determining the probability of default of borrowers, the Bank takes into account the relevant macroeconomic forecasts.

Calculation of net present value of projected future cash flows for financial assets secured with collateral takes into account cash flows from repossession of collateral less cost of repossession and sale, for discounting using the financial asset's original effective interest rate. For financial assets for which the Bank does not have sufficient information on the amount of collateral or the Bank does not require collateral (e.g. claims against banks on demand) to determine the amount of expected credit losses, the Bank considers that such financial asset is uncollateralised, that means the LGD or loss asset in percentage is 100%.

The carrying amount of the asset is reduced using an allowance account, and the decrease or increase of allowances is taken to the statement of comprehensive income for the reporting year. When there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank financial assets balance together with the associated allowance are written off, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

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. To determine the fair

value of financial assets and liabilities, the Bank uses quoted market prices, ratings assigned by independent rating agencies, or relevant valuation techniques. Where quoted prices are not readily available, fair values are determined by using alternative pricing models considering that fair value is not the amount that the Bank would receive or pay in a forced transaction, involuntary liquidation or distress sale. These models are based on the discounted cash flow analysis where relevant cash flows from the respective financial assets are measured and discounted at interest rates applicable to a certain category of assets.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment charges, if any is recognised. No depreciation is calculated for land. For other fixed assets and intangible assets that have a limited life, the cost is reduced by accumulated depreciation calculated based on the asset useful lives, using the straight-line method.

Depreciation is calculated using the straight-line method applying the following rates:

<i>Property, plant and equipment:</i>	
Buildings	2 %
Computers and equipment	33 %
Mobile phone, Tablets	50 %
Vehicles	20 %
Other property, plant and equipment	10-20 %

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is calculated as the difference between the net disposal proceeds and the carrying amount of the item at the disposal date and is included in the statement of comprehensive income.

(f) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance (licences, software that is not an integral part of the related hardware, etc.) held for supply of services or otherwise and are recognised as such when it is probable that the expected economic benefits that are attributable to the asset will flow to the Bank.

Intangible assets are stated at cost less accumulated amortisation and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation is included in the statement of comprehensive income on a straight-line basis over the useful life of the asset. The useful life of each asset is estimated on an individual basis, considering the contractual provisions and/or the period in which the asset's future economic benefits are expected to be consumed by the Bank.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation rates by categories of assets are as follows:

Intangible assets:

Licences	10 %
Software	33 %

(g) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that non-financial assets (except for the deferred tax asset) may be impaired. If any such indication exists, the Bank makes an estimate of the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are taken to the statement of comprehensive income.

(h) Recognition of income and expense

For all interest bearing financial assets and financial liabilities, interest income or expense is recorded in the statement of comprehensive income by using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. The calculation takes into account all contractual terms of the financial instrument (for example, prepayments, maturity and other options), but not future credit losses.

Interest income and expense include the amortisation of any difference between the cost of interest-bearing financial assets or liabilities and their maturity amount calculated applying the effective interest rate method (discount, premium, etc.).

Interest income comprises coupons earned from debt securities of the Bank's portfolio.

Accumulated interest income and income from impaired financial assets are included in the statement of comprehensive income unless the Bank has objective evidence that payments will not be received in the due term. Once the recorded value of a financial asset has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Commission and fee income from customers is usually recognised on an accrual basis as the service is supplied based on each particular situation, or on a certain performance.

Fees earned for the provision of services over a period of time are accrued over that period and taken to income. These fees include account servicing, asset management, commission from payment card transactions, etc. Loan related fees are taken to income on a systematic basis over the period of the loan. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis. Fees that are due for the provision of certain services are taken to income on completion of the respective service.

Income and expense attributable to the reporting period are taken to the statement of comprehensive income regardless of the receipt or payment date.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash and amounts due from central banks and other credit

institutions, and amount due to other credit institutions on demand and with an original maturity of three months or less. The statement of cash flows reports cash flows during the period classified by operating, investing and financing activities.

Cash flows from operating activities are reported using the indirect method. Cash flows from investing and financing activities are presented based cash payments for the year.

(j) Taxation

The Enterprise Income Tax Law which entered into force on January 1, 2018, provides for that the tax in the amount of 20 per cent should be paid at the time when profit is disbursed, rather than when it is recognised, and it is calculated as $0.2 / 0.8$ of the net amount of dividends paid. Moreover, separate expenditure and loans to related persons for tax purposes are considered as dividends (for example, expenditure not related to economic activity and representation expenditure which do not exceed definite limit, per cent expenditure above the limit, etc.).

Several Transitional Provisions of the Enterprise Income Tax Law provide for that the new EIT provisions do not refer to the dividends disbursed from the retained profit of the previous tax period, and these rights have no time limit.

(k) Off-balance sheet financial commitments and contingent liabilities

In the ordinary course of business, the Bank is involved with off-balance sheet financial commitments and contingent liabilities comprising commitments to extend loans and receivables to customers, commitments for unutilised credit lines or credit card limits, and financial guarantees.

Commitments to extend loans and receivables and commitments for unutilised credit lines or credit card limits represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Provisions are recognised when the Bank has a present obligation as a result of a past event, and 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 expense relating to any provision is presented in the income statement net of any reimbursement.

(l) Trust activities

Funds managed by the Bank on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Bank and, therefore, are not separately included in the statement of financial position. Funds under trust management are presented in these financial statements only for disclosure purposes. The Bank does not assume any control, risks and rights with regard to the assets and liabilities under trust management.

(m) Dividends

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

(n) Employee benefits

The Bank pays State compulsory social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Bank pays 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 state funded pension scheme are not able to settle their liabilities to employees. According to the rulings of the Cabinet of Ministers of the Republic of Latvia 72% (2019: 72%) of the social security contributions are used to finance state funded pension scheme.

Short-term employee benefits, including salaries and state compulsory social security contributions, bonuses and paid vacation benefits, are included in Administrative expenses on an accrual basis.

NOTE 3 NET INTEREST INCOME

	2020	2019
Interest income		
Due from credit institutions	567	540
Loans and receivables	2 871	3 066
<i>Incl. impaired loans</i>	<i>100</i>	<i>168</i>
Securities	1 464	1 464
<i>Incl. at amortized cost</i>	<i>720</i>	<i>812</i>
<i>Incl. at FVOCI</i>	<i>744</i>	<i>652</i>
Total interest income:	4 902	5 070
Interest expense		
Due to credit institutions	(72)	(117)
Non-bank deposits	(574)	(585)
Other interest expense	(32)	-
Payments to the Deposit Guarantee Fund	(224)	(213)
Total interest expense:	(902)	(915)
Net interest income	4 000	4 155

NOTE 4 NET COMMISSION AND FEE INCOME

	2020	2019
Commission and fee income		
Payment card transactions	17 186	15 253
Service fee for account maintenance and cash transactions	1 831	2 122
Asset management and brokerage services	109	184
Other bank transactions	117	186
Total commission and fee income:	19 243	17 745
Commission and fee expense		
Payment card transactions	(11 854)	(10 554)
Agents commission	(313)	(1 562)
Correspondent banking services	(76)	(86)
Brokerage services	(90)	(87)
Other bank transactions	(1)	(11)
Total commission and fee expense:	(12 334)	(12 300)
Net commission and fee income	6 909	5 445

NOTE 5 OTHER INCOME AND EXPENSE

	2020	2019
Other income		
Penalties collected	84	134
<i>Incl. past due loan payments</i>	54	99
Other income	153	70
Total other income	237	204
Other expense		
Membership fees to various organisations	(122)	(132)
Payment card project implementation and servicing	(967)	(734)
Other expenses	(52)	(60)
Total other expenses	(1 141)	(926)

NOTE 6 NET INCOME FROM FINANCIAL INSTRUMENTS

	2020	2019
Net gain on financial assets at fair value through profit or loss	2 610	561
<i>Incl. net trading gain</i>	3 338	(105)
<i>net revaluation result</i>	(728)	666
Net gain from transactions with other currency	1 858	4 001
<i>Incl. net trading gain</i>	3 061	3 338
<i>net revaluation result</i>	(1 203)	663
Net gain on financial assets not at fair value through profit or loss	1 031	283
<i>Incl. from fair value through other comprehensive income debts</i>	1 031	283
Net trading gain	5 499	4 845

NOTE 7 ADMINISTRATIVE EXPENSE

	2020	2019
Remuneration expense		
Remuneration to personnel	4 967	4 244
State compulsory social security contributions of personnel	1 193	1 019
Remuneration to the Council and the Board	394	366
State compulsory social security contributions of the Council and the Board	87	88
Total remuneration expense:	6 641	5 717
Software maintenance	268	222
Non-deductible input tax	247	230
Lease and maintenance of premises	185	146
Professional and legal fees	136	252
Other personnel expense (ex. loyalty expense)	128	169
Telephone, communications and mail	91	88
Advertising and representation expense	99	88
Property tax	54	48
Stationery and other office expense	53	32
Other administrative expense	18	43
Personnel loyalty expense	9	21
Donations	4	3
Non-operating expenses	1	2
Total other expense:	1 293	1 344
Administrative expense	7 934	7 061

As of 31 December 2020, the Bank had 238 employees (2019: 201 employees).

Payment for the audit and other services to various certified audit firms is included in administrative expenses. Total amounts paid to certified audit firms by the type of services are:

	2020	2019
Services received from the company auditing these financial statements:		
Financial year audit and interim audit fee	55	70
Other payments for non-audit services	18	14
Services received from other auditing companies:		
Other payments for non-audit services	21	103

NOTE 8 IMPAIRMENT PROVISIONS

	Loans	Off- balance	Other assets	Total
Balance as at 31 December 2018	720	7	256	983
Increase	583	14	166	763
Decrease	(535)	(19)	(223)	(777)
Write-offs	-	-	(1)	(1)
Exchange rate difference	-	-	38	38
Balance as at 31 December 2019	768	2	236	1 006
Increase	3 263	183	1 135	4 581
Decrease	(1 022)	(67)	(989)	(2 078)
Write-offs	-	-	(8)	(8)
Exchange rate difference	-	-	40	40
Balance as at 31 December 2020	3 009	118	414	3 541

NOTE 9 CORPORATE INCOME TAX

The tax paid in 2020 and 2019 was formed as follows:

	2020	2019
Conditionally distributed profit in the reporting period	12	3
including non-operating expenses	4	2
including write-off of receivables	8	1
Taxable base	15	4
Corporate income tax calculated in the reporting year	3	1

NOTE 10 CASH AND BALANCES WITH THE BANK OF LATVIA

	31.12.2020.	31.12.2019.
Cash	1 747	3 013
Balances with the Bank of Latvia	48 710	40 012
Total	50 457	43 025

Balances with the Bank of Latvia include cash on the correspondent account and a short-term deposit with the Bank of Latvia. According to the instructions of the Bank of Latvia, the Bank's average monthly balance on its correspondent account may not be less than the compulsory reserve calculated for the balance of liabilities included in the reserve basis on the last day of the month. As at 31 December 2020, the Bank's compulsory reserve requirement was 1 245 thousand EUR (31 December 2019: EUR 1 331 thousand).

NOTE 11 DUE FROM CREDIT INSTITUTIONS

	31.12.2020.	31.12.2019.
Amounts due on demand	3 101	6 790
Credit institutions registered in Latvia	20	2
Credit institutions registered in the EU	203	1 122
Credit institutions of other countries	2 878	5 666
Term deposits	16 342	-
Credit institutions registered in Latvia	9 334	-
Credit institutions of other countries	7 008	-
Total due from credit institutions	19 443	6 790
Provisions	(6)	(13)
Net due from credit institutions	19 437	6 777

The Bank's average interest rates applicable for the balances due from credit institutions in 2020 are as follows: EUR -0.5%, RUB 4.417% (2019: EUR -0.424%, RUB 5.368%).

NOTE 12 LOANS AND RECEIVABLES DUE FROM CUSTOMERS

(a) By customer profile

	31.12.2020.	31.12.2019.
Private non-financial companies	41 698	40 451
Financial institutions	892	1 212
Households	7 835	8 569
Total loans	50 425	50 232
Provisions	(3 009)	(768)
Net loans	47 416	49 464

(b) By geographical profile

	31.12.2020.	31.12.2019.
Residents of Latvia	47 322	46 451
Residents of EU Member States	138	157
Residents of other countries	2 965	3 624
Total loans	50 425	50 232
Provisions	(3 009)	(768)
Net loans	47 416	49 464

(c) By type

	31.12.2020.	31.12.2019.
Mortgage loans	24 047	26 524
Commercial loans	4 966	6 255
Industrial loans	3 365	3 562
Finance leases	589	335
Factoring	372	373
Credit card loans	74	78
Other loans	16 979	12 950
Cash in financial institutions reserved for operations	33	155
Total loans	50 425	50 232
Provisions	(3 009)	(768)
Net loans	47 416	49 464

(d) Loans and advances to customers by quality
31.12.2020.

	Mortgage loans	Other loans	Finance leases and Factoring	Credit card loans	Total
Loans and advances to customers neither past due nor impaired	19 247	23 595	534	68	43 444
Private non-financial companies	14 432	20 110	534	12	35 088
Financial institutions	-	892	-	-	892
Private individuals	4 815	2 593	-	56	7 464
Loans and advances to customers past due but not impaired	4 800	1 748	427	6	6 981
Past due up to 30 days	4 287	71	13	-	4 371
Past due 30-60 days	22	-	-	-	22
Past due over 90 days	491	1 677	414	6	2 588
Total gross loans and advances to customers	24 047	25 343	961	74	50 425
Provisions	(1 493)	(1 071)	(433)	(12)	(3 009)
Total net loans and advances to customers	22 554	24 272	528	62	47 416

31.12.2019.

	Mortgage loans	Other loans	Finance leases and Factoring	Credit card loans	Total
Loans and advances to customers neither past due nor impaired	24 933	21 257	273	60	46 523
Private non-financial companies	20 137	17 389	269	12	37 807
Financial institutions	-	1 211	-	-	1 211
Private individuals	4 796	2 657	4	48	7 505
Loans and advances to customers past due but not impaired	1 591	1 665	435	18	3 709
Past due up to 30 days	728	115	42	10	895
Past due 30-60 days	54	-	-	-	54
Past due 60-90 days	-	-	-	-	-
Past due over 90 days	809	1 550	393	8	2 760
Total gross loans and advances to customers	26 524	22 922	708	78	50 232
Provisions	(107)	(226)	(416)	(19)	(768)
Total net loans and advances to customers	26 417	22 696	292	59	49 464

(e) Significant credit risk concentration

As at 31 December 2020 the Bank had 4 borrowers or groups of borrowers, whose aggregate liabilities exceeded 10% of the Bank's own funds (as at 31 December 2019, the Bank had 5 borrowers or groups of borrowers, whose aggregate liabilities exceeded 10% of the Bank's own funds).

The Bank's credit risk concentration to one customer or a group of related customers may not exceed 25% of the Bank's own funds. If a customer is a credit institution or an investment brokerage firm, or a group of related customers including one or several credit institutions or investment brokerage firms, established in the country comparable to the European Union country (Implementation decision No. 2014/908/EU of European Union and the European Commission of 12 December 2014 / EU on equivalence third countries' and territories' supervisory and regulatory requirements to apply the approach to risk tantamount according to the European Parliament and Council Regulation (EU) No. 575/2013), total exposure to the customer shall not exceed 95 per cent of the Bank's own funds. On 31 December 2020 and 31 December 2019, the Bank was in compliance with these requirements.

NOTE 13 INVESTMENTS INTO SECURITIES

a) Securities by portfolios

	31.12.2020.	31.12.2019.
Financial assets at fair value through other comprehensive income		
Debt securities issued by EU central government	7 382	3 057
Debt securities issued by other central government	4 600	898
Debt securities issued by EU credit institutions	1 524	2 622
Debt securities issued by credit institutions of other countries	-	1 796
Debt securities issued by EU financial institutions	5 161	7 280
Debt securities issued by other countries financial institutions	23 596	2 785
Debt securities issued by Latvia non-financial companies	-	1 168
Debt securities issued by EU non-financial companies	10 038	12 433
Debt securities issued by other countries non-financial companies	5 635	3 745
Financial assets at fair value through other comprehensive income, total	57 936	35 784
Provisions	(131)	(111)
Financial assets at fair value through other comprehensive income, net	57 805	35 673
Financial assets at amortised cost		
Debt securities issued by the Latvian government	15 906	15 945
Debt securities issued by EU central governments	6 223	6 272
Debt securities issued by EU credit institutions	4 147	4 170
Debt securities issued by credit institutions of other countries	8 236	8 274
Debt securities issued by EU non-financial companies	9 527	7 582
Financial assets at amortised cost, total	44 039	42 243
Provisions	(132)	(84)
Financial assets at amortised cost, net	43 907	42 159

b) Securities by countries

	31.12.2020.		31.12.2019.	
	Carrying amount	% of the Bank's own funds	Carrying amount	% of the Bank's own funds
Central governments debt securities	34 111	x	26 172	x
Latvia	15 906	49.70	15 945	58.59
Lithuania	4 132	12.91	4 163	15.29
Other countries	14 073	43.98	6 064	22.28
Credit institutions debt securities	13 907	x	16 862	x
USA	8 236	25.74	8 274	30.40
Other countries	5 671	17.72	8 588	31.55
Other financial institution debt securities	28 757	x	10 065	x
USA	16 337	51.05	2 785	10.23
Cote D'ivoire	4 521	14.13	-	-
Luxembourg	5 161	16.13	7 280	26.75
Other countries	2 738	8.56	-	-
Private non-financial institutions debt securities	25 200	x	24 928	x
USA	4 410	13.78	2 486	9.13
Estonia	3 573	11.16	3 591	13.19
Germany	7 245	22.64	5 312	19.52
Other countries	9 972	31.16	13 539	49.74
Financial investments, total	101 975	x	78 027	x
Provisions	(263)	x	(195)	x
Financial investments, net	101 712	x	77 832	x

c) Financial investment qualitative rating

	31.12.2020.	31.12.2019.
Financial assets at fair value through other comprehensive income by risk classes		
AAA to AA-	40 097	18 831
BBB+ to BBB-	15 446	11 963
BB+ to BB-	2 393	4 990
Financial assets at fair value through other comprehensive income, total	57 936	35 784
Provisions	(131)	(111)
Financial assets at fair value through other comprehensive income, net	57 805	35 673
Financial assets at amortised cost by risk classes		
A+ to A-	31 537	36 653
BBB+ to BBB-	12 502	5 590
Financial assets at amortised cost, total	44 039	42 243
Provisions	(132)	(84)
Financial assets at amortised cost, net	43 907	42 159

Investments are made in securities according to the “Investment strategy for portfolio of financial instruments evaluated at fair value through other comprehensive income (FVTOCI)” and “Investment Strategy for portfolio of financial instruments to be accounted at amortised value” approved by the Bank. To avoid high risk exposure, the Bank has determined that investments should be made in financial instruments with an average credit rating of BB- or higher.

Investments in financial instruments is made diversified by region, sector, industry and risk level. The Bank’s priority is investment in financial instruments of issuers of OECD countries with an investment grade credit rating, creating a balanced structure between corporate and other debt securities.

To identify, in a timely manner, any changes that could produce an adverse effect on the ability and/ or willingness of a particular country’s government and/ or residents to meet their financial liabilities towards the Bank, the Bank keeps pace with the latest news and information about events occurring in the respective countries. For monitoring purposes, credit ratings assigned by three international rating agencies Moody’s Investors Service, Standard & Poor’s, Fitch Ratings are used. Average rating used by the Bank is calculated as follows: if risk rating is available only from one risk rating agency – this rating is applied; if two risk rating agencies have published risk ratings and risk ratings are different, the rating with higher degree of risk is applied; if all three risk rating agencies have published different risk ratings, the Bank first selects two risk ratings with the lowest degree of risk and then from those chooses the one with highest degree of risk. Additional sources of information used in analysis are mass media, economic analysis reports by international organisations and data from rating agencies.

Whenever any events that are likely to produce a material impact on the solvency of any country’s government and/ or residents are identified, the Bank’s Risk Control Department:

- Informs the Bank’s Asset and liability committee accordingly,

- Performs closer monitoring of the country and, if necessary, makes suggestions to the Bank's Resource Department that no additional investments should be made or country exposure limits for transactions with residents of the respective country should be reduced.

If the Bank's exposure to residents of the respective country cannot be reduced within the nearest three months, the Bank considers and initiates risk mitigation measures, such as allowances and requests for financial collateral.

NOTE 14 PROPERTY, PLANT AND EQUIPMENT (PPE) AND INTANGIBLE ASSETS

	Intangible assets	Land and buildings	Computers and equipment	Vehicles	Other PPE	Total PPE
Acquisition value						
31.12.2018.	1 273	7 214	402	51	167	7 834
Additions	80	-	63	-	1	64
Disposals	-	-	(2)	-	-	(2)
31.12.2019.	1 353	7 214	463	51	168	7 896
Additions	51	-	68	-	30	98
Disposals	(32)	-	(7)	-	-	(7)
31.12.2020.	1 372	7 214	524	51	198	7 987
Accumulated amortisation/ depreciation						
31.12.2018.	811	781	314	41	129	1 265
Accumulated amortisation/ depreciation for the year	109	140	59	3	11	213
Disposal depreciation	-	-	(2)	-	-	(2)
31.12.2019.	920	921	371	44	140	1 476
Accumulated amortisation/ depreciation for the year	148	140	71	3	11	225
Disposal depreciation	(32)	-	(7)	-	-	(7)
31.12.2020.	1 036	1 061	435	47	151	1 694
Net carrying amount						
31.12.2018.	462	6 433	88	10	38	6 569
31.12.2019.	433	6 293	92	7	28	6 420
31.12.2020.	336	6 153	89	4	47	6 293

The amortisation/ depreciation charge for the year totalling EUR 341 thousand (2019: EUR 322 thousand). Net book value for disposals taken to the Bank's statement of comprehensive income as depreciation/ amortisation amount to EUR 32 thousand (2019: none).

NOTE 15 OTHER ASSETS

	31.12.2020.	31.12.2019.
Other financial assets	10 171	7 652
Card operations	4 390	2 099
<i>Incl.provisions</i>	(82)	(1)
Security deposit for transactions	3 450	5 226
<i>Incl.provisions</i>	(62)	(26)
Check for VISA Inc shares sale	2 172	-
Real estate taken over for sale	150	318
Accrued commission income	9	9
Other non-financial assets	480	433
Inventory (digipass and card blanks)	31	26
Future period expenses	184	167
Other receivables	265	240

NOTE 16 FUNDS UNDER TRUST MANAGEMENT

	31.12.2020.	31.12.2019.
Assets	21 845	24 510
Loans to private companies	14 481	4 995
Loans to financial intermediaries and auxiliary firms	7 000	18 985
Clients' financial instruments cash accounts	364	530
Liabilities	21 845	24 510
Private companies	21 828	24 508
Households	17	2

The Bank issues loans or makes investments in financial instruments classified as funds under trust management based on specific requests of asset owners. According to the trust management agreements concluded with customers, the asset owners assume all the risks inherent in these assets, the Bank has no control over these assets and does not receive any rewards from these assets. The Bank acts only as an intermediary receiving the management fee.

As at 31 December 2020, the accumulated outstanding commission fee for the asset management was EUR 9 thousand (2019: EUR 7 thousand).

NOTE 17 DEPOSITS FROM CUSTOMERS

(a) By customer profile:

	31.12.2020.	31.12.2019.
Demand deposits	145 780	118 257
Financial institutions	69 969	28 839
Public non-financial companies	-	6
Private companies	49 136	58 635
Households and non-profit organisations servicing them	26 675	30 777
Term deposits	37 291	35 218
Financial institutions (2 nd pillar pension funds)	2 956	619
Private companies	168	-
Households and non-profit organisations servicing them	34 167	34 599
Total	183 071	153 475

(b) By geographical profile

	31.12.2020.	31.12.2019.
Demand deposits	145 780	118 257
Residents of Latvia	48 976	58 077
Residents of EU Member States	84 284	42 601
Residents of other countries	12 520	17 579
Term deposits	37 291	35 218
Residents of Latvia	35 036	32 626
Residents of EU Member States	177	54
Residents of other countries	2 078	2 538
Total	183 071	153 475

The Bank's average interest rates in 2020 are as follows: 1.425% (EUR) (2019: 1.514% (EUR)).

NOTE 18 OTHER LIABILITIES

	31.12.2020.	31.12.2019.
Other financial liabilities	20 728	12 094
Payment for transactions with payment cards	17 527	8 610
Accrued payments to penalty in accordance with the FCMC decision	2 205	2 205
Third-party funds held as collateral	344	454
Accrued expenses related to financial transaction servicing	357	306
Liabilities under clarification	-	277
Other financial liabilities and accrued expenses	168	109
Accrued payments to agents	64	75
Accrued expenses for payments to the Deposit Guarantee Fund and the FCMC	63	58
Other non-financial liabilities	710	573
Vacation pay reserve	438	310
Provisions for off-balance sheet liabilities	118	-
Other non-financial liabilities	94	210
Deferred income	31	28
Taxes payable	29	25

NOTE 19 PAID-IN SHARE CAPITAL

As at 31 December 2020, the Bank's registered and paid-in share capital was EUR 13 million (2019: EUR 13 million). In 2020 there were no changes in share capital.

The Bank's share capital consists of only ordinary voting shares. The par value of each share is EUR 1 as at 31 December 2020, all shares were fully paid and the Bank did not hold any of its own shares.

As at 31 December 2020 and 2019, the Bank's sole shareholder was SIA Mono, registration No 40003004625, legal address Riga, Katlakalna Street 1, which is also the ultimate parent of the Bank. The sole shareholder has two ultimate beneficiaries, who individually do not control the Bank.

NOTE 20 EARNINGS PER SHARE

Earnings per share are calculated by dividing net profit for the year by the number of shares issued.

	2020	2019
Net profit ('000)	4 708	6 378
Number of ordinary shares at reporting date ('000)	13 000	13 000
Earnings per share (EUR)	0.362	0.491

NOTE 21 CASH AND CASH EQUIVALENTS

	31.12.2020.	31.12.2019.
Cash and demand deposits with the Bank of Latvia	50 457	43 025
Balances due from other credit institutions with original maturities of less than three months	19 443	6 790
Total	69 900	49 815

NOTE 22 OFF-BALANCE SHEET ITEMS

	31.12.2020.	31.12.2019.
Contingent liabilities	914	1 025
Guarantees	914	1 025
Financial commitments	1 651	1 634
Unutilised credit lines	981	1 167
Credit card commitments	670	467
Total off-balance sheet items, gross	2 565	2 659
Provisions	(118)	(2)
Total off-balance sheet items, net	2 447	2 657

In the ordinary course of business, the Bank issues loans and guarantees. The main purpose of these financial instruments is to ensure that adequate funds are available to customers.

Guarantees that comprise irrevocable commitments are assigned the same risk as loans because those commit the Bank to paying in the event of a customer's default. Liabilities arising from credit lines represent the undrawn balances of credit lines. As regards credit risk, the Bank is potentially exposed to loss arising also from loan commitments.

NOTE 23 RELATED PARTY DISCLOSURES

Related parties are defined as shareholders that have the ability to control or exercise significant influence over the Bank's management policy, Council and Board members, close members of their families, and entities in which these persons have a controlling interest and a qualifying holding.

In the ordinary course of business, the Bank enters into transactions with related parties. All loans are issued to and financial transactions are made with related parties on an arm's length basis. As at 31 December 2020, there were no loans issued to related parties that would have been past due.

The Bank's financial statements include the following balances of assets, liabilities and memorandum items associated with the Bank's transactions with related parties:

	31.12.2020.			31.12.2019.		
	Carrying amount	Off-balance sheet items	Total	Carrying amount	Off-balance sheet items	Total
Assets	1 100	485	1 585	1 248	217	1 465
Loans and receivables, net	997	485	1 482	1 248	217	1 465
Council and Board	107	252	359	106	137	243
Related companies and individuals	890	233	1 123	1 142	80	1 222
Derivatives	103	-	103	-	-	-
Related companies and individuals	103	-	103	-	-	-
Assets under management	-	2 010	2 010	-	7 420	7 420
Related companies and individuals	-	2 010	2 010	-	7 420	7 420
Liabilities	25 699	-	25 699	27 465	-	27 465
Deposits	25 699	-	25 699	27 465	-	27 465
Parent company	1 424	-	1 424	1 165	-	1 165
Council and Board	10 243	-	10 243	19 006	-	19 006
Related companies and individuals	14 032	-	14 032	7 294	-	7 294
Liabilities under management	-	17 981	17 981	-	23 980	23 980
Related companies and individuals	-	17 981	17 981	-	23 980	23 980

The table below presents income and expense on the balances due from / to related parties:

	2020	2019
Interest income	85	85
Interest expense	(110)	(150)
Net interest expense	(25)	(65)
Commission and fee income	109	164

NOTE 24 RISK MANAGEMENT

The Bank organises risk management according to the requirements of the Law of the Republic of Latvia on Credit Institutions, European Parliament and Council and FCMC regulations as well as following the Bank's strategy and other documents governing the Bank's operations. The Bank's risk management policy details the Bank's risk management objectives, goals and principles as well as related instruments. The Bank's risk management policy is based on the principle of continuing profitability or acceptable loss and is aimed at achieving an appropriate balance between risks assumed by the Bank and returns.

The policy prescribes that various risk mitigation instruments should be used, their selection depending on the risk type.

The Bank's risk management objective is as follows:

- To establish and maintain such a system of risk identification and management which would allow minimisation of the negative effect the risks may produce on the Bank's operations and performance;
- To identify and determine the level of risk tolerance which would facilitate achievement of the Bank's strategic goals;
- To define the levels of responsibility of the Bank's risk management system and their respective functions;
- To define the risk management structure and methods;
- To ensure the Bank's statutory compliance.

As a result of the regular internal capital adequacy assessment, the Bank has established that risks inherent in its current and planned business for the capital planning purposes are as follows: credit risk, residual risk, concentration risk, country risk, market risk (position risk and foreign currency risk), counterparty credit risk, interest rate risk, liquidity risk, operational risk, compliance risk, reputational risk, money laundering and terrorist and proliferation financing risk, business model risk, settlement risk, excessive leverage risk, model risk, systemic risk and sanctions risk. As part of market risk assessment settlement risk was also evaluated as a risk for which under certain conditions capital requirements should be calculated.

RISK MANAGEMENT STRUCTURE

The Council of the Bank is responsible for establishing and effective functioning of the risk management system and approving the relevant risk management policies and strategies.

The Board of the Bank has the responsibility for implementing risk management strategies and policies approved by the Council.

Bank's Chief Risk Officer:

- Leads a comprehensive risk control function;
- Ensures monitoring and improvement of the Bank's risk management system;
- Ensures regular evaluation of compliance of the Bank's business strategy and Bank's essential services, development of new services or changes to the services offered by the Bank, Bank's structure, the overall risk profile, as well as the restrictions and limits with the Bank's risk strategy. In case of non-compliance reporting to the Council and the Board and other officers in accordance with internal policies is ensured;
- Provides a comprehensive and clear information on the Bank's overall risk profile, all relevant risks and risks compliance with the risk management strategy through regular communication

- to the Council and the Board and other officers according to the internal policies;
- Advises and provides support to the Council and the Board of the Bank in designing operational strategy and in making other decision related to the risks faced by the Bank.

Bank's Business Continuity Assurance Committee regularly identifies and examines risks of business continuity.

Bank`s Credit Committee reviews lending issues and makes decisions on matters relating to the credit risk bearing activities of the Bank.

Asset and Liability Committee:

- Monitors, plans and manages the Bank's liquidity;
- Monitors, plans and manages the Bank's interest rate risk;
- Monitors, plans and manages the Bank's exposure to market risks;
- Monitors, plans and manages the structure of the Bank's balance sheet and off-balance sheet commitments;
- Monitors and manages the Bank's growth;
- Monitors and manages debt collection and cessation processes;
- Approves opening and closing of the Bank's correspondent accounts;
- Determines limits for investments in Bank`s portfolios of financial instruments;
- Determines country risk limits;
- Determines Bank's tariffs.

The Risk Control Department identifies significant risks the Bank is exposed to and formulates the relevant risk management policies and procedures, ensures monitoring of compliance with the risk management policies and procedures, including the limits and restrictions set, as well as reports information about the risks inherent in the Bank`s business to the Bank`s Risk director, Business Continuity Assurance Committee, the Asset and Liability Committee and the Board on a regular basis, thereby allowing permanent assessment of risk affecting the Bank`s ability to achieve its goals and, if necessary, making decisions on the relevant corrective actions.

The Resource Department is responsible for managing the Bank`s assets and liabilities and the overall financial structure as well as ensuring the daily management of liquidity risk, managing of interest rate risk, currency and market risk as well as the Bank`s financial statement structure and growth, and analysing of financial and lending resources and the related planning in line with the Bank`s strategic goals.

The key goal of the Compliance Control Department is identification, measurement, and management of compliance risk.

The Internal Audit Department carries out regular reviews and assessment of the Bank`s compliance with its risk management strategies, policies and procedures and communicates the review results together with assessment of the Bank`s risk management system efficiency to the Council.

Heads of the Bank`s structural units and other employees of the Bank are aware of their duties and responsibilities related to routine risk management and, within the boundaries of their competences, report the compliance with the limits and restrictions set to the Risk Control Department as well as participate in the risk identification, effect assessment, and materiality determination process.

RISK MEASUREMENT AND REPORTING SYSTEMS

The Bank performs quantitative risk assessment on the basis of the standardised and basic indicator approaches referred to in Regulations No. 575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, the Standardised and Basic Indicator Approach, as well as the Financial and Capital Market Commission 03.11.2020. Regulatory rules No. 209 "Capital Adequacy Assessment Process Regulations" described simplified methods. The Bank also performs stress testing.

The level of the Bank's exposure is mainly controlled by using the early warning system designed by the Bank, which encompasses the limits approved by the Bank and defines the parameters of each risk relevant for the moderate risk exposure defined in the Bank's operational strategy. The aggregate risk exposure is determined as the weighted average of all components. The Risk Control Department summarises, analyses and presents to the Bank's Risk director, the Asset and Liability Committee and the Board its opinion accompanied with explanatory information on each specific risk and the aggregate risk exposure on a weekly basis. On monthly basis, the Risk Control Department prepares a comparative report with the results of the previous month and the Board submits it to the Council. In case of exceeding any internal limits, Risk Control Department shall immediately notify the Asset and Liability Committee and propose to investigate non-compliance in the next Assets and Liabilities Committee meeting. In the event of exceeding any external limits, Risk Control Department shall immediately notify the Asset and Liability Committee and initiate extra-ordinary Asset and Liability Committee meeting to investigate the incompliance. In the event when individual or aggregate risk exposure approaches or exceeds predetermined significant risk level, the Risk Control Department shall immediately report it to the Board. In the event that the individual or aggregate risk exposure is approaching a high level of risk, Risk Control Department is required to initiate meeting of Business continuity committee.

RISK MITIGATION

For the purposes of risk mitigation, the Bank uses the following methods:

- Risk acceptance. The Bank admits that it is exposed to such risks but does not take any actions to minimise their effect because those are insignificant and the elimination costs would exceed the respective benefits;
- Risk avoidance. The Bank conducts an analysis before engaging in any new transactions and chooses to avoid excessively risky transactions or actions;
- Changing risk probability. The Bank applies this method together with the relevant risk strategies, Bank's procedures, and the early warning system in respect of the following risks: credit risk, operational risk, market price risk, interest rate risk, currency risk, liquidity risk, IT risk;
- Changing potential risk consequences. The Bank uses credit enhancements and currency risk hedging instruments as well as establishes a business continuity system;
- Risk sharing. The Bank uses insurance and syndicated transactions. In selecting this method of risk mitigation, the Bank is aware that it does not change the overall exposure to transaction and operational risks, affecting only the portion attributable to the Bank.

CONCENTRATION RISK

Concentration risk arises from large exposures to individual customers or groups of related

customers or exposures to customers whose creditworthiness is determined by one common risk factor (industry, geographical location, currency, credit enhancement (homogenous collateral or one collateral provider)).

The concentration risk management policy covers the Bank's credit portfolio and other assets, off-balance sheet items, as well as the deposits attracted by the Bank and balances due to credit institutions.

The core elements of concentration risk management include risk assessment, setting limits for individual counterparties as well as industry, geographical and market concentrations and monitoring exposures in relation to such limits.

For the purposes of additional concentration risk assessment, stress tests are performed on a regular basis.

CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its borrowers (debtors) or counterparties fail or refuse to settle their contractual obligations to the Bank. Credit risk is inherent in the Bank's transactions which give rise to the Bank's claims against another person and which are reported by the Bank in the statement of financial position or as off-balance sheet items. Credit risk arises as soon as the Bank's funds are issued, invested or transferred to other parties for use based on the contractual provisions.

The objective of managing credit risk is to determine the maximum acceptable exposure to credit risk and ensure the compliance with the set limits in the normal course of business.

The Bank is involved in following transactions giving rise to credit risk:

- Cash placements with other banks;
- Loans and credit lines to banks;
- Loans and credit lines to customers;
- Guarantees issued to third parties and other contingent liabilities for the benefit of customers if they may demand settlement of obligations;
- Securities transactions;
- Dealing.

The credit risk management system is composed of the following elements: approval of methods used to measure credit risk related to counterparties, borrowers and issuers; setting restrictions for loan types; fixing limits for investments in the securities included in the Bank's portfolio and lending by amount and maturity; regular assessment of assets and off-balance sheet items as well as regular stress testing.

Following authority levels are set in respect of decision-making on the loans, namely – issuance and amendments made (from lowest):

- Individual;
- Credit committee;
- Bank's Board;
- Bank's Council (for approval of decisions, if it requires a higher-level authorisation than of the Board).

Maximum limits for each decision-making authority level within the Bank are approved by the

Bank's Council.

The Bank believes that its exposure to credit risk arises mainly from loans, balances due from credit institutions and the held-to-maturity portfolio. The maximum exposure of the Bank's assets and off-balance sheet items is shown in the credit risk concentration analysis.

MAXIMUM EXPOSURE TO CREDIT RISK

The following table presents the Bank's maximum credit risk exposure without taking into account collateral or other credit enhancements.

	31.12.2020.	31.12.2019.
Assets exposed to credit risk	180 060	143 934
Due from credit institutions	19 437	6 777
Financial assets measured at fair value through profit or loss:	1 324	2 209
<i>Derivative</i>	199	-
<i>Shares</i>	1 125	2 209
Financial assets measured at fair value through other comprehensive income:	57 805	35 673
<i>Debt securities</i>	57 805	35 673
Financial assets measured at amortised cost:	91 323	91 623
<i>Loans and receivables</i>	47 416	49 464
<i>Debt securities</i>	43 907	42 159
Other financial assets	10 171	7 652
Off-balance sheet items exposed to credit risk	2 447	2 659
Maximum credit risk exposure	182 507	146 593

MAXIMUM CREDIT RISK CONCENTRATION

The Bank places limits on the amount of risk for individual counterparties (groups of related counterparties) as well as for industry, geographical, exposure and market concentrations. The exposure to any single counterparty is further restricted by sub-limits. The credit risk concentration is analysed by estimating the large exposure ratio to the Bank's own funds. According to the Regulations No. 575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, the Bank treats as large the credit exposure exceeding 10% of the Bank's own funds. Any credit exposure to a single customer or a group of related customers may not exceed 25% of the Bank's own funds. If a customer is a credit institution or an investment brokerage firm, or a group of related customers including one or several credit institutions or investment brokerage firm Registered in European union similar country (The European Union and the European Commission of 12 December 2014 implementing Decision No. 2014/908/EU of certain third countries and territories supervisory and regulatory requirements equivalence to exposures specific approach of the European Parliament and Council Regulation (EU) No. 575/2013 of the country), the total exposure to such customer shall not exceed 95% of the Bank's own funds. During the financial reporting period, the Bank was in compliance with these requirements.

GEOGRAPHICAL ANALYSIS

The following table provides an analysis of the Bank's assets and off-balance sheet items by

geographical profile without taking into account collateral and other credit enhancements. The grouping is done based on information about the residence of the respective counterparties.

31.12.2020.

	Latvia	Eurozone countries	Other countries	Total
Exposure to credit risk of balance sheet assets	71 137	33 426	75 497	180 060
Due from credit institutions	9 351	-	10 086	19 437
Financial assets measured at fair value through profit or loss:	103	-	1 221	1 324
<i>Derivative</i>	103	-	96	199
<i>Shares</i>	-	-	1 125	1 125
Financial assets measured at fair value through other comprehensive income:	-	19 730	38 075	57 805
<i>Debt securities</i>	-	19 730	38 075	57 805
Financial assets measured at amortised cost:	60 242	13 696	17 385	91 323
<i>Loans and receivables</i>	44 352	55	3 009	47 416
<i>Debt securities</i>	15 890	13 461	14 376	43 907
Other financial assets	1 441	-	8 730	10 171
Exposure to credit risk of off-balance sheet items	2 346	-	101	2 447
Total	73 483	33 426	75 598	182 507

31.12.2019.

	Latvia	Eurozone countries	Other countries	Total
Exposure to credit risk of balance sheet assets	63 078	39 193	41 663	143 934
Due from credit institutions	2	-	6 775	6 777
Financial assets measured at fair value through profit or loss:	-	-	2 209	2 209
<i>Derivative</i>	-	-	-	-
<i>Shares</i>	-	-	2 209	2 209
Financial assets measured at fair value through other comprehensive income:	1 127	25 359	9 187	35 673
<i>Debt securities</i>	1 127	25 359	9 187	35 673
Financial assets measured at amortised cost:	61 616	13 834	16 173	91 623
<i>Loans and receivables</i>	45 700	45	3 719	49 464
<i>Debt securities</i>	15 916	13 789	12 454	42 159
Other financial assets	333	-	7 319	7 652
Exposure to credit risk of off-balance sheet items	2 612	-	47	2 659
Total	65 690	39 193	41 710	146 593

INDUSTRY ANALYSIS

The following table provides an analysis of the Bank's assets and off-balance sheet items by industry without taking into account collateral and other credit enhancements. The grouping is done based on information about the business of the respective counterparties.

	31.12.2020.	31.12.2019.
Exposure to credit risk of balance sheet assets	180 060	143 934
Central governments	34 065	26 103
Government non-financial corporations	2 026	-
Credit institutions	33 250	23 610
International development banks	28 748	10 063
Private individuals	7 731	8 456
Operations with real estate	23 766	22 895
Trade	4 287	6 691
Manufacturing	19 866	21 387
Accommodation and catering services	2 554	2 758
Construction	331	1 899
Information and communication services	331	393
Transport	434	1 656
Health and social care	2 205	1 225
Electricity	4 744	4 811
Financial services	13 600	10 753
Administrative and support service activities	392	637
Other	1 730	597
Exposure to credit risk of off-balance sheet items	2 447	2 659
Total	182 507	146 593

CREDIT QUALITY OF FINANCIAL ASSETS

Credit quality of financial assets is performed by the Bank via debtors' (borrowers') financial analysis techniques, analysis of the counterparty's reputation and historical cooperation with the counterparty as well as by monitoring international ratings granted to counterparties.

According to IFRS 9 the Bank's financial assets are classified in three stages, where such financial assets, credit risk of which has not significantly increased compared to the initial recognition, are classified in the 1st stage, and such financial assets, credit risk of which has significantly increased compared to the initial recognition, but which have no default observed, are classified in the 2nd stage, and such financial assets, for which signs of default are detected, are classified in the 3rd stage.

Signs of a significant increase in credit risk, for which default is not observable

The Bank considers the following as significant credit risk increase for risk transactions:

- a delay of more than 15 days in the performance of the counterparty's obligations (such as payment of principal amount or interest);
- non-use of the allocated funds for the purposes specified in the agreement;
- failure to meet project implementation preconditions;
- default of a person related to the Bank's counterparty that affects the counterparty's ability to meet their credit obligations to the Bank;

- impairment of collateral in the cases when performance of obligations is directly dependent on value of collateral;
- non-compliance with the terms of the transaction agreement;
- and other event signs that may indicate a significant increase in credit risk of the counterparty.

Signs of default

- significant financial difficulties of the counterparty;
- a delay of more than 90 days in the performance of the counterparty's obligations (such as payment of principal amount or interest);
- the Bank grants such advantages to the counterparty for economic or legal reasons related to the borrower's financial difficulties, which the Bank would not otherwise have considered;
- it becomes probable that the counterparty will begin bankruptcy procedure or financial reorganisation of other kind;
- a combination of several other events or other event signs that may characterise a counterparty default.

The table below represents financial assets - at gross value i.e. without impairment broken down by financial asset quality stages without taking into account collateral or other credit quality improvements.

31.12.2020.

	Stage 1	Stage 2	Stage 3	Total
Exposure to credit risk of balance sheet assets	119 910	58 526	4 036	182 472
Due from credit institutions	19 443	-	-	19 443
Financial assets measured at fair value through other comprehensive income:	50 584	7 353	-	57 937
<i>Debt securities</i>	50 584	7 353	-	57 937
Financial assets measured at amortised cost:	39 568	51 173	4 036	94 777
<i>Loans and receivables</i>	8 157	38 545	4 036	50 738
<i>Debt securities</i>	31 411	12 628	-	44 039
Other financial assets	10 315	-	-	10 315
Exposure to credit risk of off-balance sheet items	2 016	546	4	2 566
Total	121 926	59 072	4 040	185 038

31.12.2019.

	Stage 1	Stage 2	Stage 3	Total
Exposure to credit risk of balance sheet assets	133 969	5 714	3 396	143 079
Due from credit institutions	6 790	-	-	6 790
Financial assets measured at fair value through other comprehensive income:	34 525	1 259	-	35 784
<i>Debt securities</i>	34 525	1 259	-	35 784
Financial assets measured at amortised cost:	84 975	4 455	3 396	92 826
<i>Loans and receivables</i>	42 732	4 455	3 396	50 583
<i>Debt securities</i>	42 243	-	-	42 243
Other financial assets	7 679	-	-	7 679
Exposure to credit risk of off-balance sheet items	2 652	7	-	2 659
Total	136 621	5 721	3 396	145 738

Action during Covid-19

In 2020, as a precautionary measure to minimise the potentially negative effects on the Bank's risk profile, which could be caused by Covid-19 uncertainty over the coming years, the Bank decided to classify the borrowers whose economic sectors have been most affected or could be affected by Covid-19 in the Bank's asset quality stage 2 and to recognize expected credit losses throughout their lifetime, despite the fact that no significant increase in credit risk has been identified for customers individual commitments.

The following table reflects the impact of the breakdown of the above-mentioned transactions on the gross value of the Bank's credit and receivables (i.e. without impairment) by the quality stages of the financial asset.

31.12.2020.

	Stage 1 assets	Stage 2 assets	Stage 3 assets	Total
Loans and receivables Covid-19 affects	8 157	38 545	4 036	50 738
Loans and receivables without Covid-19 impact	35 704	10 998	4 036	50 738

COLLATERAL HELD IN RESPECT OF FINANCIAL ASSETS SUBJECT TO CREDIT RISK

The type and amount of collateral depends on an assessment of the credit risk of a customer or a group of related customers. The collateral types and valuation parameters are defined in the Credit Policy and the Credit Control Procedure. The main collateral types include mortgage, commercial pledge, deposits and securities. The Bank also accepts guarantees as additional (secondary) collateral.

The following table shows the fair value of collateral by the type of loan.

Loan type	31.12.2020.		31.12.2019.	
	Collateral value	Loan gross value	Collateral value	Loan gross value
Loan for working capital	14 666	4 987	21 881	6 280
Industrial loan	6 043	3 381	7 679	3 587
Financial lease	1 935	594	1 570	336
Loan for purchasing consumer goods	521	175	585	216
Mortgage loan	57 248	24 204	63 060	26 719
Other loans	51 283	17 397	39 385	13 445
Total	131 696	50 738	134 160	50 583

LIQUIDITY RISK

Liquidity risk represents the Bank's exposure to significant loss in the event that the Bank does not have a sufficient amount of liquid assets to meet legally justified claims or overcome unplanned changes in the Bank's assets and/or market conditions on a timely basis.

A liquidity crisis may be caused by unexpected events, such as prolonged outflow of cash from the accounts opened with the Bank without a corresponding cash inflow. This process may be a consequence of the loss of trust, or a national crisis like a currency crisis. The Bank is exposed to liquidity risk when its cash flows are not balanced in terms of their maturity (maturity bands) due to the Bank's activities involving borrowings, loans, capital and other items of assets and liabilities.

Liquidity problems may be caused also by the lack of liquidity of the financial market.

The objective of liquidity management is to achieve placement of Bank's assets enabling the Bank to meet legally justified claims of its creditors at any time.

The liquidity risk management methods (core elements) are as follows:

- Compliance with the statutory liquidity ratio;
- Setting limits for deposits from customers;
- Monitoring of adherence to the limits fixed in the liquidity strategy;
- Employing the early warning system;
- Conducting liquidity stress tests and analysis of results obtained;
- Drawing a liquidity contingency plan.

To maintain its liquidity position, the Bank:

- Maintains sufficient liquid assets to ensure that financial liabilities can be met;
- Ensures that the liquidity ratio (namely, the ratio of liquid assets to current liabilities) is at least 60%;
- Ensures the negative ratio of liquid assets to current liabilities of no more than 100% of the Bank’s own funds;
- Assesses and plans the maturity structure of its assets and liabilities on a regular basis;
- Ensures Liquidity coverage ratio at least 110%;
- Performs regular stress testing and assesses whether the liquidity reserve is adequate and sufficient.

According to Commission Delegated Regulation (EU) No. 2015/61 of 10 October 2014 to supplement Regulation (EU) No. 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions, minimum determined liquidity coverage ratio is 100%. The Bank`s liquidity coverage ratio for the years 2020 and 2019 were:

	31.12.2020.	31.12.2019.
Liquidity reserves	116 713	86 199
Total net cash outflows	73 481	46 928
Liquidity coverage ratio	159%	184%

ANALYSIS OF ASSETS AND LIABILITIES BY LIQUIDITY STRUCTURE

The table below allocates the Bank's assets, liabilities and off-balance liabilities liquidity groupings as at 31 December 2020 based on the time remaining from the balance sheet date to the contractual maturity dates (i.e. based on contractual discounted cash flows). Pledged financial assets measured at amortised cost financial investments are disclosed as *Other*.

31.12.2020.

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Other	Total
Assets							
Cash and balances with the Bank of Latvia	50 457	-	-	-	-	-	50 457
Due from credit institutions	19 437	-	-	-	-	-	19 437
Financial assets measured at fair value through profit or loss:	199	-	-	-	1 125	-	1 324
<i>Derivative</i>	199	-	-	-	-	-	199
<i>Shares</i>	-	-	-	-	1 125	-	1 125
Financial assets measured at fair value through other comprehensive income:	57 805	-	-	-	-	-	57 805
<i>Debt securities</i>	57 805	-	-	-	-	-	57 805
Financial assets measured at amortised cost:	34 463	977	4 795	6 582	43 451	1 055	91 323
<i>Loans and receivables</i>	505	647	4 640	6 324	34 245	1 055	47 416
<i>Debt securities</i>	33 958	330	155	258	9 206	-	43 907
Property, plant and equipment	-	-	-	-	6 293	-	6 293
Intangible assets	-	-	-	-	336	-	336
Other financial assets	1	2	1	1	4 544	5 622	10 171
Other non-financial assets	-	-	-	-	480	-	480
Total assets	162 362	979	4 796	6 583	56 229	6 677	237 626
Liabilities							
Liabilities at amortised cost	149 134	2 962	5 125	8 330	17 520	-	183 071
<i>Deposits from customers</i>	149 134	2 962	5 125	8 330	17 520	-	183 071
Other financial liabilities	12 939	2 723	4 722	344	-	-	20 728
Other non-financial liabilities	588	-	-	-	4	-	592
Total liabilities	162 661	5 685	9 847	8 674	17 524	-	204 391
Off-balance sheet items	2 184	-	-	-	-	-	2 184
Net liquidity position	(2 483)	(4 706)	(5 051)	(2 091)	38 705	6 677	31 051

31.12.2019.

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Other	Total
Assets							
Cash and balances with the Bank of Latvia	43 025	-	-	-	-	-	43 025
Due from credit institutions	6 777	-	-	-	-	-	6 777
Financial assets measured at fair value through profit or loss:	-	-	-	-	2 209	-	2 209
<i>Derivative</i>	-	-	-	-	-	-	-
<i>Shares</i>	-	-	-	-	2 209	-	2 209
Financial assets measured at fair value through other comprehensive income:	35 673	-	-	-	-	-	35 673
<i>Debt securities</i>	35 673	-	-	-	-	-	35 673
Financial assets measured at amortised cost:	40 924	1 479	3 027	5 128	39 386	1 679	91 623
<i>Loans and receivables</i>	1 184	1 479	2 946	5 128	37 048	1 679	49 464
<i>Debt securities</i>	39 740	-	81	-	2 338	-	42 159
Property, plant and equipment	-	-	-	-	6 420	-	6 420
Intangible assets	-	-	-	-	433	-	433
Other financial assets	2	1	1	4	2 419	5 225	7 652
Other non-financial assets	-	-	-	-	433	-	433
Total assets	126 401	1 480	3 028	5 132	51 300	6 904	194 245
Liabilities							
Liabilities at amortised cost	121 424	3 715	5 117	9 220	13 999	-	153 475
<i>Deposits from customers</i>	121 424	3 715	5 117	9 220	13 999	-	153 475
Other financial liabilities	10 088	552	1 015	-	439	-	12 094
Other non-financial liabilities	564	-	1	-	4	-	569
Total liabilities	132 076	4 267	6 133	9 220	14 442	-	166 138
Off-balance sheet items	2 092	-	-	-	-	-	2 092
Net liquidity position	(7 767)	(2 787)	(3 105)	(4 088)	36 858	6 904	26 015

The table below analyses the Bank's financial liabilities (excluding demand deposits) undiscounted cash flows into relevant maturity bands based on the remaining period, as at the reporting date, to the contractual maturity date (i.e. based on contractual undiscounted cash flows):

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Total
31.12.2020.						
Deposits from customers	4 560	2 778	4 465	10 266	15 854	37 923
Total:	4 560	2 778	4 465	10 266	15 854	37 923
31.12.2019.						
Deposits from customers	4 176	3 320	4 600	11 312	11 959	35 367
Total:	4 176	3 320	4 600	11 312	11 959	35 367

The following table presents term structure of future cash flows of Bank's derivatives:

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Total
31.12.2020.						
Financial instruments settled on a gross basis						
<u>Foreign currency swaps</u>						
Outgoing cash flow	9 164	-	-	-	-	9 164
Incoming cash flow	9 335	-	-	-	-	9 335
31.12.2019.						
Financial instruments settled on a gross basis						
<u>Foreign currency swaps</u>						
Outgoing cash flow	-	-	-	-	-	-
Incoming cash flow	-	-	-	-	-	-

REPORT ON THE LIQUIDITY ADEQUACY ASSESSMENT PROCESS (ILAAP)

Reporting on the liquidity adequacy assessment process is one of the components of liquidity risk management.

At least once a year, the Bank prepares a report on the liquidity adequacy assessment process in accordance with the Financial and Capital Market Commission 03.11.2020. Regulatory rules No. 209 "Capital Adequacy Assessment Process Regulations".

The purpose of the report on the liquidity adequacy assessment process is to provide as complete information as possible to the Bank's Board and Council, as well as to the Financial and Capital Market Commission on the liquidity adequacy assessment process in the Bank. The report aims to identify gaps in liquidity adequacy assessment process and to evaluate compliance with the liquidity reserve.

Based on the results of the liquidity adequacy assessment process, the Bank's management may, if necessary, decide to take corrective measures in the liquidity management process and / or to improve the liquidity reserve adequacy.

The latest report of the Bank on the liquidity adequacy assessment process concluded that the management of the Bank's liquidity management process is adequately ensured and according to the results of the Bank's stress tests, the Bank's liquidity reserves are sufficient even in stress situations.

ENCUMBERED AND UNENCUMBERED ASSETS

Information on the Bank's encumbered and unencumbered assets represented in Tables A, B and C is determined based on calculations of the risk transaction value for 2020 and 2019. Accordingly, the risk transaction value for 2020 and 2019 is determined as the median of sums of end values of the four quarters for the last 12-month period in each relevant year.

Table A. Encumbered and unencumbered assets

	Accounting value of encumbered assets		Fair value of encumbered assets		Book value of unencumbered assets		Fair value of unencumbered assets	
	2020	2019	2020	2019	2020	2019	2020	2019
Assets	3 561	5 231	x	x	191 835	194 149	x	x
Equity securities	-	-	x	x	2 096	2 032	x	x
Debt securities	-	-	-	-	90 013	79 544	90 991	77 439
<i>Incl.: covered bonds</i>	-	-	-	-	1 515	-	1 516	-
<i>Incl.: asset-backed securities</i>	-	-	-	-	-	-	-	-
<i>Incl.: issued by general governments</i>	-	-	-	-	31 208	26 125	32 377	26 541
<i>Incl.: issued by financial companies</i>	-	-	-	-	27 368	29 627	27 144	28 383
<i>Incl.: issued by non-financial companies</i>	-	-	-	-	29 922	23 793	29 954	22 515
Other assets	3 561	5 231	x	x	99 726	112 573	x	x

Table B. Collateral received

	Fair value of encumbered collateral received or own debt securities issued		Unencumbered The fair value of collateral received or of own debt securities issued is available for encumbrance	
	2020	2019	2020	2019
	Collateral received	-	-	134 949
Loans on request	-	-	-	-
Equity securities	-	-	-	-
Debt securities	-	-	-	-
<i>Incl.: covered bonds</i>	-	-	-	-
<i>Incl.: asset-backed securities</i>	-	-	-	-
<i>Incl.: issued by general governments</i>	-	-	-	-
<i>Incl.: issued by financial companies</i>	-	-	-	-
<i>Incl.: issued by non-financial companies</i>	-	-	-	-
Loans and advances other than loans on request	-	-	-	-
Other collateral received	-	-	134 949	130 860
Own debt securities issued other than own covered bonds or asset backed securities	-	-	-	-
Own covered bonds and asset-backed securities issued but not yet pledged	x	x	-	-
Total assets, collateral received and own debt securities issued	3 561	5 231	x	x

Table C. Sources of encumbrances

	Matching liabilities, contingent liabilities or securities lent		Assets, collateral received and own debt securities issued other than covered bonds and encumbered asset backed securities	
	2020	2019	2020	2019
	Accounting value of selected financial liabilities	-	-	3 561

The Bank mainly uses two main sources of encumbrance, that is, funds in correspondent accounts that serve as collateral for operations with payment cards and financial instruments of the Bank's portfolio of financial instruments in order to ensure a sufficient amount of liquid assets in individual cases.

Amount of encumbered assets refers to security deposits with the Bank's partners VISA and MasterCard and is related to operations with payment cards and e-commerce clients.

The Bank has assessed that in table A the "Encumbered asset book value" and "Accounting value of encumbered assets" is insignificant in proportion to total assets, as at 31 December 2020, it was 2% (31 December 2019 – 3%).

MONEY LAUNDERING AND TERRORISM AND PROLIFERATION FINANCING RISK AND SANCTION RISK

The risk of money laundering and financing of terrorism and proliferation is an impact and possibility that the Bank may be involved in money laundering or terrorism or proliferation financing related to financial services provided by the Bank, the clients, products and services, their delivery channels, and location of operations. The risk of sanctions is an impact and possibility that the Bank may be involved in violation or circumvent of imposed sanctions.

The Bank's Department of Prevention of Money Laundering and Terrorism Financing in collaboration with other departments of the Bank ensure implementation and enforcement of the Bank's Development Strategy, Policy of the Prevention of Money Laundering and Terrorism and Proliferation Financing and Management of the Risk of Sanctions and related requirements. The Department of Prevention of Money Laundering and Terrorist Financing monitors changes in the laws and regulations and the leading practices in the field of this policy and, if necessary, propose and develop changes in the Bank's internal requirements and processes.

The management of money laundering and terrorism and proliferation financing and sanctions risks at the Bank is ensured at three levels of defense, thus, ensuring that all the Bank departments and employees to whom such an obligation, directly or indirectly arising from the Bank's internal regulations rules, are involved accordingly.

The Bank comply with the prohibitions stipulated in the OFAC sanctions and preclude execution of the transactions contravening those prohibitions. The Bank comply with the OFAC sanctions for transactions and financial services in the USD and any other currency. The Bank ensures that its internal control system is sufficient and appropriate to comply with OFAC sanctions.

The Bank's money laundering and terrorism and proliferation financing and sanctions risks management strategic objectives are to maintain a good reputation of the Bank and stable relationships with customers, counterparties and the general public, cooperate with and provide services to reliable customers and counterparties whose activities are clear to the Bank, ensure an appropriate balance between the risks acceptable for the Bank and the level of profits in order to minimize the risk of potential adverse effect on the Bank's financial position and operations.

MARKET RISK

Market risk is the risk that the Bank will incur a loss as a result of the mark-to-market revaluation of assets, liabilities and off-balance sheet items caused by changes in market values of financial instruments, commodities and commodity derivatives due to changes in foreign exchange rates, interest rates and other factors. Market risks include currency risk, position risk, commodity risk, settlement risk, and counterparty risk.

The Bank does not form a trading portfolio and its exposure to market risks is limited to currency risk and interest rate risk in the banking book.

Considering that the Bank has the financial assets measured at fair value through other comprehensive income portfolio at 31 December 2020 increased to 24% of the total assets (31 December 2019 - 18%), the Bank believes that its exposure to position risk, or market price risk, is significant.

CURRENCY RISK

Currency risk represents the Bank's exposure in the event that changes in foreign exchange rates have an adverse effect on the Bank's income/ expense (and, consequently, also the Bank's own funds) and economic value. Currency risk is the risk of loss due to the opposite fluctuations of foreign exchange rates. The transactions include items reported as both assets and off-balance sheet items.

The risk of incurring foreign exchange loss arises from the revaluation of foreign currency positions into the national currency. When the Bank has an open foreign currency position, the revaluation process results in a profit or loss, which is the difference arising from the revaluation into the national currency of assets, liabilities and capital denominated in foreign currencies.

The objective of managing currency risk is to reduce the adverse effect of changes in foreign exchange rates by minimising the open currency position.

Considering the current level of the Bank's business, the Bank is not striving to maintain the open foreign currency position to earn profits from speculative transactions.

To assess the compliance of the existing limits with the Bank's actual positions and situation on the currency market, stress tests are performed regularly.

The Bank's total open foreign currency position as at 31 December 2020 was 5.68% (long position) (31 December 2019 – 3.75% (short position)) of amount the Bank's own funds.

31.12.2020.

	EUR	USD	Other currenc ies	Total
Assets				
Cash and balances with the Bank of Latvia	50 230	222	5	50 457
Due to financial institutions	219	740	18 478	19 437
Financial assets measured at fair value through profit or loss:	199	1 125	-	1 324
<i>Derivative</i>	199	-	-	199
<i>Shares</i>	-	1 125	-	1 125
Financial assets measured at fair value through other comprehensive income:	26 274	5 791	25 740	57 805
<i>Debt securities</i>	26 274	5 791	25 740	57 805
Financial assets measured at amortised cost:	91 289	32	2	91 323
<i>Loans and receivables</i>	47 382	32	2	47 416
<i>Debt securities</i>	43 907	-	-	43 907
Property, plant and equipment	6 293	-	-	6 293
Intangible assets	336	-	-	336
Other financial assets	4 112	2 834	3 225	10 171
Other non-financial assets	480	-	-	480
Total assets	179 432	10 744	47 450	237 626
Liabilities and equity				
Liabilities at amortised cost	144 388	7 627	31 056	183 071
<i>Deposits from customers</i>	144 388	7 627	31 056	183 071
Other financial liabilities	12 198	1 672	6 858	20 728
Other non-financial liabilities	592	-	-	592
Total liabilities	157 178	9 299	37 914	204 391
Equity	33 106	92	(81)	33 117
Total liabilities and equity	190 284	9 391	37 833	237 508
Net long / (short) position	(10 852)	1 353	9 617	118
Net off-balance sheet currency swap agreement long/ (short) position	9 335	-	(9 206)	129
Net open long/ (short) currency position	(1 517)	1 353	411	247
Percentage of the Bank's own funds as at 31.12.2020.	-	4.23	1.28	-

31.12.2019.

	EUR	USD	Other curren- cies	Total
Assets				
Cash and balances with the Bank of Latvia	42 735	286	4	43 025
Due to financial institutions	2 061	801	3 915	6 777
Financial assets measured at fair value through profit or loss:	-	2 209	-	2 209
<i>Derivative</i>	-	-	-	-
<i>Shares</i>	-	2 209	-	2 209
Financial assets measured at fair value through other comprehensive income:	26 755	3 917	5 001	35 673
<i>Debt securities</i>	26 755	3 917	5 001	35 673
Financial assets measured at amortised cost:	91 582	39	2	91 623
<i>Loans and receivables</i>	49 423	39	2	49 464
<i>Debt securities</i>	42 159	-	-	42 159
Property, plant and equipment	6 420	-	-	6 420
Intangible assets	433	-	-	433
Other financial assets	1 419	4 934	1 299	7 652
Other non-financial assets	432	1	-	433
Total assets	171 837	12 187	10 221	194 245
Liabilities and equity				
Liabilities at amortised cost	134 235	8 642	10 598	153 475
<i>Deposits from customers</i>	134 235	8 642	10 598	153 475
Other financial liabilities	8 588	3 041	465	12 094
Other non-financial liabilities	571	-	-	571
Total liabilities	143 394	11 683	11 063	166 140
Equity	28 171	(76)	8	28 103
Total liabilities and equity	171 565	11 607	11 071	194 243
Net long / (short) position	272	580	(850)	2
Net off-balance sheet currency swap agreement long/ (short) position	-	-	-	-
Net open long/ (short) currency position	272	580	(850)	2
Percentage of the Bank's own funds as at 31.12.2019.	-	2.13	(3.12)	-

POSITION RISK

Position risk is a possibility of sustaining a loss due to revaluation of a position in a debt or equity security when the price of the respective security changes. Position risk may be either specific or general risk.

Specific risk is a possibility of sustaining a loss if the price of a debt or equity security changes because of the factors related to the securities issuer or – in case of derivative financial instruments – to the person issuing the security that is the underlying asset of the derivative.

General risk is a possibility of sustaining a loss if the price of a security changes because of the factors related to the fluctuations in interest rates (for debt securities) or extensive changes in the capital market (for equity securities) that are not related to a particular securities issuer.

Position risk associated with the Bank’s financial assets measured at fair value through other comprehensive income portfolio is managed by setting a stop loss limit for each individual financial instrument and evaluation of necessity of sale of the instrument if the potential loss on its disposal reaches 25% of the acquisition value.

By determining the stop loss limits, the Bank restricts the excessive loss that may be incurred on impairment of financial instruments.

SETTLEMENT RISK

Settlement risk is the risk to which the Bank is exposed to outstanding transactions in foreign currencies, securities or commodities, with the exception of repurchase transactions, securities or commodities lending or borrowing. Settlement risk comprise of settlement / delivery risk and free deliveries risk.

The Bank calculates risk capital requirements for settlement / delivery risk and free deliveries only for those periods when the event or events meeting the risk definition are registered in the Bank's information system Intranet under section Risks. During 2020 and 2019 such events were not identified.

INTEREST RATE RISK

Interest rate risk represents the Bank’s exposure in the event that changes in interest rates have an adverse effect on the Bank’s income/ expense (and, consequently, also the Bank's own funds) and economic value. Sources of interest rate risk are as follows:

- Repricing risk, which is a risk of incurring a loss due to changes in interest rates and timing differences in the remaining or repricing maturities of assets, liabilities and memorandum items;
- Yield curve risk, which is a probability of a loss due to unexpected changes in the slope and shape of the yield curve;
- Basis risk, which is a probability of a loss from changes in interest rates of financial instruments having similar repricing schedules but different base rates;
- Optionality risk, which is a risk of incurring a loss if a financial instrument directly (options) or indirectly (loans with a prepayment facility, demand deposits, etc.) provides for a possibility of choice for the Bank’s customers.

The objective of managing interest rate risk is to minimise the effect of interest rate risk on the

Bank’s assets and liabilities and income.

To assess interest rate risk, the Bank analyses and plans the repricing maturity structure on a regular basis, calculates the reduction in the Bank’s economic value due to adverse changes in interest rates and defines the capital requirement for interest rate risk.

The assessment of the Bank’s exposure to interest rate risk is based on the following key principles:

- The effect produced by changes in interest rates on the Bank’s financial performance and economic value is analysed as follows:
 - Assessment of interest rate risk from the income perspective – analysis of the effect of changes in interest rates on net interest income and other income and expense items related to interest rates in the short term;
 - Assessment of interest rate risk from the economic value perspective – analysis of the effect of changes in interest rates on the Bank’s economic value in the long term. The term *economic value* denotes the present value of net future cash flows, which is determined by discounting future cash flows by the current market interest rate.
- The Bank establishes the current interest rate risk level as well as identifies situations when the Bank’s exposure to interest rate risk is or may be excessively large.
- All significant interest rate risks associated with assets, liabilities and memorandum items - repricing risk, yield curve risk, basis risk, and optionality risk – are assessed. Interest rate risk is assessed and managed by conducting the repricing gap analysis and the duration analysis and using simulation models.

Simulation models demonstrate potential changes in the Bank’s economic value. With interest rates changing by +/- 200 basis points for all currencies, the reduction in economic value may not exceed the statutory 20% of the Bank’s own funds.

The table below shows the reduction in economic value of the Bank, i.e. the result of applying the simulation model (the scenario defined by the Financial and Capital Market Commission):

Currency	Weighted interest rate risk position	
	31.12.2020.	31.12.2019.
EUR	4 190	(43)
RUB	448	(2)
Other currencies	383	(12)
Weighted interest rate risk in the banking book (total)	5 021	(57)
The Bank’s own funds	32 002	27 218
Absolute weighted interest rate risk in the banking book position to the Bank's own funds, %	15.69	0.21

The below tables present the calculation of the weighted interest rate risk currency positions:

31.12.2020.

		EUR	EUR	RUB	RUB	Other currencies	Other currencies
	Weighting factor %	Net interest rate risk position	Weighted interest rate risk position	Net interest rate risk position	Weighted interest rate risk position	Net interest rate risk position	Weighted interest rate risk position
With the remaining maturities of:							
Less than 1 month	0.08	(45 393)	(36)	(19 407)	(16)	(6 802)	(5)
1-3 months	0.32	16 558	53	124	-	(75)	-
3-6 months	0.72	24 312	175	6 509	47	(108)	(1)
6-12 months	1.43	(8 316)	(119)	2 995	43	827	12
1 – 2 years	2.77	(12 435)	(344)	13 504	374	-	-
2 - 3 years	4.49	3 841	172	-	-	1 186	53
3 - 4 years	6.14	14 232	874	-	-	-	-
4 - 5 years	7.71	7 004	540	-	-	1 950	150
5 - 7 years	10.15	20 197	2 050	-	-	1 716	174
7 - 10 years	13.26	6 219	825	-	-	(6 802)	(5)
Total weighted interest rate risk position			4 190		448		383

31.12.2019.

		EUR	EUR	RUB	RUB	Other currencies	Other currencies
	Weighting factor %	Net interest rate risk position	Weighted interest rate risk position	Net interest rate risk position	Weighted interest rate risk position	Net interest rate risk position	Weighted interest rate risk position
With the remaining maturities of:							
Less than 1 month	0.08	(28 778)	(23)	(1 207)	(1)	(1 534)	(1)
1-3 months	0.32	16 011	51	(11)	-	(310)	(1)
3-6 months	0.72	31 362	226	(154)	(1)	(219)	(2)
6-12 months	1.43	14 940	214	-	-	(153)	(2)
1 – 2 years	2.77	(7 940)	(220)	-	-	(15)	0
2 - 3 years	4.49	(5 880)	(264)	-	-	-	-
3 - 4 years	6.14	(158)	(10)	-	-	-	-
4 - 5 years	7.71	(214)	(17)	-	-	(80)	(6)
5 - 7 years	-	-	-	-	-	-	-
7 - 10 years	-	-	-	-	-	-	-
Total weighted interest rate risk position			(43)		(2)		(12)

The Bank's exposure to interest rate risk is characterised by the maturity of interest sensitive assets, liabilities and off-balance sheet items based on the shorter of the remaining maturities of interest sensitive financial instruments and interest rate repricing periods.

The Bank also determines the effect of interest rate risk on the Bank's profit or loss and the Bank's own funds based on the parallel increase in interest rates by 1 per cent (or 100 basis points) and assuming that interest rates change in the mid-year. The effect on the Bank's own funds is calculated considering potential changes in the Bank's available-for-sale portfolio.

The tables below present the repricing maturity analysis of assets, liabilities and off-balance sheet items based on interest rate changes and the effect of interest rate risk on the Bank's profit or loss and the Bank's own funds:

31.12.2020.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Non- interest bearing	Total
Assets							
Cash and balances with the Bank of Latvia	48 710	-	-	-	-	1 747	50 457
Due from credit institutions	19 406	-	-	-	-	31	19 437
Financial assets measured at fair value through profit or loss:	199	-	-	-	-	1 125	1 324
<i>Derivative</i>	199	-	-	-	-	-	199
<i>Shares</i>	-	-	-	-	-	1 125	1 125
Financial assets measured at fair value through other comprehensive income:	4 489	2 523	7 026	3 848	39 919	-	57 805
<i>Debt securities</i>	4 489	2 523	7 026	3 848	39 919	-	57 805
Financial assets measured at amortised cost:	6 571	17 168	29 232	285	34 877	3 190	91 323
<i>Loans and receivables</i>	6 547	11 081	26 324	210	64	3 190	47 416
<i>Debt securities</i>	24	6 087	2 908	75	34 813	-	43 907
Property, plant and equipment	-	-	-	-	-	6 293	6 293
Intangible assets	-	-	-	-	-	336	336
Other financial assets	-	-	-	-	-	10 171	10 171
Other non-financial assets	-	-	-	-	-	480	480
Total assets	79 375	19 691	36 258	4 133	74 796	23 373	237 626
Long off-balance items that are sensitive to interest rate	9 335	-	-	-	-	-	9 335
Liabilities and equity							
Liabilities at amortised cost	148 997	2 911	5 058	8 252	17 332	521	183 071
<i>Deposits from customers</i>	148 997	2 911	5 058	8 252	17 332	521	183 071
Other financial liabilities	372	-	-	344	-	20 012	20 728
Other non-financial liabilities	32	-	3	-	1	556	592
Equity	-	-	-	-	-	33 117	33 117
Total liabilities and equity	149 401	2 911	5 061	8 596	17 333	54 206	237 508
Short off-balance sheet items that are sensitive to changes in interest rates	10 986	174	526	31	50		11 767
Net interest rate risk position (gap)	(71 677)	16 606	30 671	(4 494)	57 413		28 519
Effect on profit or loss	(686)	138	192	(11)			(367)
Effect on Bank's own funds	(49)	-	(233)	(65)	(1 905)		(2 252)

31.12.2019.

	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Non- interest bearing	Total
Assets							
Cash and balances with the Bank of Latvia	40 012	-	-	-	-	3 013	43 025
Due from credit institutions	6 764	-	-	-	-	13	6 777
Financial assets measured at fair value through profit or loss:	2 209	-	-	-	-	-	2 209
<i>Derivative</i>	-	-	-	-	-	-	-
<i>Shares</i>	2 209	-	-	-	-	-	2 209
Financial assets measured at fair value through other comprehensive income:	35 462	-	-	-	-	211	35 673
<i>Debt securities</i>	35 462	-	-	-	-	211	35 673
Financial assets measured at amortised cost:	7 176	19 555	36 770	24 110	-	4 012	91 623
<i>Loans and receivables</i>	5 116	10 332	29 803	780	-	3 433	49 464
<i>Debt securities</i>	2 060	9 223	6 967	23 330	-	579	42 159
Property, plant and equipment	-	-	-	-	-	6 420	6 420
Intangible assets	-	-	-	-	-	433	433
Other financial assets	1	-	-	-	-	7 651	7 652
Other non-financial assets	-	-	-	-	-	433	433
Total assets	91 624	19 555	36 770	24 110	-	22 186	194 245
Long off-balance items that are sensitive to interest rate	-	-	-	-	-	-	-
Liabilities and equity							
Liabilities at amortised cost	121 279	3 652	5 068	9 104	13 848	524	153 475
<i>Deposits from customers</i>	121 279	3 652	5 068	9 104	13 848	524	153 475
Other financial liabilities	318	-	-	-	439	11 337	12 094
Other non-financial liabilities	26	1	3	-	-	539	569
Equity	-	-	-	-	-	28 103	28 103
Total liabilities and equity	121 623	3 653	5 071	9 104	14 287	40 503	194 241
Short off-balance sheet items that are sensitive to changes in interest rates	1 524	207	708	220	-	-	2 659
Net interest rate risk position (gap)	(31 523)	15 695	30 991	14 786	(14 287)	-	15 662
Effect on profit or loss	(302)	131	194	37	-	-	60
Effect on Bank`s own funds	-	-	(9)	(11)	(784)	-	(804)

Before engaging in any transactions with financial instruments (except for derivatives), the Resource Department analyses the potential effect of the exposure on the interest rate repricing maturity and economic value of the Bank.

In preparing the transaction, the Credit Division determines interest rates according to the Bank's Interest Rate Setting Guidelines. The loan interest rate should cover all expenses associated with the loan and compensate the risk assumed by the Bank, namely:

- Interest on borrowed funds or consideration for other exposures;
- Loan servicing expenses;
- Compensation of potential loss (risk premium);
- Guaranteed profit.

The loan interest rate (compensation) for a particular exposure depends on the risk associated with each individual loan.

In order to assess the impact of adverse changes in interest rates on the Bank's profitability and economic value during the strained market situation, the Bank conducts regular interest rate risk stress testing.

OPERATIONAL RISK

Operational risk is the risk of a loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is defined as the risk of a reduction in the Bank's income or incurring of additional costs (and, consequently, a reduction in the Bank's own funds) due to erroneous transactions with customers/counterparties, information processing, adoption of ineffective decisions, insufficient human resources or insufficient planning for the influence of external events. Namely, operational risk comprises information technology risks and legal risks.

The objective of managing operational risk is to identify the sources of risk, determine risk management methods in order to minimise the potential loss that could be caused by an operational risk event.

Routine identification of operational risk is the responsibility of all employees of the Bank, and the core elements of the operational risk management framework are as follows:

- Identification of operational risk;
- Internal operational risk assessment;
- Monitoring of operational risk;
- Control and mitigation of operational risk;
- Operational risk stress testing.

The Board is informed immediately if the losses from operational risk event exceed EUR 500.00 (for e-commerce-related cases: 1 000.00 EUR) or events of one type occur more than five times per week.

If the total amount of operational risk losses per year, as recorded in the Operational risk event and loss database, exceeds 2% of the Bank's own funds, the Risk Control Department analyses whether it would be necessary to maintain an additional capital to cover unexpected operational risk losses.

NOTE 25 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The fair value of liquid financial assets has been determined using bid prices, while offer prices have been used to determine the fair value of financial liabilities.

For illiquid financial assets and liabilities, including loans, there are, by definition, no active markets. Accordingly, fair value has been estimated using appropriate valuation techniques. The methods used to determine the fair value of assets and liabilities not carried at fair value are as follows:

Cash and balances with central banks

The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Balances due from credit institutions

The fair value of balances on demand with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. In many cases, the carrying value is a close representation of fair value due to the short-term maturity profile.

Loans

The fair value of loans is calculated by discounting expected future cash flows. The discount rates consist of money market rates as at the end of year and credit spread margins, which are adjusted for current market conditions.

Securities at amortised cost

Securities at amortised cost are valued using unadjusted quoted prices in active markets, where available. In other instances, either quotes of market participants are used or the value of securities is determined using valuation models employing observable or non-observable market inputs.

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income assets are revalued on a daily basis applying Bloomberg quotations, so that the fair value does not differ from book value.

Financial assets and liabilities measured at fair value through profit or loss

Derivative financial instruments are revalued on a daily basis according to the interbank rates and, therefore, the fair value of these instruments equals their carrying amount.

Exception is VISA Europe Limited shares included into available for sale financial assets. According to VISA Inc. information, as a result of sale of VISA Europe Limited, ratio of Visa Inc. preference shares to Visa Inc. ordinary shares is 1:6,861 (2019: 1:13,952). Given the fact that the preference shares are not traded in free trade, and the exchange of preference shares to ordinary shares will take place over a long period of the time, the Bank determines the value of preference shares using Bloomberg price for ordinary share, applying a 50% discount.

Deposits from customers

It is assumed that the fair value of customer deposits repayable on demand and short-term deposits is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates or rates offered at year-end. The fair value as at 31 December 2020 and 2019 is calculated by discounting expected cash flows and using average interest rates.

The table below shows a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments reported in the financial statements.

	31.12.2020.			31.12.2019.		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Financial assets						
<i>Financial assets at amortised cost</i>						
Cash and balances with the Bank of Latvia	50 457	50 457	-	43 025	43 025	-
Due from credit institutions	19 437	19 437	-	6 777	6 777	-
Debt securities	43 907	45 265	(1 358)	42 159	44 160	(2 001)
Loans and receivables	47 416	46 318	1 098	49 464	49 003	461
Other financial assets	10 171	10 171	-	7 652	7 652	-
<i>Financial assets measured at fair value through other comprehensive income</i>						
Debt securities	57 805	57 805	-	35 673	35 673	-
<i>Financial assets measured at fair value through profit or loss</i>						
Shares	1 125	1 125	-	2 209	2 209	-
Derivatives	199	199	-	-	-	-
Financial liabilities						
<i>Financial liabilities at amortised cost</i>						
Deposits from customers	183 071	183 054	17	153 475	153 177	298
Other financial liabilities	20 728	20 728	-	12 094	12 094	-
Total difference			(243)			(1 242)

31.12.2020.

	Carrying amount	Fair value			Total
		Level 1 input	Level 2 input	Level 3 input	
Financial assets					
<i>Financial assets at amortised cost</i>					
Due from credit institutions	19 437	-	-	19 437	19 437
Debt securities	43 907	45 265	-	-	45 265
Loans and receivables	47 416	-	-	46 318	46 318
Other financial assets	10 171	-	-	10 171	10 171
<i>Financial assets measured at fair value through other comprehensive income</i>					
Debt securities	57 805	57 805	-	-	57 805
<i>Financial assets measured at fair value through profit or loss</i>					
Shares	1 125	-	-	1 125	1 125
Derivatives	199	199	-	-	199
Financial liabilities					
<i>Financial liabilities at amortised cost</i>					
Deposits from customers	183 071	-	-	183 054	183 054
Other financial liabilities	20 728	-	-	20 728	20 728

31.12.2019.

	Carrying amount	Fair value			Total
		Level 1 input	Level 2 input	Level 3 input	
Financial assets					
<i>Financial assets at amortised cost</i>					
Due from credit institutions	6 777	-	-	6 777	6 777
Debt securities	42 159	44 160	-	-	44 160
Loans and receivables	49 464	-	-	49 003	49 003
Other financial assets	7 652	-	-	7 652	7 652
<i>Financial assets measured at fair value through other comprehensive income</i>					
Debt securities	35 673	35 673	-	-	35 673
<i>Financial assets measured at fair value through profit or loss</i>					
Shares	2 209	-	-	2 209	2 209
Derivatives	-	-	-	-	-
Financial liabilities					
<i>Financial liabilities at amortised cost</i>					
Deposits from customers	153 475	-	-	153 177	153 177
Other financial liabilities	12 094	-	-	12 094	12 094

The following table shows the movements in financial assets measured at fair value through profit or loss valued using level 3 input data:

	Financial assets measured at fair value through profit or loss
Balance as at 31.12.2018.	1 511
Net revaluation result	698
Balance as at 31.12.2019.	2 209
Net revaluation result	1 140
Net trading gain	(2 224)
Balance as at 31.12.2020.	1 125

Considering the short-term nature of cash and cash equivalents, as well as other financial assets and liabilities, their fair value approximately equals their carrying amount.

The Bank uses the following hierarchy of three levels of input data for determining and disclosing the fair value of financial assets and liabilities:

- Level 1: Quoted prices in active markets;
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable;
- Level 3: Other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The methods employed in classifying the assets by the levels of the fair value hierarchy as at 31 December 2020 are consistent with those of the prior year.

NOTE 26 CAPITAL MANAGEMENT

The primary objective of the Bank's capital management is to ensure that the Bank complies with externally imposed capital requirements (i.e. European Parliament and Council, Financial and Capital Market Commission's regulations and IFRS) and that the Bank maintains healthy capital ratios and the Bank's own funds, both in terms of elements and composition, to an extent sufficient for covering significant risks inherent in the Bank's current and planned operations.

Capital adequacy standards refers to the sufficiency of the Bank's capital resources to cover credit risk, operational risk, settlement risk, credit value adjustments risk (CVA) and market risks.

To calculate minimum Capital Requirements according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, the Bank applies:

- a standardized approach for credit risk, counterparty credit risk (except in the case of derivatives), credit value adjustment (CVA) risk and settlement risk,
- market value method – to determine the amount of counterparty credit risk (in the case of derivatives),
- the basic indicator approach for operational risk,
- a simple method for credit risk mitigation (in the case of financial collateral).

External Credit Assessment Institutions (ECAI) credit rating assigned to the use of capital requirement calculation: The Bank uses ECAI credit ratings to determine the exposure weight from three international rating agencies - Moody's Investors Service, Standard & Poor's, Fitch Ratings, which are calculated using the following approach: if only one rated rating agency rating is available for the exposure, this rating is also applied, but if the rated exposure has two nominated ECAI ratings and each of those ratings has a different level of risk, the rating of the higher rated entity shall apply, but if the rated exposure has more than two nominated ECAI ratings, the select the two ratings of the credit rating agency that correspond to the lowest risk weights and, if the two selected ratings of the credit rating agency have different risk weights, the rating of the credit rating agency with the highest of those two risk weights shall apply. According to the European Parliament and Council Regulation (EU) No. 575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 The Bank uses ECAs for all exposure classes for which ECAs have been assigned.

In the process of internal capital adequacy assessment, the Bank calculates the amount of capital required to cover the following risks:

- Credit risk – the Bank has estimated that to cover credit risk in 2020 – 2022 the Bank shall maintain capital of at least with the results of pessimistic scenario of the stress test.
- Market risks:
 - Foreign exchange risk; the Bank has estimated that to cover foreign exchange risk in 2020 – 2022 the Bank shall maintain capital of at least in line with the results of pessimistic scenario of the stress tests (0.8% of the Bank's own funds);
 - The Bank on a monthly basis analyses how the market risk exposure is affected by liquidity of the market for financial instruments. All instruments included into the Bank's financial assets measured at fair value through other comprehensive income portfolio were traded on liquid markets without applying any significant discounts. Taking into consideration plans of the Bank to increase significantly the financial assets measured at fair value through other comprehensive income portfolio, without major changes to the term structure and quality of portfolio and assuming that new investments (replacing those that were sold or expired) will

- be made into financial instruments with similar maturity and making prudent assumptions about the quality of these investments, the Bank has modelled the amount of capital requirements;
- Capital required for settlement risk purposes in accordance with the European Parliament and of the Council Regulation (EU) No. 575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as at 30.09.2020 was 0 EUR, and the Bank assesses that there is no need to maintain separate capital to cover this risk.
 - Operational risk. In determining the required capital level, the Bank considers the capital requirement calculated according to European Parliament and of the Council Regulation (EU) No. 575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, described fundamentals approach to calculate their capital requirements, as well as the results of the internal operational risk assessment and stress testing.
 - Interest rate risk in the banking – the Bank states that it will maintain capital to cover interest rate risk in the banking book in 2020 – 2022 at least in line with the results of pessimistic scenario of the stress test (7.43% of Bank’ own funds).
 - Concentration risk. The Bank applies the simplified approach according to Regulations No. 209 on the Internal Capital Adequacy Assessment Process issued by the Financial and Capital Market Commission on 03 November 2020 to determine the relevant adequate capital.

The analysis of concentration risk for the loan portfolio includes:

- Individual concentration risk analysis,
- Sector concentration risk analysis,
- Collateral concentration risk analysis,
- Currency mismatch risk analysis.

The total capital needed to cover concentration risk is determined by aggregating the results of all individual calculations. In analysing separate concentration risks, the Bank assesses the exposure concentration for the entire loan portfolio, securities portfolio and deposits with other financial institutions.

- For anti-money laundering and terrorism and proliferation financing prevention (AML) risk (including sanction risk) – as part of capital adequacy process, the Bank evaluates AML risk and evaluated capital requirement for coverage of this risk using two methods, namely in accordance with Regulations No. 209 on the Internal Capital Adequacy Assessment Process issued by the Financial and Capital Market Commission on 03 November 2020 the Bank applies the simplified method for determining the amount of capital required and the internal model, selecting the largest of the results of the calculation;
- Liquidity risk; – the amount of capital required to cover liquidity risk is based on the liquidity risk stress testing results. In cases where the results of liquidity stress testing scenarios show a hypothetical non-compliance with any of external requirements of a liquidity, the amount of additional expenses that the Bank estimated to comply to external liquidity requirements is the amount of additional capital needed to cover the liquidity risk.
- other risks:
 - For reputation risk; – with the aid of reputation risk assessment model, it is determined to keep capital requirement as 1.5% of the Bank’s own funds;
 - For business model risk; – based on the results of business model risk assessment model, it was determined that required capital level is 1.5% of the Bank’s own funds;

- The rest risks; – the Bank determine the amount of capital required to cover the rest risks in accordance with the simplified method described in Regulations No. 209 on the Internal Capital and Liquidity Adequacy Assessment Process issued by the Financial and Capital Market Commission on 03 November 2020, namely the capital to cover the rest risks is determined as 5% of the total minimum capital requirements. The rest risks that would require an additional amount of capital, the Bank in accordance with the relevant risk assessment determined:
 - residual risk;
 - country risk;
 - compliance risk;
 - leverage risk;
 - model risk;
 - systemic risk.

Total capital requirement for the Bank is determined by summarising all individual capital requirements for risks that are determined during internal capital adequacy evaluation process. Additional capital requirements are determined for potential risks ensuring that capital of the Bank is sufficient in case of adverse economic developments; to ensure that capital of the Bank is sufficient throughout the economic cycle, i.e. during economic upturn the Bank creates capital reserve for coverage of losses that may arise during period of economic downturn. Amount of additional capital reserve is determined based on stress testing results performed by the Bank.

The regulations of the European Parliament and Council require that Latvian banks maintain a capital adequacy ratio based on financial statements prepared under IFRS as adopted by the EU of 8% of risk-weighted assets. In 2020 the Bank determined that its target capital adequacy ratio is 16%. As at 31 December 2020, the Bank's capital adequacy ratio calculated in accordance with the above requirements was 24.64% (31.12.2019: 22.45%)

The Bank's eligible capital also exceeds the adequate capital to cover all significant risks defined during the capital adequacy assessment process.

The Bank applies the definitions set out in European Parliament and Council Regulation (EU) No. 575/2013 (26 June 2013) on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 related to own funds and own funds calculation methodology, which is included in the Bank's own funds and own funds requirements calculation procedure according to the instruments held by the Bank. Namely, the eligible capital comprises Tier 1 items, i.e. paid-in share capital, reserve capital, retained earnings, including current year's profit which is not subject to dividend distribution, less negative fair value revaluation reserve of available-for-sale financial assets, intangible assets, losses for the current year, value adjustments due to the requirements for prudent valuation and the amount of insufficient coverage for non-performing exposures.

Capital adequacy assessment is governed by a Bank's internal document named the Capital Adequacy Assessment Procedure.

The capital adequacy calculation of the Bank can be disclosed as follows:

	31.12.2020.	31.12.2019.
1. Own funds (1.1.+1.2.)	32 002	27 218
1.1. TIER 1 capital (1.1.1.+1.1.2.)	32 002	27 218
1.1.1. Common equity TIER 1 capital	32 002	27 218
1.1.2. Additional TIER 1 capital	-	-
1.2. TIER 2 capital	-	-
2. Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	129 878	121 254
2.1. Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries (2.1.1.+2.1.2.+2.1.3.+2.1.4.+2.1.5.)	101 735	92 430
2.1.1. Central governments and central banks	515	600
2.1.2. Institutions	7 470	8 172
2.1.3. Corporates	45 919	37 008
2.1.4. Secured by mortgages on immovable property	22 334	26 237
2.1.5. Other assets	25 497	20 413
2.2. Total risk exposure amount for settlement/delivery	-	-
2.3. Total risk exposure amount for position, foreign exchange and commodities risks	1 816	1 020
2.4. Total risk exposure amount for operational risk	26 320	27 804
2.5. Total risk exposure amount for credit valuation adjustment	7	-
2.6. Total risk exposure amount related to large exposures in the trading book	-	-
2.7. Other risk exposure amounts	-	-
3. Capital ratios and capital levels		
3.1. CET 1 capital ratio (1.1.1./2.*100)	21.64%	22.45%
3.2. Surplus (+)/deficit (-) of CET 1 capital (1.1.1.-2.*4.5%)	26 157	21 762
3.3. TIER 1 capital ratio (1.1./2.*100)	24.64%	22.45%
3.4. Surplus (+)/deficit (-) of TIER 1 capital (1.1.-2.*6%)	24 209	19 943
3.5. Total capital ratio (1./2.*100)	24.64%	22.45%
3.6. Surplus (+)/deficit (-) of total capital (1.-2.*8%)	21 612	17 518
4. The total capital reserve requirement (4.1.+4.2.+4.3.+4.4.+4.5.)	3 269	3 165
4.1. Capital conservation buffer (%)	3 247	3 031
4.2. Specific countercyclical capital reserve for institution (%)	-	-
4.3. Institution specific countercyclical capital buffer (%)	22	72
4.4. Systemic risk buffer (%)	-	62
4.5. Other Systemically Important Institution buffer (%)	-	-
5. Capital ratios taking into account adjustments		
5.1. Asset value adjustment amount in the application of the prudential purposes	-	-
5.2. Common equity TIER 1 capital ratio, taking into account 5.1. row of the correction amount	24.64%	22.45%
5.3. TIER 1 capital ratio, taking into account 5.1. row of the correction amount	24.64%	22.45%
5.4. The total capital ratio, taking into account 5.1. row of the correction amount	24.64%	22.45%

The Bank does not apply the transitional period for the implementation of the IFRS 9 set out in Article 473a of EU Regulation No. 575/2013.

The Bank does not use the temporary treatment provided in Article 468 of Regulation No. 575/2013 for unrealized gains or losses on financial assets measured at fair value through other comprehensive income in response to the COVID-19 pandemic due to equity, capital and leverage ratios significantly exceed its requirements.

NOTE 27 EVENTS AFTER REPORTING DATE

In Q1 2021, the FCMC performed a full audit of money laundering and terrorist financing risk and sanction risk management, the results have not been announced yet.

During the period between the last day of the reporting period and the date of signing these financial statements there have been no other events that would require adjustment to or should be reflected in these financial statements.

* * *



Independent Auditor's Report

To "LPB Bank" AS shareholders

Our Opinion on the Financial Statements

Translation from Latvian

We have audited the accompanying financial statements of LPB Bank AS (the Bank) for the year ended 31 December 2020, set out on pages 9 to 75 of the accompanying annual report, which comprise: the statement of comprehensive income for the year ended 31 December 2020, the statement of financial position as at 31 December 2020, the statement of changes in equity and reserves, the cash flow statement and the notes to the financial statements for the year ended 31 December 2020.

In our opinion, the accompanying financial statements give a true and fair view of the "LPB Bank" AS financial position as of December 31, 2020 and of its operating results and cash flows for the year ended 31 December 2020, in accordance with International Financial Reporting Standards as endorsed by European Union (hereinafter IFRS).

Basis for Opinion

In accordance with the Law of Audit Services of the Republic of Latvia ("Audit Services Law"), we conducted our audit in accordance with International Standards on Auditing (hereinafter – ISA), recognized in the Republic of Latvia. Our responsibilities under these standards are described below in the Auditor's Responsibility for Auditing the Financial Statements section of our report.

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) and Law on Audit Services of the Republic of Latvia. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to note 27 of the financial statements, which describes that at the beginning of 2021 the Finance and Capital Market Commission (FCMC) performed audit of Money Laundering and Terrorism Financing and Sanctions risk management in the Bank, whose results are not yet known. The ultimate outcome of the matter cannot presently be determined and, accordingly, no provision for any possible effect of respective audit has been made in the financial statements. We do not qualify our opinion regarding this matter.

Key Audit Matters

Key audit matters are those matters that, based on our professional judgement, were most significant in the audit of the current financial statements. These issues were generally addressed in the context of the audit of the financial statements and the drafting of an opinion on the financial statement, so we do not provide a separate opinion on these matters.



We have determined the matters described below to be the key audit matters to be communicated in our report:

The key audit matter	Measures taken
Assumptions and estimates concerning the valuation of loans	
<p>The recognition and measurement of financial instruments under IFRS 9 Financial instruments is a relatively complex area requiring significant consideration in order to determine the required amount of provisions for the reduction of the value of loans.</p> <p>The main areas of consideration are:</p> <ul style="list-style-type: none"> • Interpretation of the requirements for the reduction in the value of loans established in accordance with IFRS 9 "Financial instruments", as reflected in the Bank's expected credit loss model (CLM) • Identification of loans that have a significant deterioration in the quality of the credit. • Assumptions to be used in the CLM model, such as expected future cash flows and future macro-economic factors. 	<p>Our audit procedures included but were not limited to:</p> <ul style="list-style-type: none"> • We have involved the verification of the correctness of the methodology for evaluating financial instruments and the related calculations applied by IFRS experts. • We assessed whether the Bank's accounting policy for the classification and measurement of financial assets complies with IFRS. • We conducted interviews with specialists involved in evaluating the Bank's management and evaluation of financial instruments. • We assessed whether the Bank correctly classifies loans at amortized cost with a business model "Held solely for principal and interest" when handling loan agreements on sample basis and assessing the associated commissions' ability to be commensurate with this business model. • We have assessed whether the Bank classifies loans in categories according to their credit risk. • We evaluated the compliance of loss given default (LGD) and Exposure at Default (EAD) calculations with IFRS. • On sample basis we dealt in detail with individual loans individually and assessed the management assessment of the recoverable amount of these loans. We examined the underlying assumptions for the reduction of loan value, including future cash flow forecasts, the valuation of the underlying collateral and the assessment of recoverable amount in the event of default.

The key audit matter	Measures taken
Compliance with laws and regulations – compliance with Anti Money Laundering and Terrorism and Proliferation Financing (AMLTPF) requirements	
<p>During year 2017 and 2018 the Finance and Capital Market Commission (FCMC) performed review of Anti Money Laundering and Terrorism Financing system in the Bank and applied administrative penalty due to issues identified. As mentioned in "Emphasis of matter" paragraph, in beginning 2021 the FCMC performed audit of Money Laundering and Terrorism Financing and Sanctions risk</p>	<p>Our audit procedures included but were not limited to:</p> <ul style="list-style-type: none"> • We have get familiar with the procedures and controls used to prevent money laundering and terrorism and proliferation financing. • We tested the controls used in establishing relationships with new customers and ensuring compliance with the legal



<p>management in the Bank whose results are not yet known.</p> <p>Audits of supervisory authorities and any subsequent actions related to the prevention of money laundering and terrorist financing should be considered as a key audit issue not only in relation to the management estimates for existing and possible future fines, but also in the context of the possible impact on the going concern principle applicability.</p>	<p>requirements for anti-money laundering and terrorism and proliferation financing.</p> <ul style="list-style-type: none">• We examined the application of the Bank's procedures for the prevention of money laundering and terrorism and proliferation financing relating to sample of depositors and their transactions.• We reviewed the Bank's correspondence with FCMC.• We compared our observations with FCMC and external AMLTPF audit observations.• We discussed related issues with the Bank's responsible employees for the enforcement of the AMLTPF requirements.
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Reporting on Other Information

The Bank's management is responsible for other information. Other information consists of:

- The management report provided on page 3-7 of the accompanying annual report;
- Statement of management responsibility provided on page 8 of the accompanying annual report.

Our opinion on the financial statement does not cover the other information contained in the annual report and we do not provide any proof of it except as stated in our report under other reporting requirements under the Law of the Republic of Latvia Requirements.

In the context of the audit of the financial statements, we are obliged to look at other information and, in doing so, to assess whether this other information is materially different from the information in the financial statements or from our knowledge that we obtained in the course of the audit, and whether it contains other major discrepancies.

If, on the basis of the work carried out and taking into account the information and understanding of the Bank and its operating environment gained during the audit, we conclude that other information contains significant discrepancies, it is our duty to report such circumstances. There are no circumstances in our attention that should be reported.

Other reporting requirements under the legislation of the Republic of Latvia

In addition, under the Audit Services Act, we are obliged to give an opinion on whether the management report has been prepared in accordance with the provisions of its Regulatory Act, the financial and Capital Market Commission Regulation No. 113. "Requirements of the annual accounts of credit institutions, investment firms and investment management companies and of the consolidated Annual report".

Based solely on the procedures conducted under our audit, we believe that:

- The information provided in the management report for the reporting year for which the financial statement is drawn up is consistent with the financial statements, and
- The management notice is drawn up in accordance with the provisions of the financial and capital market 113. "Requirements for the annual accounts of credit institutions, investment firms and investment management companies, and for regulatory provisions for the consolidated Annual report".

Responsibility of the management and persons entrusted with the supervision of the Bank for the financial statements

The management is responsible for the preparation of a financial statement giving a true and fair view in accordance with the International Financial Reporting Standards, as endorsed 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 its financial statement, management is responsible for evaluating the ability of the Bank 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 Bank or to cease operations, or has no realistic alternative but to do so.



The persons entrusted with the supervision of the Bank are responsible for supervising the financial reporting process of the Bank.

Auditor's responsibility for auditing the financial statements

Our objective is to obtain reasonable assurance that the financial statements do not contain material misstatement, as a whole, and to provide the auditor with a report on the 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 skepticism 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 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 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 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 a fair presentation.

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 objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Other notices and approvals to be included in the auditor's report in accordance with the requirements of regulatory acts of the Republic of Latvia and the European Union in the provision of audit services to companies that are public-interest entities

On 3 June 2020 we were appointed to carry out the audit of the financial statements of AS "LPB Bank" for the year ended on 31 December 2019. The total continuous uninterrupted period of engagement is 3 years and includes reference periods from the year ending on 31 December 2018.

We confirm that:

- Our auditor's opinion is consistent with the additional report submitted to the Audit Committee of the Bank;



- As stated in article 37.6 of the Latvian Audit Service Law, we did not provide to the Bank non-audit-related prohibited services (NASs) referred to in article ES (1) of Regulation (ES) No 537/2014. We also maintained independence from the Bank during our audit.

The sworn auditor responsible for the audit project, which results in an independent auditor's report, is Raivis Irbitis.

SIA „Grant Thornton Baltic Audit”
License No. 183

Silvija Gulbe
Member of the Board

Raivis Irbitis
Sworn Auditor
Certificate No 205

Riga,
22 March 2021

The background features a blurred office scene with a laptop, a clipboard holding a pie chart, and a tablet displaying a bar chart. A hand is visible interacting with the tablet. The overall color palette is light and professional, with a yellow vertical bar on the left side.

JSC "LPB Bank"

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