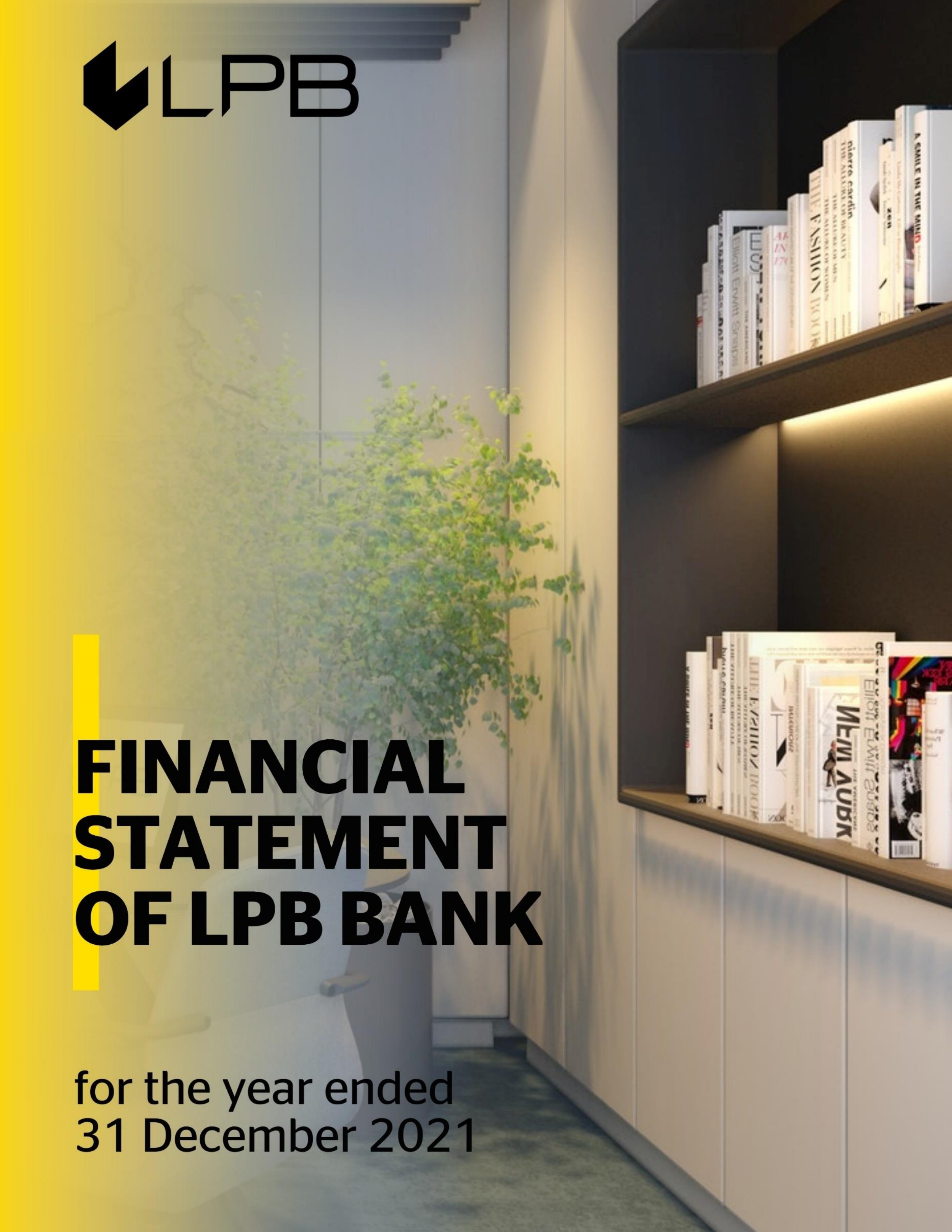

FINANCIAL STATEMENT OF LPB BANK

for the year ended
31 December 2021

CONTENTS

MANAGEMENT REPORT

Dear shareholders, clients and business partners!

Thanks to an accurately defined development strategy of LPB Bank (from now on – the Bank), namely, the focus on companies that provide e-commerce services, alongside successful cooperation with fintech companies and start-ups, the Bank is growing stronger every year. We are pleased with the more and more new companies that decided to use the platform offered by the Bank for e-commerce services and pivot to the online environment. Despite the challenges of the global pandemic, the Bank's key financial indicators reflect the sound and efficient operation of the Bank.

Type of activity

The Bank is a joint-stock company registered on 12 September 2008 and entered into the Register of Enterprises of the Republic of Latvia under uniform registration No. 50103189561. The Bank operates by the applicable legislation of the Republic of Latvia under a license issued by the Financial and Capital Markets Commission, which was re-registered on 20 December 2017 under No. 06.01.02.01.340/491. The Bank has its registered office and headquarters at Brīvības iela 54, Rīga, LV-1011, Latvija. The Bank maintains no foreign branches or representative offices.

Financial indicators

As of the end of 2021, the assets of the Bank totalled 203 million euros. Following dynamic growth at the early stage of Covid-19 infection, deposits returned to pre-pandemic levels in the year 2021, which had a direct effect on the volume of assets held by the Bank. The Bank continued to maintain high liquidity of its assets while maintaining a well-diversified structure. The share of the debt securities portfolio in assets increased to 47%, of which 93% have an investment-grade credit rating. 23% of the Bank's assets are receivables from banks, incl. Bank of Latvia. The volume of loans issued to clients did not change significantly and accounted for almost 23% of the Bank assets.

With the effective provision of e-commerce services, net fee income has grown for the third year in a row – by 32% in 2021 alone. Net profit from currency exchange showed further positive dynamic, having increased by a factor of two year-on-year. In planning its securities portfolio investments, the Bank assumes low average coupon rates. In continuation of trends observed in prior years, net interest income in 2021 totalled 13% lower than the year before.

The Bank closed out 2021 with a 5.5 million EUR profit, maintaining high profitability. Return on assets (ROA) totalled 2.32%, with a return on equity (ROE) of 15.36%. The digital transformation we have undertaken in recent years positively reflects our achievements; therefore, more than 50% of our profit already comes from e-commerce activities.

Achievements

Last year was spent in the shadow of the pandemic, but the Bank has always focused on sustainable development and efficiency, aiming to remain more than an ordinary Bank for years to come.

Effective risk management in 2021 was crucial not only for the general risk management of the Bank, but also from an anti-money laundering/counter-terrorist and proliferation financing (AML/CTPF) standpoint. Our previous efforts in monitoring clients and their transactions with a risk-based approach have brought not only practical gains to clients of the Bank, it has also had a positive impact on the Bank’s internal control system. Namely, the Bank’s resources are being allocated with greater benefit and efficiency.

The Bank continues to invest in the knowledge of the Bank's employees, including in-depth and extensive training in the field of risk management of money laundering and terrorist and proliferation financing sanctions, with the participation of professionals recognized in Latvia.

In 2021, the Bank’s team was joined by 16 new professionals, and the entire staff reached 228 – a convincing evidence of the Bank’s constant growth and development. Undoubtedly, the pandemic has left certain traces in the Bank’s activities. Still, the Bank successfully managed all the challenges and restrictions, quickly and efficiently switching the maximum number of employees to remote work.

In 2021, the Bank was hard at work enhancing internal regulations and compliance processes to ensure consistency with the regulatory enactments and standards applicable to the Bank’s activities.

- The whistle-blowing procedure has been improved to enable a broader range of individuals to submit whistle-blowing reports, and another channel has been made available to whistle-blowers;
- Work on implementing a new outsourcing regulation in the Bank’s internal documentation, reflecting amendments to the Credit Institution Law and the Financial and Capital Markets Commission’s regulation No. 84 of 06.07.2021, “Normative Regulations for the Use of Outsourcing”;
- Work is ongoing to improve internal regulations, meeting the requirements of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation), including best data protection practices and the latest findings disclosed by the Data State Inspectorate and by the European Data Protection Board;

2021 saw significant amounts of premature discharge of loans. Despite of this, the Bank has been able to sustain its credit portfolio at nearly the same amount as it was at the beginning of the year. Compared to 2020, the Bank has increased the volume of loans that have been newly issued or increased, aiming to adhere to targets set for 2021 according to the Bank’s strategy. The Bank also set a course for sustainable financing through many support measures.

During 2021, the Bank has made significant investments in the development of IT solutions to increase the online availability of the Bank's services.

The Bank started to actively offer open data solutions and various banking services architectures for fintech companies and start-ups, thus providing a wide range of services "under one roof" for starting an online business. Our clients in the fintech sector have access to multiple solutions that enable easy start-up or expansion of an existing business.

In February 2021, aiming to expand the range of services for e-merchants, two exclusive currencies – *MYR* and *MOP* – were implemented for online payments.

In June 2021, changes were made to the composition of the Council of LPB Bank. Mihail Ulman, deputy Chairman of the Council, left his position. Boris Ulman was newly elected as deputy Chairman of the Council; at the same time, Jūlija Kozlova was elected as a new member of the LPB Bank Council. Changes to the composition of the Council were made in order to ensure gender diversity and independent member of the Council represented by Jūlija Kozlova.

In 2021, representatives of the Bank attended and participated in numerous conferences and fairs throughout Europe, networking with entrepreneurs from the entertainment industry, digital businesses, and professionals in e-commerce, finance, and other areas.

In September 2021, the Bank celebrated its 13th birthday in 2021, unveiling its modern, technologically refined client service lobby after extensive reconstruction activities.

The Bank has redesigned its website www.lpb.lv with state of the art in secure solutions for architectural, ergonomic and content design. The Internet bank was also improved to satisfy client expectations.

The Bank is happy to have established cooperation with www.latvija.lv, where Internet bank users may get authenticated to receive the services available via the portal.

Thoughtful about the comfort of its cardholders, the Bank partnered with Mastercard to offer the *Lounge Key* and *Flight Delay Pass* loyalty programmes.

In late 2021, the IT Department successfully assisted the Bank's transition from LIBOR to EURIBOR, ensuring quick updates in compliance with the Bank of Latvia Credit Register requirements.

Continuing the tradition that started six years ago, the Bank supported the development of the Children's Clinical University Hospital by donating funds to purchase a wheelchair and a procedure lamp. The Bank also supported the publication of the historical poem of Karlis Rudevics – "Roma and Mahmudos of Gadjo".

Another happy tradition at the Bank is supporting the involvement of its staff in sports activities: LPB Bank teams successfully started in the *Rimi Riga Marathon* running event and in *Toyota Rīgas Velomaratons 2021*, which is the largest cycling marathon in the capital of Latvia. We are pleased that cohesion and focus on success unite the Bank's employees at work and in sports events.

Priorities for 2022

The Bank's primary goal in 2022 is to continue developing technological solutions to automate internal processes and boost efficiencies while also focusing on client attraction and service, discovering new avenues for business and improving the standard of service existing clients should expect from us. The Bank will continue to adapt to changes in financial markets and throughout the banking sector, convinced that we can solidify our standing on the domestic market and develop our client relationships. Bank management has set the following priorities for development:

- e-commerce development and access to innovative services;
- enhancing our services for fintech and start-ups;
- providing financing to entrepreneurs with development potential, as well as investment opportunities.

The Bank will consistently comply with its internal control system with legislative requirements and best practices, ensuring the highest degrees of AML/CTPF compliance and proficiency in its activities.

The Financial and Capital Markets Commission has approved the Bank's remote client identification procedure. The Bank is currently pursuing every effort to bring this procedure to potential clients by the end of 2022.

In 2021, the Bank started to support sustainable corporate financing. This will also be an essential task for 2022.

We are thankful to the Bank's shareholders and clients for their unwavering support and trust! We thank the employees for their flexibility and enthusiasm, for their work, which allowed us to achieve high financial results.

000’EUR

THE COUNCIL AND THE BOARD

The Council of the Bank as of 31 December 2021

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	14/06/2021
Boriss Ulmans	Deputy Chairman of the Council	14/06/2021	
Aleksandr Plotkin	Council Member	14/10/2015	
Boriss Ulmans	Council Member	29/09/2020	14/06/2021
Jūlija Kozlova	Council Member	14/06/2021	

The Board of the Bank as of 31 December 2021

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 Svirčenkovs	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

Jurijs Svirčenkovs
Member of the Board

Riga, 17 March 2022

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 80 for the year ended 31 December 2021, 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	Robert Christian Schoepf	Jurijs Svirčenkovs
Chairman of the Council	Chairman of the Board	Member of the Board

Riga, 17 March 2022

000’EUR

STATEMENT OF COMPREHENSIVE INCOME

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

	Notes	2021	2020
Interest income	3	4 605	4 902
Interest expense	3	(1 115)	(902)
Net interest income	3	**3 490**	**4 000**
Result of making provisions for doubtful debts	8	(978)	(2 503)
Net interest income after provision for loan impairment		**2 512**	**1 497**
Commission and fee income	4	26 167	19 243
Commission and fee expense	4	(17 039)	(12 334)
Net commission and fee income	4	**9 128**	**6 909**
Income from dividends		38	17
Net gain/(loss) on financial assets not at fair value through profit or loss	6	12	1 031
Net gain/(loss) on financial assets at fair value through profit or loss	6	10	2 610
Net gain on foreign exchange	6	3 469	1 858
Other income	5	752	237
Administrative expense	7	(8 525)	(7 934)
Depreciation	14	(346)	(373)
Other expense	5	(1 538)	(1 141)
Profit before tax		**5 512**	**4 711**
Corporate income tax	9	(5)	(3)
Net profit for the year		**5 507**	**4 708**
Profit attributable to owners of the Bank		**5 507**	**4 708**
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss			
Accumulated result from other comprehensive income / expense)		(682)	306
Total other comprehensive income / (expense)		**(682)**	**306**
Total other comprehensive income attributable to owners of the Bank		**4 825**	**5 014**
Earnings per share (EUR)	20	**0.424**	**0.362**

The accompanying notes on pages 14 to 80 form an integral part of these financial statements. The Bank’s financial statements set out on pages 9 to 80 were approved by the Board and by the Council on 17 March 2022.

Biomins Kajems
Chairman of the Council

Robert Christian Schoepf
Chairman of the Board

Jurijs Svirčenkovs
Member of the Board

Riga, 17 March 2022

STATEMENT OF FINANCIAL POSITION

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

	Notes	31.12.2021.	31.12.2020.
ASSETS			
Cash and balances with the Bank of Latvia	10	36 616	50 457
Due from credit institutions	11	10 350	19 437
Financial assets measured at fair value through profit or loss		1 269	1 324
- *derivatives*		*34*	*199*
- *shares*		*1 235*	*1 125*
Financial assets measured at fair value through other comprehensive income		55 838	57 805
- *debt securities*	*13*	*55 838*	*57 805*
Financial assets measured at amortised cost		84 970	91 323
- *loans and receivables due from customers*	*12*	*45 918*	*47 416*
- *debt securities*	*13*	*39 052*	*43 907*
Property, plant and equipment	14	6 480	6 293
Intangible assets	14	333	336
Other financial assets	15	6 082	10 171
Other non-financial assets	15	1 112	480
Total assets		**203 050**	**237 626**
LIABILITIES			
Liabilities measured at fair value through profit or loss		12	-
- *derivatives*		*12*	-
Liabilities measured at amortised cost		146 215	183 071
- *deposits from customers*	*17*	*146 215*	*183 071*
Other financial liabilities	18	18 147	20 728
Other non-financial liabilities	18	734	710
Total liabilities		**165 108**	**204 509**

000’EUR

STATEMENT OF FINANCIAL POSITION (continued)

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		38	720
Retained earnings		24 904	19 397
Total equity attributable to equity holders of the Bank		**37 942**	**33 117**
Total equity		**37 942**	**33 117**
Total liabilities and equity		**203 050**	**237 626**

The accompanying notes on pages 14 to 80 form an integral part of these financial statements. The Bank’s financial statements set out on pages 9 to 80 were approved by the Board and by the Council on 17 March 2022.

Biomins Kajems Chairman of the Council	Robert Christian Schoepf Chairman of the Board	Jurijs Svirčenkovs Member of the Board

Riga, 17 March 2022

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 2019	**13 000**	**414**	**14 689**	**28 103**
Other comprehensive income	-	*306*	-	*306*
Net profit for the year	-	-	*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**
Other comprehensive income	-	*(682)*	-	*(682)*
Net profit for the year	-	-	*5 507*	*5 507*
Total income for the year	-	(682)	5 507	4 825
Balance as at 31 December 2021	**13 000**	**38**	**24 904**	**37 942**

The accompanying notes on pages 14 to 80 form an integral part of these financial statements. The Bank's financial statements set out on pages 9 to 80 were approved by the Board and by the Council on 17 March 2022.

Biomins Kajems	Robert Christian Schoepf	Jurijs Svirčenkovs
Chairman of the Council	Chairman of the Board	Member of the Board

Riga, 17 March 2022

STATEMENT OF CASH FLOWS

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

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	5 512	4 711
Amortisation / depreciation	346	373
(Decrease) / increase in impairment allowance for financial assets	978	2 503
Interest income	(4 605)	(4 902)
Interest expense	1 115	902
Unrealised foreign exchange loss / (profit)	(286)	1 203
Increase in cash and cash equivalents from operating activities before changes in assets and liabilities	**3 060**	**4 790**
(Increase) / decrease in loans and receivables	285	(191)
(Increase) decrease in other assets	3 638	(1 797)
Increase / (decrease) in deposits from customers	(36 916)	29 570
Increase in other liabilities	(2 528)	8 653
Change in cash and cash equivalents from operating activities before income tax	**(32 461)**	**41 025**
Interest received	5 186	4 460
Interest paid	(1 055)	(876)
Corporate income tax paid	(5)	(3)
Change in cash and cash equivalents from operating activities	**(28 335)**	**44 606**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(530)	(149)
(Increase) / decrease of financial assets at fair value through other comprehensive income	1 084	(21 375)
Settlement / (increase) of financial assets at fair value through profit or loss	4 564	(1 794)
Change in cash and cash equivalents from investing activities	**5 118**	**(23 318)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	-	-
Change in cash and cash equivalents from financing activities	**-**	**-**
Net cash flows for the year	**(23 217)**	**21 288**
Cash and cash equivalents at the beginning of the year	69 900	49 815
Foreign exchange (loss) / profit	286	(1 203)
Cash and cash equivalents at the end of the year	**46 969**	**69 900**

The accompanying notes on pages 14 to 80 form an integral part of these financial statements. The Bank's financial statements set out on pages 9 to 80 were approved by the Board and by the Council on 17 March 2022.

Biomins Kajems Chairman of the Council	Robert Christian Schoepf Chairman of the Board	Jurijs Svirčenkovs Member of the Board

Riga, 17 March 2022

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 measure for improvement of own funds will be direct investments in share capital.

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 addition to setting up and using own processing center;
- In developing priority actions with FinTech companies, the Bank cooperates and plans to cooperate and offer its services to licensed payment institutions, following the best practices in Customer research;
- 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.

In 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.

The Bank has set a target capital adequacy ratio for 2021 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, 2021, and has stated that they have not relevant impact on the Bank:

- 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). Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform;
- Covid-19-Related Rent Concessions – Amendments to IFRS 16 (effective for annual periods beginning on or after 1 June 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification.

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 2022 or not yet adopted by the EU, and have not been applied in preparing these financial statements.

- Amendments to IFRS 4 – deferral of IFRS 9 (effective for annual periods beginning on or after 1 January 2023).
- 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).
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021, 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 2022, not yet adopted by the EU). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period.
- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS9, IFRS16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022).

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 2021	**31 December 2020**
USD	1.13260	1.22710
RUB	85.30040	91.46710
GBP	0.84028	0.88903
PLN	4.59690	4.55970

(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 whetherthe 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 finanacial 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:

Property, plant and equipment	
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 calculated. 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% (2020: 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

	2021	2020
Interest income		
Due from credit institutions	380	567
Loans and receivables	2 700	2 871
Incl. impaired loans	*1 092*	*100*
Securities	1 525	1 464
Incl. at amortized cost	*445*	*720*
Incl. at FVOCI	*1 080*	*744*
Total interest income:	**4 605**	**4 902**
Interest expense		
Due to credit institutions	-	(72)
Non-bank deposits	(566)	(574)
Other interest expense	(273)	(32)
Payments to the Deposit Guarantee Fund	(276)	(224)
Total interest expense:	**(1 115)**	**(902)**
Net interest income	**3 490**	**4 000**

NOTE 4 NET COMMISSION AND FEE INCOME

	2021	2020
Commission and fee income		
Payment card transactions	24 549	17 186
Service fee for account maintenance and cash transactions	1 324	1 831
Asset management and brokerage services	157	109
Other bank transactions	137	117
Total commission and fee income:	**26 167**	**19 243**
Commission and fee expense		
Payment card transactions	(16 510)	(11 854)
Agents commission	(341)	(313)
Correspondent banking services	(72)	(76)
Brokerage services	(115)	(90)
Other bank transactions	(1)	(1)
Total commission and fee expense:	**(17 039)**	**(12 334)**
Net commission and fee income	**9 128**	**6 909**

NOTE 5 OTHER INCOME AND EXPENSE

	2021	**2020**
Other income		
Penalties collected	133	84
Incl. past due loan payments	*86*	*54*
Other income	619	153
Incl. from loan recovery proceedings	*538*	-
Total other income	**752**	**237**
Other expense		
Membership fees to various organisations	(115)	(122)
Payment card project implementation and servicing	(1 068)	(967)
Other expenses	(355)	(52)
Total other expenses	**(1 538)**	**(1 141)**

NOTE 6 NET INCOME FROM FINANCIAL INSTRUMENTS

	2021	**2020**
Net gain on financial assets at fair value through profit or loss	10	2 610
Incl. net trading gain	*(28)*	*3 338*
net revaluation result	*38*	*(728)*
Net gain from transactions with other currency	3 469	1 858
Incl. net trading gain	*3 183*	*3 061*
net revaluation result	*286*	*(1 203)*
Net gain on financial assets not at fair value through profit or loss	12	1 031
Incl. from fair value through other comprehensive income debts	*12*	*1 031*
Net trading gain	**3 491**	**5 499**

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NOTE 7 ADMINISTRATIVE EXPENSE

	2021	2020
Remuneration expense		
Remuneration to personnel	5 423	4 967
State compulsory social security contributions of personnel	1 273	1 193
Remuneration to the Council and the Board	394	394
State compulsory social security contributions of the Council and the Board	84	87
Total remuneration expense:	**7 174**	**6 641**
Software maintenance	249	268
Lease and maintenance of premises	211	185
Professional and legal fees	181	136
Non-deductible input tax	161	247
Advertising and representation expense	164	99
Other personnel expense (ex. loyality expense)	125	128
Telephone, communications and mail	95	91
Property tax	43	54
Penalties paid	39	1
Stationery and other office expense	37	53
Other administrative expense	28	17
Personnel loyality expense	8	9
Donations	6	4
Non-operating expenses	4	1
Total other expense:	**1 351**	**1 293**
Administrative expense	**8 525**	**7 934**

As of 31 December 2021, the Bank had 228 employees (2020: 238 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:

	2021	2020
Services received from the company auditing these financial statements:		
Financial year audit fee	55	55
Other payments for non-audit services	10	18
Services received from other auditing companies:		
Other payments for non-audit services	85	21

NOTE 8 IMPAIRMENT PROVISIONS

	Loans	Off-balance	Other assets	Total
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**
Increase	5 089	579	506	6 174
Decrease	(3 865)	(597)	(734)	(5 196)
Write-offs	(21)	-	(1)	(22)
Exchange rate difference		-	9	9
Balance as at 31 December 2021	**4 212**	**100**	**194**	**4 506**

NOTE 9 CORPORATE INCOME TAX

The tax paid in 2021 and 2020 was formed as follows:

	2021	2020
Conditionally distributed profit in the reporting period	**21**	**12**
including non-operating expenses	20	4
including write-off of receivables	1	8
Taxable base	**26**	**15**
Corporate income tax calculated in the reporting year	**5**	**3**

NOTE 10 CASH AND BALANCES WITH THE BANK OF LATVIA

	31.12.2021.	31.12.2020.
Cash	1 405	1 747
Balances with the Bank of Latvia	35 211	48 710
Total	**36 616**	**50 457**

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 2021, the Bank’s compulsory reserve requirement was 1 225 thousand EUR (31 December 2020: EUR 1 245 thousand).

NOTE 11 DUE FROM CREDIT INSTITUTIONS

	31.12.2021.	31.12.2020.
Amounts due on demand	**9 102**	**3 101**
Credit institutions registered in Latvia	11	20
Credit institutions registered in the EU	95	203
Credit institutions of other countries	8 996	2 878
Term deposits	**1 251**	**16 342**
Credit institutions registered in Latvia	1 251	9 334
Credit institutions of other countries	-	7 008
Total due from credit instituions	**10 353**	**19 443**
Provisions	*(3)*	*(6)*
Net due from credit instituions	**10 350**	**19 437**

The Bank's average interest rates applicable for the balances due from credit institutions in 2021 are as follows: EUR -0.361%, RUB 3.853% (2020: EUR -0.5%, RUB 4.417%).

NOTE 12 LOANS AND RECEIVABLES DUE FROM CUSTOMERS

(a) By customer profile

	31.12.2021.	31.12.2020.
Private non-financial companies	41 634	41 698
Financial institutions	770	892
Households	7 726	7 835
Total loans	**50 130**	**50 425**
Provisions	*(4 212)*	*(3 009)*
Net loans	**45 918**	**47 416**

(b) By geographical profile

	31.12.2021.	31.12.2020
Residents of Latvia	47 852	47 322
Residents of EU Member States	44	138
Residents of other countries	2 234	2 965
Total loans	**50 130**	**50 425**
Provisions	*(4 212)*	*(3 009)*
Net loans	**45 918**	**47 416**

(c) By type

	31.12.2021.	31.12.2020.
Mortgage loans	24 877	24 047
Commercial loans	4 504	4 966
Industrial loans	2 219	3 365
Finance leases	2 372	589
Factoring	-	372
Credit card loans	42	74
Other loans	16 072	16 979
Cash in financial institutions reserved for operations	44	33
Total loans	**50 130**	**50 425**
Provisions	*(4 212)*	*(3 009)*
Net loans	**45 918**	**47 416**

(d) Loans and advances to customers by quality 31.12.2021.

	Mortgage loans	Other loans	Finance leases	Credit card loans	Total
Loans and advances to customers neither past due nor impaired	**24 155**	**17 758**	**2 365**	**42**	**44 320**
Private non-financial companies	19 005	14 854	2 365	11	36 235
Financial institutions	-	770	-	-	770
Private individuals	5 150	2 134	-	31	7 315
Loans and advances to customers past due but not impaired	**722**	**5 081**	**7**	**-**	**5 810**
Past due up to 30 days	675	4 348	7	-	5 030
Past due 30-90 days	-	67	-	-	67
Past due over 90 days	47	666	-	-	713
Total gross loans and advances to customers	**24 877**	**22 839**	**2 372**	**42**	**50 130**
Provisions	*(3 315)*	*(824)*	*(63)*	*(10)*	*(4 212)*
Total net loans and advances to customers	**21 562**	**22 015**	**2 309**	**32**	**45 918**

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**

(e) Significant credit risk concentration

As at 31 December 2021 the Bank had 4 borrowers or groups of borrowers, whose aggregate liabilities exceeded 10% of the Bank's Tier 1 capital (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).

The Bank's credit risk concentration to one customer or a group of related customers may not exceed 23% of the Bank's Tier 1 capital. 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, and the host country of such customer is the European Union or other comparable country (country mentioned Commission Implementing Decision (EU) 2021/1753 of 1 October 2021 on the equivalence of the supervisory and regulatory requirements of certain third countries and territories for the purposes of the treatment of exposures in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council), total risk exposure to the customer shall not exceed 95 percent of the Bank's Tier 1 capital. On 31 December 2021 and 31 December 2020, the Bank was in compliance with these requirements.

NOTE 13 INVESTMENTS INTO SECURITIES

a) Securities by portfolios

	31.12.2021.	31.12.2020.
Financial assets at fair value through other comprehensive income		
Debt securities issued by EU central government	5 933	7 382
Debt securities issued by other central government	4 854	4 600
Debt securities issued by EU credit institutions	1 504	1 524
Debt securities issued by EU financial institutions	7 049	5 161
Debt securities issued by other countries financial institutions	12 345	23 596
Debt securities issued by Latvia non-financial companies	695	-
Debt securities issued by EU non-financial companies	14 916	10 038
Debt securities issued by other countries non-financial companies	8 653	5 635
Financial assets at fair value through other comprehensive income, total	**55 949**	**57 936**
Provisions	*(111)*	*(131)*
Financial assets at fair value through other comprehensive income, net	**55 838**	**57 805**
Financial assets at amortised cost		
Debt securities issued by the Latvian government	9 879	15 906
Debt securities issued by EU central governments	6 175	6 223
Debt securities issued by EU credit institutions	2 064	4 147
Debt securities issued by credit institutions of other countries	10 258	8 236
Debt securities issued by EU non-financial companies	8 695	9 527
Debt securities issued by other countries non-financial companies	2 043	-
Financial assets at amortised cost, total	**39 114**	**44 039**
Provisions	*(62)*	*(132)*
Financial assets at amortised cost, net	**39 052**	**43 907**

b) Securities by countries

	31.12.2021.		31.12.2020.	
	Carrying amount	% of the Bank's own funds	Carrying amount	% of the Bank's own funds
Central governments debt securities	**26 841**	**x**	**34 111**	**x**
Latvia	9 879	*30.19*	15 906	*49.70*
Lithuania	4 101	*12.53*	4 132	*12.91*
Saudi Arabia	3 998	*12.22*	2 573	*8.04*
Other countries	8 863	*27.09*	11 500	*35.94*
Credit institutions debt securities	**13 826**	**x**	**13 907**	**x**
USA	8 198	*25.06*	8 236	*25.74*
Other countries	5 628	*17.20*	5 671	*17.72*
Other financial institution debt securities	**19 394**	**x**	**28 757**	**x**
USA	9 506	*29.06*	16 337	*51.05*
Cote D'ivoire	-	-	4 521	*14.13*
Luxembourg	5 052	*15.44*	5 161	*16.13*
Other countries	4 836	*14.78*	2 738	*8.56*
Private non-financial institutions debt securities	**35 002**	**x**	**25 200**	**x**
USA	6 273	*19.17*	4 410	*13.78*
Estonia	3 554	*10.86*	3 573	*11.16*
Germany	7 331	*22.41*	7 245	*22.64*
Other countries	17 844	*54.54*	9 972	*31.16*
Financial investments, total	**95 063**	**x**	**101 975**	**x**
Provisions	*(173)*	*x*	*(263)*	*x*
Financial investments, net	**94 890**	**x**	**101 712**	**x**

c) Financial investment qualitative rating

	31.12.2021.	31.12.2020.
Financial assets at fair value through other comprehensive income by risk classes		
AAA to A-	27 657	40 097
BBB+ to BBB-	21 315	15 446
BB+ to BB-	6 977	2 393
Financial assets at fair value through other comprehensive income, total	**55 949**	**57 936**
Provisions	*(111)*	(131)
Financial assets at fair value through other comprehensive income, net	**55 838**	**57 805**
Financial assets at amortised cost by risk classes		
AAA to A-	23 374	31 537
BBB+ to BBB-	15 740	12 502
Financial assets at amortised cost, total	**39 114**	**44 039**
Provisions	*(62)*	*(132)*
Financial assets at amortised cost, net	**39 052**	**43 907**

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 (with emphasis on the purchase of green, social or sustainability bonds), 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 choses 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						
31.12.2019.	**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**
Additions	***99***	-	*229*	-	*202*	***431***
Disposals	***(19)***	-	*(3)*	-	*(37)*	***(40)***
31.12.2021.	**1 452**	7 214	750	51	363	**8 378**
Accumulated amortisation/ depreciation						
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**
Accumulated amortisation/ depreciation for the year	***102***	*140*	*79*	*3*	*22*	***244***
Disposal depreciation	***(19)***	-	*(3)*	-	*(37)*	***(40)***
31.12.2021.	**1 119**	1 201	511	50	136	**1 898**
Net carrying amount						
31.12.2019.	**433**	**6 293**	**92**	**7**	**28**	**6 420**
31.12.2020.	**336**	**6 153**	**89**	**4**	**47**	**6 293**
31.12.2021.	**333**	**6 013**	**239**	**1**	**227**	**6 480**

The amortisation/ depreciation charge for the year totalling EUR 346 thousand (2020: EUR 341 thousand and EUR 32 thousand for disposals depreciation).

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NOTE 15 OTHER ASSETS

	31.12.2021.	31.12.2020.
Other financial assets	**6 082**	**10 171**
Card operations	2 601	4 390
Incl.provisions	*(1)*	*(82)*
Security deposit for transactions	3 469	3 450
Incl.provisions	*(17)*	*(62)*
Check for VISA Inc shares sale	-	2 172
Real estate taken over for sale	-	150
Accrued commission income	8	9
Other financial assets	4	-
Other non-financial assets	**1 112**	**480**
Inventory (digipass and card blanks)	24	31
Advance payments for intangible and fixed assets	659	-
Future period expenses	213	184
Other receivables	216	265

NOTE 16 FUNDS UNDER TRUST MANAGEMENT

	31.12.2021.	31.12.2020.
Assets	**27 499**	**21 845**
Loans to private companies	21 189	14 481
Loans to financial intermediaries and auxiliary firms	5 900	7 000
Client’s financial instruments cash accounts	410	364
Liabilities	**27 499**	**21 845**
Private companies	27 400	21 828
Households	99	17

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 2021, the accumulated outstanding commission fee for the asset management was EUR 8 thousand (2020: EUR 9 thousand).

NOTE 17 DEPOSITS FROM CUSTOMERS

(a) By customer profile:

	31.12.2021.	31.12.2020.
Demand deposits	**110 415**	**145 780**
Financial institutions	28 445	69 969
Private companies	57 575	49 136
Households and non-profit organisations servicing them	24 395	26 675
Term deposits	**35 800**	**37 291**
Financial institutions (2nd pillar pension funds)	2 997	2 956
Private companies	197	168
Households and non-profit organisations servicing them	32 606	34 167
Total	**146 215**	**183 071**

(b) By geographical profile

	31.12.2021.	31.12.2020.
Demand deposits	**110 415**	**145 780**
Residents of Latvia	62 944	48 976
Residents of EU Member States	16 650	84 284
Residents of other countries	30 821	12 520
Term deposits	**35 800**	**37 291**
Residents of Latvia	33 480	35 036
Residents of EU Member States	112	177
Residents of other countries	2 208	2 078
Total	**146 215**	**183 071**

The Bank's average interest rates applicable for the deposits from customers in 2021 are as follows: 1.252% (EUR) (2020: 1.425% (EUR)).

NOTE 18 OTHER LIABILITIES

	31.12.2021.	31.12.2020.
Other financial liabilities	**18 147**	**20 728**
Payment for transactions with payment cards	15 106	17 527
Accrued payments to penalty in accordance with the FCMC decision	2 205	2 205
Third-party funds held as collateral	131	344
Accrued expenses related to financial transaction servicing	445	357
Liabilities under clarification	50	-
Other financial liabilities and accrued expenses	144	168
Accrued payments to agents	11	64
Accrued expenses for payments to the Deposit Guarantee Fund and the FCMC	55	63
Other non-financial liabilities	**734**	**710**
Vacation pay reserve	522	438
Provisions for off-balance sheet liabilities	101	118
Other non-financial liabilities	61	94
Deferred income	26	31
Taxes payable	24	29

NOTE 19 PAID-IN SHARE CAPITAL

As at 31 December 2021, the Bank's registered and paid-in share capital was EUR 13 million (2020: 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 2021, all shares were fully paid and the Bank did not hold any of its own shares.

As at 31 December 2021 and 2020, 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.

	2021	2020
Net profit ('000)	5 507	4 708
Number of ordinary shares at reporting date ('000)	13 000	13 000
Earnings per share (EUR)	**0.424**	**0.362**

NOTE 21 CASH AND CASH EQUIVALENTS

	31.12.2021.	31.12.2020.
Cash and demand deposits with the Bank of Latvia	36 616	50 457
Balances due from other credit institutions with original maturities of less than three months	10 353	19 443
Total	**46 969**	**69 900**

NOTE 22 OFF-BALANCE SHEET ITEMS

	31.12.2021.	31.12.2020.
Contingent liabilities	**659**	**914**
Guarantees	659	914
Financial commitments	**1 267**	**1 651**
Unutilised credit lines	751	981
Credit card commitments	516	670
Total off-balance sheet items, gross	**1 926**	**2 565**
Provisions	*(101)*	*(118)*
Total off-balance sheet items, net	**1 825**	**2 447**

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 2021, 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:

	31.12.2021.			31.12.2020.		
	Carrying amount	Off-balance sheet items	Total	Carrying amount	Off-balance sheet items	Total
Assets	**1 136**	**318**	**1 454**	**1 100**	**485**	**1 585**
Loans and receivables, net	**1 102**	**318**	**1 420**	**997**	**485**	**1 482**
Council and Board	87	124	211	107	252	359
Related companies and individuals	1 015	194	1 209	890	233	1 123
Derivatives	**34**	**-**	**34**	**103**	**-**	**103**
Related companies and individuals	34	-	34	103	-	103
Assets under management	**-**	**2 010**	**2 010**	**-**	**2 010**	**2 010**
Related companies and individuals	-	2 010	2 010	-	2 010	2 010
Liabilities	**20 912**	**-**	**20 912**	**25 699**	**-**	**25 699**
Deposits	**20 900**	**-**	**20 900**	**25 699**	**-**	**25 699**
Parent company	374	-	374	1 424	-	1 424
Council and Board	6 885	-	6 885	10 243	-	10 243
Related companies and individuals	13 641	-	13 641	14 032	-	14 032
Derivatives	**12**	**-**	**12**	-	-	-
Related companies and individuals	12	-	12	-	-	-
Liabilities under management	**-**	**23 090**	**23 090**	**-**	**17 981**	**17 981**
Related companies and individuals	-	23 090	23 090	-	17 981	17 981

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

	2021	2020
Interest income	74	85
Interest expense	(91)	(110)
Net interest expense	**(17)**	**(25)**
Commission and fee income	**135**	**109**

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, counterparty credit risk, foreign exchange risk, position risk, settlement risk, interest rate risk, liquidity risk, operational risk, information technology risk, compliance risk, reputational risk, money laundering and terrorist and proliferation financing risk, sanctions risk, business model risk, leverage risk, model risk and systemic risk. As part of the capital adequacy assessment process, credit value adjustment (CVA) risk was also assessed as a risk that the capital requirement should be calculated under certain circumstances.

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 Bank's credit risk (including counterparty credit risk);
- 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;
- Reviews and evaluates the quality of financial assets of the exposures issued.

The Risk Control Department identifies significant risks the Bank is exposed to, including for the capital planning purposes, 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, Council 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 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 chiefly 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 average of all risk levels. The Risk Control Department regularly summarizes, analyses and presents to the Bank`s Risk director, the Asset and Liability Committee, the Board and the Council accompanied with explanatory information on each specific risk and the aggregate risk exposure. 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. Any instances when the individual or aggregate risk exposure exceeds the required moderate level should be reported by the Risk Control Department immediately to the Bank's Board, however, if the overall risk level approaches the high risk level, the Risk Control Department is obliged to immediately convene the Bank's Business Continuity Assurance 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 (including counterparty risk, concentration risk), operational risk, market price risk, interest rate risk, currency risk, liquidity risk, IT risk, money laundering and terrorism and proliferation financing risk and sanction 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 (including counterparty 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 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.

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.

	31.12.2021.	**31.12.2020.**
Assets exposed to credit risk	**158 509**	**180 060**
Due from credit institutions	10 350	19 437
Financial assets measured at fair value through profit or loss:	1 269	1 324
Derivative	*34*	*199*
Shares	*1 235*	*1 125*
Financial assets measured at fair value through other comprehensive income:	55 838	57 805
Debt securities	*55 838*	*57 805*
Financial assets measured at amortised cost:	84 970	91 323
Loans and receivables	*45 918*	*47 416*
Debt securities	*39 052*	*43 907*
Other financial assets	6 082	10 171
Off-balance sheet items exposed to credit risk	**1 825**	**2 447**
Maximum credit risk exposure	**160 334**	**182 507**

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 Tier 1 capital. According to the Regulations No. 575/2013 (26 June 2013) on prudential requirements for credit institutions and amending Regulation (EU) No. 648/2012, the Bank treats as large the credit exposure exceeding 10% of the Bank's Tier 1 capital. Any credit exposure to a single customer or a group of related customers may not exceed 23% of the Bank's Tier 1 capital. If a customer is a credit institution or investment firm or group of connected clients, which is composed of one or more credit institutions or investment firms, and the host country of such customer is the European Union or other comparable country (country mentioned Commission Implementing Decision (EU) 2021/1753 of 1 October 2021 on the equivalence of the supervisory and regulatory requirements of certain third countries and territories for the purposes of the treatment of exposures in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council), the total risk exposure to such customer shall not exceed 95% of the Bank's Tier 1 capital. 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.

31.12.2021.

	Latvia	Eurozone countries	Other countries	Total
Exposure to credit risk of balance sheet assets	**55 469**	**39 183**	**63 857**	**158 509**
Due from credit institutions	1 261	-	90 89	**10 350**
Financial assets measured at fair value through profit or loss:	-	-	1 269	**1 269**
Derivative	-	-	*34*	***34***
Shares	-	-	*1 235*	***1 235***
Financial assets measured at fair value through other comprehensive income:	694	26 314	28 830	**55 838**
Debt securities	*694*	*26 314*	*28 830*	***55 838***
Financial assets measured at amortised cost:	53 491	12 869	18 610	**84 970**
Loans and receivables	*43 647*	*44*	*2 227*	***45 918***
Debt securities	*9 844*	*12 825*	*16 383*	***39 052***
Other financial assets	23	-	6 059	**6 082**
Exposure to credit risk of off-balance sheet items	1 494	228	103	**1 825**
Total	**56 963**	**39 411**	**63 960**	**160 334**

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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**
Derivative	*103*	-	*96*	***199***
Shares	-	-	*1 125*	***1 125***
Financial assets measured at fair value through other comprehensive income:	-	19 730	38 075	**57 805**
Debt securities	-	*19 730*	*38 075*	***57 805***
Financial assets measured at amortised cost:	60 242	13 696	17 385	**91 323**
Loans and receivables	*44 352*	*55*	*3 009*	***47 416***
Debt securities	*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**

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.

	31.12.2021.	31.12.2020.
Exposure to credit risk of balance sheet assets	**158 509**	**180 060**
Central governments	26 745	34 065
Government non-financial corporations	2 022	2 026
Credit institutions	24 173	33 250
Multilateral Development Banks	14 895	28 748
Private individuals	7 710	7 731
Operations with real estate	32 541	23 766
Trade	2 895	4 287
Manufacturing	20 654	19 866
Accommodation and catering services	1 479	2 554
Information and communication services	2 634	331
Transport	1 896	434
Health and social care	2 155	2 205
Electricity	5 400	4 744
Financial services	12 524	13 600
Other	786	2 453
Exposure to credit risk of off-balance sheet items	**1 825**	**2 447**
Total	**160 334**	**182 507**

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.
The Bank determines the quality of financial assets exposed to credit risk by performing an analysis of debtors (borrowers) financial position indicators, counterparty reputation and cooperation experience with counterparties, as well as monitoring of international ratings assigned to counterparties. the sustainability of the counterparty, the borrower, the issuer and the transaction itself, namely environmental, social responsibility and governance (ESG) factors, including the international ESG ratings assigned 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 30 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;
- Default of a person related to the Bank's counterparty that affects the counterparty's ability to meet their credit obligations to the Bank;
- Failure to meet project implementation preconditions;
- 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

- A delay of more than 90 days in the performance of the counterparty's obligations (such as payment of principal amount or interest);
- Significant financial difficulties of the counterparty;
- 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;
- The counterparty has been declared insolvent or has been informed of its legal protection process, or similar restructuring or protection of other types of financial liabilities. The counterparty is dead, missing or has ceased operations;
- A financial asset is an asset in the recovery process;
- Financial asset has been acquired or issued at a deep discount that reflects an existing impairment;
- 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.

31.12.2021.

	Stage 1	Stage 2	Stage 3	Total
Exposure to credit risk of balance sheet assets	**119 066**	**25 965**	**17 130**	**162 161**
Due from credit institutions	10 353	-	-	**10 353**
Financial assets measured at fair value through other comprehensive income:	54 598	1 351	-	**55 949**
Debt securities	*54 598*	*1 351*	-	***55 949***
Financial assets measured at amortised cost:	48 015	24 614	17 130	**89 759**
Loans and receivables	*8 902*	*24 614*	*17 130*	***50 646***
Debt securities	*39 113*	-	-	***39 113***
Other financial assets	6 100	-	-	**6 100**
Exposure to credit risk of off-balance sheet items	**793**	**796**	**337**	**1 926**
Total	**119 859**	**26 761**	**17 467**	**164 087**

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**
Debt securities	*50 584*	*7 353*	-	***57 937***
Financial assets measured at amortised cost:	39 568	51 173	4 036	**94 777**
Loans and receivables	*8 157*	*38 545*	*4 036*	***50 738***
Debt securities	*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**

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.

	31.12.2021.		31.12.2020.	
	Collateral value	**Loan gross value**	**Collateral value**	**Loan gross value**
Loan type				
Loan for working capital	14 358	4 520	14 666	4 987
Industrial loan	4 411	2 224	6 043	3 381
Financial lease	4 418	2 477	1 935	594
Loan for purchasing consumer goods	355	174	521	175
Mortgage loan	60 918	25 160	57 248	24 204
Other loans	36 307	16 091	51 283	17 397
Total	**120 767**	**50 646**	**131 696**	**50 738**

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 Liquidity coverage ratio regulatory requirements;
- Compliance with Net stable funding ratio regulatory requirements;
- Compliance with Specific liquidity regulatory requirements;
- Setting limits for deposits from customers;

- Monitoring of adherence to the limits fixed in the Bank's liquidity strategy;
- Liquidity risk early warning system;
- Liquidity stress testing and analysis of results;
- Bank's liquidity crisis plan.

To maintain its liquidity position, the Bank:

- Assesses and plans the maturity structure of its assets and liabilities on a regular basis;
- 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;
- Ensures Liquidity coverage ratio at least 110%;
- Ensures the Net stable funding ratio not less than 105%;
- 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 2021 and 2020 were:

	31.12.2021.	**31.12.2020.**
Liquidity reserves	89 997	116 713
Total net cash outflows	47 135	73 481
Liquidity coverage ratio	**191%**	**159%**

According in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012, minimum determined net stable funding ratio is 100%. The Bank`s net stable funding ratio for the years 2021 and 2020 were:

	31.12.2021.	**31.12.2020**
Required stable funding	204 317	128 429
Available stable funding	197 531	94 316
Net stable funding ratio	**155%**	**136%**

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.*

31.12.2021.

	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	36 616	-	-	-	-	-	**36 616**
Due from credit institutions	10 350	-	-	-	-	-	**10 350**
Financial assets measured at fair value through profit or loss:	34	-	-	-	1 235	-	**1 269**
Derivative	*34*	-	-	-	-	-	***34***
Shares	-	-	-	-	*1 235*	-	***1 235***
Financial assets measured at fair value through other comprehensive income:	55 838	-	-	-	-	-	**55 838**
Debt securities	*55 838*	-	-	-	-	-	***55 838***
Financial assets measured at amortised cost:	28 520	1 366	1 725	5 461	47 385	513	**84 970**
Loans and receivables	*1 259*	*1 366*	*1 725*	*5 461*	*35 594*	*513*	***45 918***
Debt securities	*27 261*	-	-	-	*11 791*	-	***39 052***
Property, plant and equipment	-	-	-	-	6 480	-	**6 480**
Intangible assets	-	-	-	-	333	-	**333**
Other financial assets	2	-	-	1	2 610	3 469	**6 082**
Other non-financial assets	-	-	-	-	1 112	-	**1 112**
Total assets	**131 360**	**1 366**	**1 725**	**5 462**	**59 155**	**3 982**	**203 050**
Liabilities							
Liabilities at fair value through profit or loss	12	-	-	-	-	-	12
Liabilities at amortised cost	113 593	3 748	4 318	10 159	14 397	-	**146 215**
Deposits from customers	*113 593*	*3 748*	*4 318*	*10 159*	*14 397*	-	***146 215***
Other financial liabilities	14 305	1 652	2 190	-	-	-	18 147
Other non-financial liabilities	625	-	-	-	8	-	**633**
Total liabilities	**128 535**	**5 400**	**6 508**	**10 159**	**14 405**	**-**	**165 007**
Off-balance sheet items	**1 880**	**-**	**-**	**-**	**-**	**-**	**1 880**
Net liquidity position	**945**	**(4 034)**	**(4 783)**	**(4 697)**	**44 750**	**3 982**	**36 163**

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**
Derivative	*199*	-	-	-	-	-	***199***
Shares	-	-	-	-	*1 125*	-	***1 125***
Financial assets measured at fair value through other comprehensive income:	57 805	-	-	-	-	-	**57 805**
Debt securities	*57 805*	-	-	-	-	-	***57 805***
Financial assets measured at amortised cost:	34 463	977	4 795	6 582	43 451	1 055	**91 323**
Loans and receivables	*505*	*647*	*4 640*	*6 324*	*34 245*	*1 055*	***47 416***
Debt securities	*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 fair value through profit or loss	-	-	-	-	-	-	-
Liabilities at amortised cost	149 134	2 962	5 125	8 330	17 520	-	**183 071**
Deposits from customers	*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**

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
31.12.2021.						
Deposits from customers	5 095	3 530	4 296	11 637	11 712	**36 270**
Total:	5 095	3 530	4 296	11 637	11 717	**36 270**
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**

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

31.12.2021.

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Total
Financial instruments settled on a gross basis						
Foreign currency swaps						
Outgoing cash flow	3 500	-	-	-	-	**3 500**
Incoming cash flow	3 516	-	-	-	-	**3 516**

31.12.2020.

	Less than 1 month inclusive	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Total
Financial instruments settled on a gross basis						
Foreign currency swaps						
Outgoing cash flow	9 164	-	-	-	-	**9 164**
Incoming cash flow	9 335	-	-	-	-	**9 335**

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 2021 and 2020. Accordingly, the risk transaction value for 2021 and 2020 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	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Assets	**3 479**	**3 561**	**x**	**x**	**221 796**	**191 835**	**x**	**x**
Equity securities	-	-	x	x	1 248	2 096	x	x
Debt securities	-	-	-	-	104 679	90 013	103 317	90 991
Incl.: covered bonds	-	-	-	-	*1 515*	*1 515*	*1 491*	*1 516*
Incl.: securitization	-	-	-	-	-	-	-	-
Incl.: issued by general governments	-	-	-	-	*28 743*	*31 208*	*29 133*	*32 377*
Incl.: issued by financial companies	-	-	-	-	*39 907*	*27 368*	*39 630*	*27 144*
Incl.: issued by non-financial companies	-	-	-	-	*34 514*	*29 922*	*33 063*	*29 954*
Other assets	3 479	3 561	x	x	115 869	99 726	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	
	2021	2020	2021	2020
Collateral received	-	-	129 859	134 949
Loans on request	-	-	-	-
Equity securities	-	-	-	-
Debt securities	-	-	-	-
Incl.: covered bonds	-	-	-	-
Incl.: securitization	-	-	-	-
Incl.: issued by general governments	-	-	-	-
Incl.: issued by financial companies	-	-	-	-
Incl.: issued by non-financial companies	-	-	-	-
Loans and advances other than loans on request	-	-	-	-
Other collateral received	-	-	129 859	134 949
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	3 479	3 561	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	
	2021	2020	2021	2020
Accounting value of selected financial liabilities	-	-	3 479	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 2021, it was 2% (31 December 2020 – 2%).

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 and commodity risk.

The Bank does not form a trading portfolio and its exposure to commodity risk, 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 2021 increased to 27% of the total assets (31 December 2020 - 24%), 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.

The Bank has approved the following internal limits of open foreign currency positions:

- Each currency – 5 per cent of the Bank’s Tier 1 capital.
- All currencies – 10 per cent of the Bank’s Tier 1 capital.

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 2021 was 4.00% (long position) (31 December 2020 – 5.68% (long position)) of amount the Bank's Tier 1 capital.

000’EUR

31.12.2021.

	EUR	USD	Other currencies	Total
Assets				
Cash and balances with the Bank of Latvia	36 362	250	4	**36 616**
Due to financial institutions	474	412	9 464	**10 350**
Financial assets measured at fair value through profit or loss:	34	1 235	-	**1 269**
Derivative	*34*	-	-	***34***
Shares	-	*1 235*	-	***1 235***
Financial assets measured at fair value through other comprehensive income:	42 954	3 040	9 844	**55 838**
Debt securities	*42 954*	*3 040*	*9 844*	***55 838***
Financial assets measured at amortised cost:	84 947	17	6	**84 970**
Loans and receivables	*45 895*	*17*	*6*	***45 918***
Debt securities	*39 052*	-	-	***39 052***
Property, plant and equipment	6 480	-	-	**6 480**
Intangible assets	333	-	-	**333**
Other financial assets	4 885	140	1 057	**6 082**
Other non-financial assets	1 112	-	-	**1 112**
Total assets	**177 581**	**5 094**	**20 375**	**203 050**
Liabilities and equity				
Liabilities at fair value through profit or loss	12	-	-	**12**
Liabilities at amortised cost	124 352	5 356	16 507	**146 216**
Deposits from customers	*124 352*	*5 356*	*16 507*	***146 216***
Other financial liabilities	15 126	1 128	1 893	**18 147**
Other non-financial liabilities	633	-	-	**633**
Total liabilities	**140 123**	**6 484**	**18 400**	**165 007**
Equity	38 063	(35)	(86)	**37 942**
Total liabilities and equity	**178 186**	**6 449**	**18 314**	**202 949**
Net long / (short) position	**(605)**	**(1 355)**	**2 061**	**101**
Net off-balance sheet currency swap agreement long/ (short) position	**(527)**	**2 017**	**(1 466)**	**24**
Net open long/ (short) currency position	**(1 132)**	**662**	**595**	**125**
Percentage of the Bank's Tier 1 capital as at 31.12.2021.		**2.02**	**1.82**	

31.12.2020.

	EUR	USD	Other currencies	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**
Derivative	*199*	-	-	***199***
Shares	-	1 125	-	***1 125***
Financial assets measured at fair value through other comprehensive income:	26 274	5 791	25 740	**57 805**
Debt securities	*26 274*	5 791	25 740	***57 805***
Financial assets measured at amortised cost:	91 289	32	2	**91 323**
Loans and receivables	*47 382*	32	2	***47 416***
Debt securities	*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 fair value through profit or loss	-	-	-	**-**
Liabilities at amortised cost	144 388	7 627	31 056	**183 071**
Deposits from customers	*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 Tier 1 capital as at 31.12.2020.		**4.23**	**1.28**	

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 settlement / delivery risk and free deliveries of risk capital requirement calculates only for the period if the risk registered in the Bank's information system meets the definition of the risk characteristics of the relevant event or events. At the end of reporting period, the respective events are not recorded, as a result of which it would be necessary to maintain the capital requirement for settlement/ delivery risk.

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:

- Reprising 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 gap analysis and the duration analysis and using simulation models.

Simulation approaches demonstrate potential changes in the Bank's economic value. The changes in economic value are assessed by interest rate changes at +/- 200 basis points, as well as sudden and unexpected changes in interest rates in any of the six stress scenarios, set out in European Banking Authority Guideline EBA/GL/2018/02 of 19 July 2018 "Guidelines on the management of interest rate risk arising from non-trading book activities".

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	
	31.12.2021.	31.12.2020.
EUR	2 147	4 190
RUB	(70)	448
Other currencies	132	383
Weighted interest rate risk in the banking book (total)	**2 209**	**5 021**
The Bank`s own funds	32 718	32 002
Absolute weighted interest rate risk in the banking book position to the Bank's own funds, %	**6.75**	**15.69**

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

31.12.2021.

		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	23 217	19	(243)	-	(3 106)	(2)
1-3 months	0.32	(2 257)	(7)	3 739	12	1	-
3-6 months	0.72	11 162	80	1 329	10	(6)	-
6-12 months	1.43	(18 439)	(264)	(1 989)	(27)	-	-
1 – 2 years	2.77	(14 920)	(413)	(733)	(20)	1 316	36
2 - 3 years	4.49	9 892	444	(575)	(26)	-	-
3 - 4 years	6.14	4 810	295	(29)	(2)	1 707	105
4 - 5 years	7.71	15 019	1 158	(212)	(16)	(84)	(6)
5 - 7 years	10.15	5 621	571	-	-	-	-
7 - 10 years	13.26	1 994	264	-	-	-	-
Total weighted interest rate risk position			**2 147**		**(69)**		**133**

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**

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:

31.12.2021.

	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	35 211	-	-	-	-	1 405	**36 616**
Due from credit institutions	10 350	-	-	-	-	-	**10 350**
Financial assets measured at fair value through profit or loss:	34	-	-	-	-	1 235	**1 269**
Derivative	*34*	-	-	-	-	-	***34***
Shares	-	-	-	-	-	*1 235*	***1 235***
Financial assets measured at fair value through other comprehensive income:	2 453	11 128	3 583	26	38 648	-	**55 838**
Debt securities	*2 453*	*11 128*	*3 583*	*26*	*38 648*	-	***55 838***
Financial assets measured at amortised cost:	11 375	7 485	26 370	259	38 925	556	**84 970**
Loans and receivables	*11 351*	*7 429*	*26 301*	*188*	*93*	*556*	***45 918***
Debt securities	*24*	*56*	*69*	*71*	*38 832*	-	***39 052***
Property, plant and equipment	-	-	-	-	-	6 480	**6 480**
Intangible assets	-	-	-	-	-	333	**333**
Other financial assets	-	-	-	-	-	6 082	**6 082**
Other non-financial assets	-	-	-	-	-	1 112	**1 112**
Total assets	**59 423**	**18 613**	**29 953**	**285**	**77 573**	**17 203**	**203 050**
Long off-balance items that are sensitive to interest rate	**3 517**	**-**	**-**	**-**	**-**	**-**	**3 517**
Liabilities and equity							
Liabilities at fair value through profit or loss	12	-	-	-	-	-	**12**
Liabilities at amortised cost	113 594	3 748	4 318	10 158	14 397	-	**146 215**
Deposits from customers	*113 594*	*3 748*	*4 318*	*10 158*	*14 397*	-	***146 215***
Other financial liabilities	461	-	-	-	-	17 686	**18 147**
Other non-financial liabilities	46	-	8	-	-	579	**633**
Equity	-	**-**	**-**	**-**	-	37 942	**37 942**
Total liabilities and equity	**114 113**	**3 748**	**4 326**	**10 158**	**14 397**	**56 207**	**202 949**

Short off-balance sheet items that are sensitive to changes in interest rates	**4 668**	**43**	**698**	**1**	**9**		**5 419**
Net interest rate risk position (gap)	**(55 841)**	**14 822**	**24 929**	**(9 874)**	**63 167**		**37 203**
Effect on profit or loss	**19 867**	**21 350**	**33 835**	**13 498**			**88 550**
Effect on Bank`s own funds	**-**	**(159)**	**(177)**	**-**	**(1 638)**		**(1 974)**

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**
Derivative	*199*	-	-	-	-	-	***199***
Shares	-	-	-	-	-	*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**
Debt securities	*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**
Loans and receivables	*6 547*	*11 081*	*26 324*	*210*	*64*	*3 190*	***47 416***
Debt securities	*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 fair value through profit or loss	-	-	-	-	-	-	**-**
Liabilities at amortised cost	148 997	2 911	5 058	8 252	17 332	521	**183 071**
Deposits from customers	*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)**

Before engaging in any transactions with financial instruments (except for derivatives), the Risk Control 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 incomplete or non-compliant 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 reduction of own funds) due to different people mistakes, the system error, including, information systems, errors or interruptions of operations, lack of legal documentation of transactions, non-observance of clients' interests, internal and external fraud, damage to tangible assets. Information technology risks and legal risks are evaluated within the framework of operational risk.

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.

If the risk event losses exceed 500.00 EUR (in case of e-commerce – 1'000.00 EUR) or frequency of one type of incidents is greater than 5 cases per week, the Bank's Risk director and Board member responsible of Risk Control Department is immediately informed about such cases.

If the total amount of operational risk losses per year, as recorded in the Operational risk event and loss database, exceeds 1.5% 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: 6.829 (2020: 1: 6,861). 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 2021 and 2020 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.

	31.12.2021.			31.12.2020.		
	Carrying amount	Fair value	Diffe-rence	Carrying amount	Fair value	Diffe-rence
Financial assets						
Financial assets at amortised cost						
Cash and balances with the Bank of Latvia	36 616	36 616	-	50 457	50 457	-
Due from credit institutions	10 350	10 350	-	19 437	19 437	-
Debt securities	39 052	40 209	(1 157)	43 907	45 265	(1 358)
Loans and receivables	45 918	45 711	207	47 416	46 318	1 098
Other financial assets	6 082	6 082	-	10 171	10 171	-
Financial assets measured at fair value through other comprehensive income						
Debt securities	55 838	55 838	-	57 805	57 805	-
Financial assets measured at fair value through profit or loss						
Shares	1 235	1 235	-	1 125	1 125	-
Derivatives	34	34	-	199	199	-
Financial liabilities						
Financial liabilities at amortised cost						
Deposits from customers	146 215	146 812	(597)	183 071	183 054	17
Other financial liabilities	18 147	18 147	-	20 728	20 728	-
Financial assets measured at fair value through profit or loss						
Derivatives	12	12	-			
Total difference			**(1 547)**			**(243)**

000’EUR

31.12.2021.

	Carrying amount	Fair value			
		Level 1 input	Level 2 input	Level 3 input	Total
Financial assets					
Financial assets at amortised cost					
Due from credit institutions	10 350	-	-	10 350	10 350
Debt securities	39 052	40 209	-	-	40 209
Loans and receivables	45 918	-	-	45 711	45 711
Other financial assets	6 082	-	-	6 082	6 082
Financial assets measured at fair value through other comprehensive income					
Debt securities	55 838	55 838	-	-	55 838
Financial assets measured at fair value through profit or loss					
Shares	1 235	-	-	1 235	1 235
Derivatives	34	34	-	-	34
Financial liabilities					
Financial liabilities at amortised cost					
Deposits from customers	146 215	-	-	146 812	146 812
Other financial liabilities	18 147	-	-	18 147	18 147
Financial assets measured at fair value through profit or loss					
Derivatives	12	12	-	-	12

31.12.2020.

	Carrying amount	Fair value			
		Level 1 input	Level 2 input	Level 3 input	Total
Financial assets					
Financial assets at amortised cost					
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
Financial assets measured at fair value through other comprehensive income					
Debt securities	57 805	57 805	-	-	57 805
Financial assets measured at fair value through profit or loss					
Shares	1 125	-	-	1 125	1 125
Derivatives	199	199	-	-	199
Financial liabilities					
Financial liabilities at amortised cost					
Deposits from customers	183 071	-	-	183 054	183 054
Other financial liabilities	20 728	-	-	20 728	20 728

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 31.12.2019.	**2 209**
Net revaluation result	1 140
Net trading gain	(2 224)
Balance as at 31.12.2020.	**1 125**
Net revaluation result	110
Balance as at 31.12.2021.	**1 235**

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 2021 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 amending Regulation (EU) No. 648/2012, the Bank applies:

- A standardized approach for credit risk, counterparty credit risk (except in the case of derivatives), market risk, credit value adjustment (*CVA*) risk and settlement/delivery risk;
- Initial risk exposure 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 amending Regulation (EU) No. 648/2012 The Bank uses ECAIs for all exposure classes for which ECAIs have been assigned.

The Bank shall apply Regulation (EU) No 182/2011 of the European Parliament and of the Council. Amending Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions 648/2012, the definition of equity and the procedure for calculating the amount of equity, which in accordance with the instruments at the disposal of the Bank is included in the procedure for calculation of the Bank's equity and equity requirements. The capital used in the calculation consists of the basic level elements of equity, which include paid-in share capital, reserve capital, retained earnings, including profit for the year, which is not intended to pay dividends, excluding the revaluation reserve and intangible asses, current year losses, value adjustments due to prudential requirements and the amount of under coverage for non-performing exposures.

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

		31.12.2021.	**31.12.2020.**
1.	**Own funds** *(1.1.+1.2.)*	**32 718**	**32 002**
1.1.	TIER 1 capital *(1.1.1.+1.1.2.)*	32 718	32 002
1.1.1.	*Common equity TIER 1 capital (1.1.1.1. +1.1.1.2. +1.1.1.3. +1.1.1.4. +1.1.1.5. +1.1.1.6. +1.1.1.7.)*	32 718	32 002
1.1.1.1.	*Capital instruments eligible as CET1 Capital*	13 000	13 000
1.1.1.2.	*Retained earnings*	20 439*	19 397
1.1.1.3.	*Accumulated other comprehensive income*	-	-
1.1.1.4.	*Adjustments to CET1 due to prudential filters*	(57)	(59)
1.1.1.5.	*(-) Other intangible assets*	(333)	(336)
1.1.1.6.	*(-) Insufficient coverage for non-performing exposures*	-	-
1.1.1.7.	*(-) Additional deductions of CET1 Capital due to Article 3 CRR*	(330)	-
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.)*	**136 091**	**129 878**
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.)*	106 839	101 735
2.1.1.	*Central governments and central banks*	829	*515*
2.1.2.	*Institutions*	4 881	*7 470*
2.1.3.	*Corporates*	53 509	*45 919*
2.1.4.	*Secured by mortgages on immovable property*	19 272	*22 334*
2.1.5.	*Other assets*	28 348	*25 497*
2.2.	Total risk exposure amount for settlement/delivery	-	-
2.3.	Total risk exposure amount for position, foreign exchange and commodities risks	1 313	1 816
2.4.	Total risk exposure amount for operational risk	27 933	26 320
2.5.	Total risk exposure amount for credit valuation adjustment	6	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)*	24.04%	24.64%
3.2.	Surplus (+)/deficit (-) of CET 1 capital *(1.1.1.-2.*4.5%)*	26 594	26 157
3.3.	TIER 1 capital ratio *(1.1./2.*100)*	24.04%	24.64%
3.4.	Surplus (+)/deficit (-) of TIER 1 capital *(1.1.-2.*6%)*	24 553	24 209
3.5.	**Total capital ratio** *(1./2.*100)*	**24.04%**	**24.64%**
3.6.	Surplus (+)/deficit (-) of total capital *(1.-2.*8%)*	21 831	21 612

4.	**The total capital reserve requirement** *(4.1.+4.2.+4.3.+4.4.+4.5.)*	**3 429**	**3 269**
4.1.	Capital conservation buffer (%)	**3 402**	3 247
4.2.	Specific countercyclical capital reserve for institution (%)	-	-
4.3.	Institution specific countercyclical capital buffer (%)	27	22
4.4.	Systemic risk buffer (%)	-	-
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	24.04%	24.64%
5.3.	TIER 1 capital ratio, taking into account 5.1. row of the correction amount	24.04%	24.64%
5.4.	**The total capital ratio, taking into account 5.1. row of the correction amount**	**24.04%**	**24.64%**

** position reduced by the planned amount of dividend payment.*

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.

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 2021 – 2023 the amount of capital should be maintained in accordance with the scenario that gives the highest result;
- **Market risks**:
  - Foreign exchange risk; the Bank has estimated that to cover foreign exchange risk in 2021 – 2023, the amount of capital should be maintained in accordance with the scenario that gives the highest result (0.68% of the Bank's own funds);
  - Settlement risk; the capital needed to cover the settlement risk assessed according to the approach described by the Regulation (EU) No 575/2013 of the European Parliament and of the Council as of 31.12.2020 was 0 euro, and the Bank assesses that there is no need to maintain capital to cover this risk;
  - Position risk; the Bank on a monthly basis evaluates 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. Considering that the Bank does not plan to significantly increase the portfolio of financial instruments at fair value through other comprehensive income in the next three years, without major changes to the term structure and quality of portfolio and assuming that new investments (replacing

those that were sold or matured) 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.

- **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 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 has estimated that in order to cover interest rate risk in the banking book in 2021 – 2023, the amount of capital should be maintained in accordance with the scenario that gives the highest result (13.34% of the Bank's 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 summing all the individual results of the calculations. During the individual analysis, the Bank evaluates the entire loan portfolio exposure concentration, as well as financial instruments hold at amortized cost portfolio, FVTOCI financial instruments portfolio and exposures of monetary 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 0.30% 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 2.00% 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;
✓ IT 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 Bank's eligible capital also exceeds the adequate capital to cover all significant risks defined during the capital adequacy assessment process, as well as the Bank capital target set in 2021 as of 16%.

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

NOTE 27 EVENTS AFTER REPORTING DATE

In January 2022, the Bank has used previous years retained earnings to pay EUR 4.446 million dividends.

Recent events in Ukraine and sanctions imposed on Russia and Belarus

The Bank is monitoring events about war in Ukraine and is complying with the requirements for sanctions against Russia and Belarus. At the end of 2021, the Bank had no risk exposure to Ukraine and Belarus. Risk exposure to Russia has historically consisted only of receivables from credit institutions, which at the time of signing these financial statements are not significant. It is prematurely to make any conclusions about the impact of the Russian invasion of Ukraine on the economy, so the Bank's management continues to follow the changing and unpredictable situation, minimizing the potential negative impact on the Bank's business activities.

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.

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Independent Auditor's Report

To "LPB Bank" AS shareholders

Translation from Latvian

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of LPB Bank AS (the Bank) for the year ended 31 December 2021, set out on pages 9 to 80 of the accompanying annual report, which comprise: the statement of comprehensive income for the year ended 31 December 2021, the statement of financial position as at 31 December 2021, 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 2021.

In our opinion, the accompanying financial statements give a true and fair view of the "LPB Bank" AS financial position as of December 31, 2021 and of it's operating results and cash flows for the year ended 31 December 2021, 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 1 of the financial statements, which describes that in 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	
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. The main areas of consideration are: • 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.	Our audit procedures included but were not limited to: • 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	
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 2021 the FCMC performed audit of Money Laundering and Terrorism Financing and Sanctions risk management in the Bank whose results are not yet known.	Our audit procedures included but were not limited to: • 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

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.	requirements for anti-money laundering and terrorism and proliferation financing. • 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.

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 16 June 2021 we were appointed to carry out the audit of the financial statements of AS "LPB Bank" for the year ended on 31 December 2021. The total continuous uninterrupted period of engagement is 4 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,
17 March 2022

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