



INDUSTRA

ANNUAL  
REPORT  
2020



**CONTENT**

	<b>page</b>
<b>MANAGEMENT REPORT</b>	<b>3-6</b>
<b>INFORMATION ON THE BANK'S MANAGEMENT</b>	<b>7</b>
<b>STATEMENT OF RESPONSIBILITY OF THE BANK'S MANAGEMENT</b>	<b>8</b>
<b>BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS:</b>	
<b>BANK'S SEPARATE AND GROUP'S CONSOLIDATED STATEMENTS OF FINANCIAL POSITION</b>	<b>9</b>
<b>BANK'S SEPARATE AND GROUP'S CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b>	<b>10</b>
<b>BANK'S SEPARATE AND GROUP'S CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY</b>	<b>11</b>
<b>BANK'S SEPARATE AND GROUP'S CONSOLIDATED STATEMENTS OF CASH FLOWS</b>	<b>12</b>
<b>NOTES TO THE BANK'S SEPARATE AND GROUP'S CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>13-84</b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>85-92</b>



## Management report

2020 has been the year of rebirth for the bank. The composition of its shareholders has been restored and the capital of the bank has been substantially increased, both by direct contributions and by finding reserves within the bank. Industra continued to strengthen its team with new, highly professional employees, new products have been developed and introduced, and lending which was *frozen* for several years has been restored. The new *re-born* bank also got a new name – Industra Bank.

### *Shareholders and Capital of Industra*

Despite the tense and uncertain economic situation of 2020, Industra continued to go down the path of change in order to restore its profitability and at the same time contribute to the growth of financial sector and economy of Latvia.

In 2020, Industra strengthened its first-tier capital by attracting new investments of EUR 9 million. The contributions to the capital of Industra were secured by two investors – J.A. Investment Holding, owner Jurijs Adamovičs, who secured 55.5 per cent of the investment of nine million euro, and HPI 2, owners Ralfs Kļaviņš and Andis Kļaviņš, paying 44.5 per cent of the investment. As a result, the share capital of the bank increased to EUR 25,599 thousand. Currently, largest shareholders of Industra are J.A. Investment Holdings – 34.6% and HPI 2 – 28.3% of the capital of the bank.

The operational strategy of the Bank also foresees a gradual continuation of capital growth in the future, creating a sufficient capital base so that, by introducing new products and technologies, Industra becomes the first bank of choice in the small and medium-sized enterprise segment of Latvia.

### *Corporate governance of Industra*

Continuing the strengthening of Industra's corporate governance, the shareholder meeting of 3 April 2020 amended the statutes of the bank, increasing the number of members of the Management Board from three to four. In addition to the former Chairman of the Council, Jurijs Adamovičs and the Council member Ivars Grunte, the deputy Chairman of the Council Guntars Reidzāns and the Council member Andis Kļaviņš began their work on the Council.

On 6 April 2020, Raivis Kakānis became the Chairman of the Board of Industra. For more than 12 years before this appointment he was the Head of the Latvian branch of *Danske Bank*, and previously worked as Chairman of the Board of *Sampo Banka* in Latvia. Solvita Deglava, former Chairperson of the Board of Industra, left the post on 4 April 2020.

On 22 May 2020, Uģis Vorons became deputy Chairman of the Board of Industra, while the former member of the Board, Jekaterina Meinharde, finished her duties on the Board. On 12 June, 2020, Artūrs Veics joined the Board of the bank. As Ruta Amtmane continues to work on the Board, the Management Board of Industra covers key areas such as finance, change management, risk management, business development, operational compliance, as well as AML and Sanctions risk management and legal issues.

### *Changing the brand of the bank*

Reflecting the change in the strategy of the bank and the focus on cooperation with Latvian small and medium-sized entrepreneurs, in early 2020 the bank changed its previous brand, Meridian Trade Bank, to Industra Bank or Industra. Industra is a bank for real-economy entrepreneurs – producers, service providers, people exercising their business ideas. Industra name embodies the ambition of supporting local businesses with a genuine partnership, which creates new value with its energy and ambition.

During the reporting period, the bank initiated a change in the visual identity of its branches and customer service centres according to the new brand.

### *Industra lending*

Taking into account the selected business niche the priority product for Industra is lending. In the second half of 2020, after a several years long pause, Industra resumed its lending operations, thereby implementing one of the cornerstones of the bank's new strategy, which foresees gradual growth of the loan portfolio that will lead to an increase in the share of interest earnings in total income of the bank. In the second half of the year, Industra has provided more than EUR 10 million for local entrepreneurs, as well as granted loans to individuals for the purchase of real estate owned by the bank's



## Management report (continued)

subsidiary. Industra continues to develop sustainable and competitive lending services for Latvian small and medium-sized enterprises from different sectors of the economy with understandable, cost-effective business and financial models, as well as for individuals for purchase of real estate owned by the bank and its subsidiary companies.

### *E-commerce*

One of the major developments of Industra in 2020 was expansion of a secure electronic payment card service for its clients. The risks and constraints of Covid-19 have dramatically changed shopping habits of the people, replacing visits to physical shops with Internet shopping. In line with the growing user experience of e-buyers in all areas of e-commerce, the growth forecasts of companies that work on the Internet is becoming more and more positive. During the reporting period, Industra has launched technical capacity-building activities that will enable e-traders to take advantage of card payment methods and the payment infrastructure of the bank by selling goods and services online.

### *Sustainability*

As for our clients, sustainable development of Latvia and the planet as a whole is important for the bank. Day by day, we see sustainability as financing environmentally friendly companies and projects, giving priority to the use of energy-efficient buildings, technologies and renewable energy, as well as the development of efficient waste and water supplies. This means cooperation with socially responsible companies whose economic and social activities contribute to the development of Latvia. From our customers we expect good reputation and discipline taxation and law enforcement matters. We support technology that reduces the use of natural resources for both the bank and its customers.

In order to increase awareness of the environmental, social and corporate governance (ESG) issues, in 2021 we plan to introduce guidelines for the inclusion of ESG and sustainability considerations in customer service, financing and other bank activities.

### *Recovery of non-performing loans*

In 2020, Industra continued its activities to reduce the proportion of non-performing loans (NPL) in the credit portfolio of the bank. Given the low quality of its historical credit portfolio, Industra has established and approved a recovery strategy for all major non-performing loans. During 2020, the bank has reduced the gross balance of its NPL portfolio by EUR 24 million from EUR 55 to EUR 31 million. Recovered funds from NPL's portfolio amounted to EUR 7.7 million and the bank continues its work to recover all *bad* loans on its balance sheet.

### *Results of the operations*

The substantial work done in 2020 in the areas of corporate governance and business processes allowed the bank to significantly reduce its operational losses, not counting one-off positions. Losses in the accounting period are due to the bank's previously failed business model, which resulted in a low-quality credit portfolio, capital inadequacy and inability to issue new loans over several years, thereby significantly reducing net interest income, which is a cornerstone of any bank profits. As the number of non-resident customers continued to fall so did commission income from non-resident clients. Due to lower interest and commission income, as well as the need to create loan loss impairment provisions due to historically issued loans of poor quality, bank and group losses in 2020 amounted to EUR 3,812 thousand and EUR 3,605 thousand, respectively.

In 2019 and 2020, Industra made loan loss provisions for a series of problematic and non-performing loans issued until 2018 during the time of previous management of the bank. They were issued not in compliance with general market conditions, many were transactions with related parties, many with insufficient credit collateral, loan repayment and servicing conditions that were not in line with the bank's interests, and other irregularities. In total, during the last three years, bank made loan loss impairment provisions for its NPL in the amount of EUR 13 million. Work-out of its non-performing loan portfolio is one of the priorities of the bank's management.

By restarting lending activities and further optimisation of its operating model, Industra gradually but steadily continued to improve its monthly operational financial results in 2020.



**Management report (continued)***Capital increase due to Mastercard shares*

In 2020 the bank converted all its 16,400 Mastercard Inc. Class B shares to Class A shares and sold them on the stock exchange. As a result of this transaction, the bank's tier one capital increased by EUR 4.5 million. Although this transaction affected the profit and loss account for 2020 by only EUR 524 thousand, attributing the rest to the profit of previous periods, it increased the tier-one capital for the reporting year by the whole EUR 4.5 million.

*Risk reduction*

During the reporting period, Industra carried out a series of risk mitigation measures aimed at ensuring compliance with international and Republic of Latvia's legislative requirements in the field of money laundering, prevention of terrorism and proliferation financing, and compliance with national and international sanctions. Furthermore, Industra has significantly improved the bank's corporate governance, and continues to consistently forgo clients whose risk levels exceed the bank's risk appetite. As a result of the activities carried out, Industra has significantly reduced the risk of involvement in the alleged laundering of funds derived from a criminal offence or may be used to finance terrorism or proliferation.

Two external inspections were carried out at the bank in 2020: an onsite full coverage review in the field of AML and sanctions risk by the FCMC, as well as reviews in three fields by an independent sworn auditor company SIA Deloitte Latvia. Those have been carried out in accordance with the requirements of the current regulatory framework for internal control system audit in the field of AML, internal control system audit in the field of Sanction risk as well as the review of IT system effectiveness and compliance in the field of AML.

The purpose of the FCMC inspection was to assess the appropriateness and effectiveness of the internal control system of the bank, as well as to verify compliance with internal and external regulatory requirements in the bank. In its decision on the results of the examination, the FCMC has stated that it welcomes the purposeful actions of Industra in addressing the previously identified shortcomings, as well as concludes that the deficiencies identified in the examination are not systemic and the required individual improvements are not significant.

Independent evaluations carried out by Deloitte Latvia did not identify high-risk issues. Some non-systemic mid- and low-risk issues were identified, as well as several recommendations regarding the implementation of best practices in the internal control system for AML and Sanctions risk management were made.

In line with the plan approved by the bank, the deficiencies identified during the inspections will be rectified during 2021.

*Administrative costs*

In 2020, Industra focused on optimising administrative costs by reducing or increasing them when necessary. Overall, the administrative costs, excluding remuneration, have been reduced by 18 per cent during the reporting period compared to the previous year. Overall payroll related costs slightly increased, mainly due to the high turnover of employees and compensation for layoffs.

In order to reduce administrative costs, the operational structure of the bank has been optimised and efficiency measures have been taken, including the reduction in the overall number of employees and the recruitment of new, highly professional employees. Work is ongoing on the improvement and transformation of the bank's processes, thereby leading to more efficient operations with a smaller number of employees.

Administrative costs were also reduced by closing the unprofitable customer service centres of the bank and its branch in Lithuania. After a thorough assessment, the non-profitable customer service centres *Saulkrasti* and *Tallinn* in Latvia were also closed in 2020. As a result of the actions taken, the bank's staff count decreased by 30 employees by the end of the year.

## Management report (continued)

## Future forecasts

In 2021, the main focus of Industra's development strategy is on attracting and servicing small and medium-sized enterprises in Latvia, as well as meeting the needs for bank services of their employees, managers and owners.

In order to implement the ambitious development plans of Industra, the bank will introduce new internet banking, mobile banking and several customer relationship management system (CMR) modules in 2021. The implementation of these projects will help the bank to improve its product basket, attracting new customers, improving internal processes and reducing operational risks.

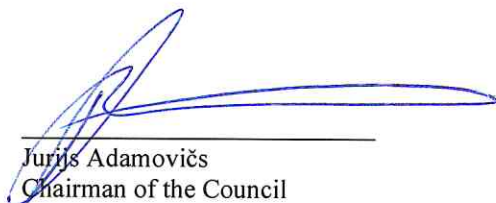
Furthermore in 2021 Industra will continue to work in the following directions:

- maintenance of capital adequacy ratios above the specified level with the planned capital raising measures and the recovery of profitability;
- issuance of new loans in order to increase interest income, which is one of the cornerstones of restoring the profitability of the bank;
- reducing the balance of non-performing loans and investment properties, which will allow them to be replaced by new loans;
- reducing administrative costs by an average of 10 per cent against 2020, boosting productivity and helping the bank to improve profitability;
- regular assessment and optimisation of the profitability of the branch network;
- an increase in e-commerce revenues due to improvements in process and risk management;
- reducing risks by targeting further lowering overall risk levels and improving the assessment of the overall risks received as a result of the supervisory review and evaluation process of credit institutions.


In 2020, Industra has largely arranged its operations in areas of capital, products and employees. The bank's total asset size has become smaller and its composition – *simpler*. The amount of non-performing assets as well as the number of employees has been reduced, the loss-making branches have been closed. The Bank has become more efficient, mobile and focused to make a breakthrough in 2021, significantly growing its credit portfolio and restoring its profitability.

On behalf of the Council and the Board of the Bank:

Best regards,



Juris Adamovičs  
Chairman of the Council



Raitis Kakāns  
Chairman of the Board

31 March 2021



## INFORMATION ON THE BANK'S MANAGEMENT

**Council members as of the date of signing these financial statements**

<b>Name, surname</b>	<b>Position</b>	<b>Date of appointment</b>
Jurijs Adamovičs	Chairman of the Council	28 December 2018
Guntars Reidzāns	Deputy Chairman of the Council	04 April 2020
Ivars Grunte	Member of the Council	10 December 2018
Andis Kļaviņš	Member of the Council	04 April 2020

In 2019 Goča Tutberidze resigned from the Council.

**Board members as of the date of signing these financial statements**

<b>Name, surname</b>	<b>Position</b>	<b>Date of appointment</b>
Raivis Kakānis	Chairman of the Board	06 April 2020
Uģis Vorons	Depury Chairman of the Board	22 May 2020
Ruta Amtmane	Member of the Board	21 February 2019
Artūrs Veics	Member of the Board	12 June 2020

In 2019 Dmitrijs Kozlovs and Ilze Pudiste resigned from the Board.

On 4 April 2020 Solvita Deglava left the position of Chairperson of the Board.

On 22 May 2020 Jekaterina Meinharde resigned from the Board.

**STATEMENT OF RESPONSIBILITY OF THE BANK'S MANAGEMENT**


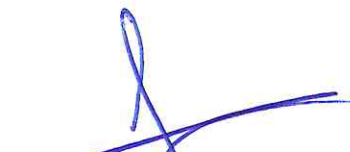
The management of AS Industra Bank is responsible for the preparation of the Bank's separate financial statements and the consolidated financial statements of the Bank and its subsidiary AS MTB Finance (hereinafter – the Group).

The financial statements presented on pages 9 to 84 are prepared based on source documents and present fairly the financial position of the Group and the Bank as at 31 December 2020 and the results of their operations, and cash flows for the year then ended.

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

The management of the Bank is responsible for the maintenance of a proper accounting system, safeguarding the Group's and the Bank's assets, and the detection and prevention of fraud and other irregularities in the Group and the Bank. Management is also responsible for operating the Group and the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Market Commission and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Council and the Board of the Bank:

  
\_\_\_\_\_  
Jurijs Adamovičs  
Chairman of the Council  
\_\_\_\_\_  
Raivis Kakāns  
Chairman of the Board

31 March 2021

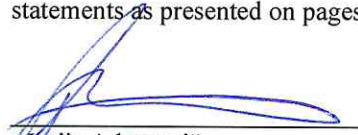


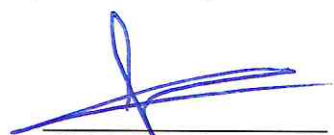
**Bank's separate and Group's consolidated statements of financial position**

EUR'000	Note	2020 Group	2020 Bank	2019 Group (adjusted)	2019 Bank (adjusted)	2018 Group (adjusted)	2018 Bank (adjusted)
<b>ASSETS</b>							
Cash and balances due from the Bank of Latvia	6	75,629	75,629	79,015	79,015	86,559	86,559
Demand deposits with credit institutions	7	532	532	2,369	2,369	7,067	7,067
Financial assets at fair value through profit or loss	8	469	469	890	890	344	344
Financial assets at fair value through other comprehensive income	8	1,016	1,016	3,915	3,915	2,424	2,424
Financial assets at amortised cost:							
<i>Debt securities</i>	8, 9	1,570	1,570	8,087	8,087	4,000	4,000
<i>Loans and receivables</i>	10	41,837	62,259	46,058	65,968	61,467	79,300
Intangible assets		2	2	-	-	9	9
Property and equipment and right-of-use assets	11	857	855	1,290	1,286	764	758
Investment properties	12	19,246	920	16,599	53	15,807	-
Other assets	13	6,154	3,767	8,402	5,588	6,717	4,811
<b>Total assets</b>		<b>147,312</b>	<b>147,019</b>	<b>166,625</b>	<b>167,171</b>	<b>185,158</b>	<b>185,272</b>
<b>LIABILITIES AND EQUITY</b>							
Financial liabilities at amortised cost:	14	131,274	131,314	156,376	156,376	171,952	171,956
<i>Deposits</i>		126,638	126,678	154,327	154,327	168,554	168,558
<i>Subordinated liabilities</i>	15	4,636	4,636	2,049	2,049	3,398	3,398
Other liabilities	16	3,378	2,558	3,008	2,860	2,697	2,481
Provisions		2	2	-	-	53	53
<b>Total liabilities</b>		<b>134,654</b>	<b>133,874</b>	<b>159,384</b>	<b>159,236</b>	<b>174,702</b>	<b>174,490</b>
<b>Shareholders' equity</b>							
Share capital	17	25,599	25,599	16,598	16,598	16,598	16,598
Share premium		260	260	260	260	260	260
Reserve capital	17	4,156	4,156	4,155	4,155	4,155	4,155
Fair value reserve		20	20	3,915	3,915	2,424	2,424
Accumulated loss		(17,377)	(16,890)	(17,687)	(16,993)	(12,981)	(12,655)
<b>Total shareholders' equity</b>		<b>12,658</b>	<b>13,145</b>	<b>7,241</b>	<b>7,935</b>	<b>10,456</b>	<b>10,782</b>
<b>Total liabilities and equity</b>		<b>147,312</b>	<b>147,019</b>	<b>166,625</b>	<b>167,171</b>	<b>185,158</b>	<b>185,272</b>

The accompanying notes on pages 13 to 84 form an integral part of these Bank's separate and Group's consolidated financial statements.

The Council and the Board of the Bank approved the issue of these Bank's separate and Group's consolidated financial statements as presented on pages 9 to 84 on 31 March 2021.

  
Jurijs Adamovičs  
Chairman of the Council

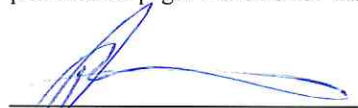
  
Raivis Kakānis  
Chairman of the Board

31 March 2021

**Bank's separate and Group's consolidated statements of profit or loss and other comprehensive income**

EUR'000	Note	2020 Group	2020 Bank	2019 Group (adjusted)	2019 Bank (adjusted)
Interest income	18	1,387	1,364	1,785	1,720
<i>including income at effective interest rate</i>		1,059	1,241	1,335	1,548
Interest expenses	19	(1,057)	(1,057)	(1,262)	(1,262)
<b>Net interest income</b>		<b>330</b>	<b>307</b>	<b>523</b>	<b>458</b>
Commission and fee income	20	5,747	5,745	7,620	7,613
Commission and fee expense	21	(1,124)	(1,124)	(1,877)	(1,877)
<b>Net commission income</b>		<b>4,623</b>	<b>4,621</b>	<b>5,743</b>	<b>5,736</b>
Gain on trading with financial instruments, net	22	1,017	1,076	1,043	1,074
Net gain on revaluation of financial assets measured at fair value through profit or loss		653	653	544	544
Other operating income		705	122	499	78
Other operating expenses		(361)	(172)	(279)	(130)
<b>Net operating income</b>		<b>6,967</b>	<b>6,607</b>	<b>8,073</b>	<b>7,760</b>
Administrative expenses	23	(7,897)	(7,640)	(7,891)	(7,472)
Depreciation of property and equipment and right-of-use assets	24	(474)	(472)	(614)	(612)
Revaluation of investment property	12	-	-	(496)	-
Net impairment allowance result	10	(1,916)	(2,022)	(3,778)	(4,014)
Loss from assets write-off		(285)	(285)	-	-
<b>Loss before taxation</b>		<b>(3,605)</b>	<b>(3,812)</b>	<b>(4,706)</b>	<b>(4,338)</b>
Income tax expenses		-	-	-	-
<b>Loss after taxation</b>		<b>(3,605)</b>	<b>(3,812)</b>	<b>(4,706)</b>	<b>(4,338)</b>
<b>Loss for the reporting period</b>		<b>(3,605)</b>	<b>(3,812)</b>	<b>(4,706)</b>	<b>(4,338)</b>
<b>Other comprehensive income</b>					
<i>Items that could be reclassified to profit or loss</i>					
Net gains on financial assets (debt instruments) at fair value through other comprehensive income		20	20	-	-
<i>Items that could not be reclassified to profit or loss</i>					
Net gains on financial assets (capital instruments) at fair value through other comprehensive income		-	-	1,491	1,491
<b>Other comprehensive income for the reporting year</b>		<b>20</b>	<b>20</b>	<b>1,491</b>	<b>1,491</b>
<b>Total comprehensive loss</b>		<b>(3,585)</b>	<b>(3,792)</b>	<b>(3,215)</b>	<b>(2,847)</b>

The accompanying notes on pages 13 to 84 form an integral part of these Bank's separate and Group's consolidated financial statements. The Council and the Board of the Bank approved the issue of these Bank's separate and Group's consolidated financial statements as presented on pages 9 to 84 on 31 March 2021.

  
Juris Adamovičs  
Chairman of the Council

  
Raivis Kakanis  
Chairman of the Board

31 March 2021



**Bank's separate and Group's consolidated statements of changes in shareholder's equity**

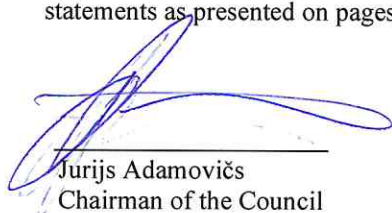
Group EUR'000	Share capital	Share premium	Reserve capital	Fair value reserve	Accumulated loss	Total equity
<b>As at 31 December 2018</b>	<b>16,598</b>	<b>260</b>	<b>4,155</b>	<b>141</b>	<b>(12,450)</b>	<b>8,704</b>
<i>Unadjusted reserve in the previous reporting period</i>	-	-	-	-	(672)	(672)
<i>Fair value reserve (see Note 5)</i>	-	-	-	2,424	-	2,424
<i>Reclassification of revaluation reserve</i>	-	-	-	(141)	141	-
<b>Adjusted balance as at 1 January 2019</b>	<b>16,598</b>	<b>260</b>	<b>4,155</b>	<b>2,424</b>	<b>(12,981)</b>	<b>10,456</b>
<i>Loss for the reporting period</i>	-	-	-	-	(4,706)	(4,706)
<i>Other comprehensive income</i>	-	-	-	1,491	-	1,491
<b>Total comprehensive loss</b>	-	-	-	<b>1,491</b>	<b>(4,706)</b>	<b>(3,215)</b>
<b>As at 31 December 2019</b>	<b>16,598</b>	<b>260</b>	<b>4,155</b>	<b>3,915</b>	<b>(17,687)</b>	<b>7,241</b>
<i>Issue of shares</i>	9,001	-	1	-	-	9,002
<i>Disposal of equity securities</i>	-	-	-	(3,915)	3,915	-
<i>Loss for the reporting period</i>	-	-	-	-	(3,605)	(3,605)
<i>Other comprehensive income</i>	-	-	-	20	-	20
<b>Total comprehensive loss</b>	-	-	-	<b>20</b>	<b>(3,605)</b>	<b>(3,585)</b>
<b>As at 31 December 2020</b>	<b>25,599</b>	<b>260</b>	<b>4,156</b>	<b>20</b>	<b>(17,377)</b>	<b>12,658</b>

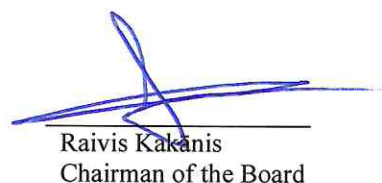
Bank EUR'000	Share capital	Share premium	Reserve capital	Fair value reserve	Accumulated loss	Total equity
<b>As at 31 December 2018</b>	<b>16,598</b>	<b>260</b>	<b>4,155</b>	<b>141</b>	<b>(12,796)</b>	<b>8,358</b>
<i>Fair value reserve (see Note 5)</i>	-	-	-	2,424	-	2,424
<i>Reclassification of revaluation reserve</i>	-	-	-	(141)	141	-
<b>Adjusted balance as at 1 January 2019</b>	<b>16,598</b>	<b>260</b>	<b>4,155</b>	<b>2,424</b>	<b>(12,655)</b>	<b>10,782</b>
<i>Loss for the reporting period</i>	-	-	-	-	(4,338)	(4,338)
<i>Other comprehensive income</i>	-	-	-	1,491	-	1,491
<b>Total comprehensive loss</b>	-	-	-	<b>1,491</b>	<b>(4,338)</b>	<b>(2,847)</b>
<b>As at 31 December 2019</b>	<b>16,598</b>	<b>260</b>	<b>4,155</b>	<b>3,915</b>	<b>(16,993)</b>	<b>7,935</b>
<i>Issue of shares</i>	9,001	-	1	-	-	9,002
<i>Disposal of equity securities</i>	-	-	-	(3,915)	3,915	-
<i>Loss for the reporting period</i>	-	-	-	-	(3,812)	(3,812)
<i>Other comprehensive income</i>	-	-	-	20	-	20
<b>Total comprehensive loss</b>	-	-	-	<b>20</b>	<b>(3,812)</b>	<b>(3,792)</b>
<b>As at 31 December 2020</b>	<b>25,599</b>	<b>260</b>	<b>4,156</b>	<b>20</b>	<b>(16,890)</b>	<b>13,145</b>

The accompanying notes on pages 13 to 84 form an integral part of these Bank's separate and Group's consolidated financial statements.

The Council and the Board of the Bank approved the issue of these Bank's separate and Group's consolidated financial statements as presented on pages 9 to 84 on 31 March 2021.



Jurijs Adamovičs  
Chairman of the Council



Raivis Kakanis  
Chairman of the Board

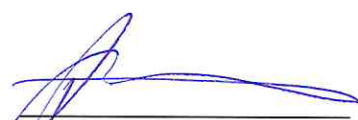
31 March 2021

**Bank's separate and Group's consolidated statements of cash flows**

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
<b>Cash flows from operating activities</b>				
Loss before taxation	(3,605)	(3,812)	(4,706)	(4,338)
Depreciation of property and equipment and right-of use assets	474	472	614	612
Impairment allowance	1,916	2,022	3,778	4,014
Revaluation of investment property	-	-	496	-
Other changes	579	579	159	160
<b>(Decrease)/Increase in cash and cash equivalents used in operating activities before changes in operating assets and liabilities</b>	<b>(636)</b>	<b>(739)</b>	<b>341</b>	<b>448</b>
Due from credit institutions (term over 3 months)	-	-	400	400
Decrease in loans and advances to customers	2,305	1,687	11,235	8,933
Decrease/(Increase) in financial assets	9,838	9,838	(4,633)	(4,633)
Decrease/(Increase) in other assets	2,223	1,821	(1,932)	(1,697)
Decrease in deposits	(27,690)	(27,650)	(14,080)	(14,080)
Increase/(Decrease) in other liabilities	55	(618)	259	326
<b>Net cash flows from operating activities</b>	<b>(13,905)</b>	<b>(15,661)</b>	<b>(8,410)</b>	<b>(10,303)</b>
<b>Cash flow from investing activities</b>				
Purchase of property and equipment	(137)	(137)	(144)	(144)
Disposal of property and equipment	81	81	86	86
Acquisition of investment property	(4,301)	(868)	(2,697)	(52)
Disposal of investment property	1,677	-	752	-
<b>Net cash flow from investing activities</b>	<b>(2,680)</b>	<b>(924)</b>	<b>(2,003)</b>	<b>(110)</b>
<b>Cash flow from financing activities</b>				
Issue of shares	9,002	9,002	-	-
Increase/(Decrease) in subordinated liabilities	2,587	2,587	(1,500)	(1,500)
Repayment of lease liabilities (IFRS 16)	(227)	(227)	(328)	(328)
<b>Net cash flows from financing activities</b>	<b>11,362</b>	<b>11,362</b>	<b>(1,828)</b>	<b>(1,828)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(5,223)</b>	<b>(5,223)</b>	<b>(12,241)</b>	<b>(12,241)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>81,384</b>	<b>81,384</b>	<b>93,625</b>	<b>93,625</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>25 76,161</b>	<b>76,161</b>	<b>81,384</b>	<b>81,384</b>

The accompanying notes on pages 13 to 84 form an integral part of these Bank's separate and Group's consolidated financial statements.

The Council and the Board of the Bank approved the issue of these Bank's separate and Group's consolidated financial statements as presented on pages 9 to 84 on 31 March 2021.

  
Jurijs Adamovičs  
Chairman of the Council

  
Raivis Kakanis  
Chairman of the Board

31 March 2021



**Notes to the Bank's separate and the Group's consolidated financial statements****1 GENERAL INFORMATION****Information on the Bank**

AS Industra Bank (previously – AS Meridian Trade Bank, AS SMP Bank; hereinafter – the Bank) was incorporated in the Republic of Latvia as a joint stock company "Multibanka" in 1994, in Riga and is licensed as a bank offering a wide range of financial services to enterprises and individuals. The legal address of the Bank is Elizabetes iela 57, Riga, Latvia. The Bank has 5 client service centres in Riga, and client service centres in Liepāja, Ventspils, Daugavpils, Olaine, Jelgava, and Jūrmala. The Bank had a foreign branch in Vilnius (Lithuania) with client service centres in Klaipėda (Lithuania) and Kaunas (Lithuania), which was closed in December 2020 as a result of a change in the Bank's strategy. In February 2019 a representative office in Moscow (Russian Federation) was closed.

These financial statements include the Group's consolidated and the Bank's separate financial statements. The consolidated financial statements for the year ended 31 December 2020 include the financial statements of the Bank and its subsidiary AS MTB Finance (hereinafter - the Group). The legal address of the AS MTB Finance is Elizabetes iela 57, Riga, Latvia. AS MTB Finance manages investment properties portfolio and provides leasing services.

The financial statements were approved for issue by the Board on 31 March 2021. The shareholders have the right to reject these financial statements and request that new financial statements are prepared.

**Legislation regulating the Bank's operations**

The Bank's operations are governed by the law 'On Credit Institutions', 'Commercial Law' and regulations issued by the EU and Financial and Capital Market Commission (the FCMC). The above regulations govern capital adequacy, minimum equity, liquidity, foreign exchange positions, risk transaction restrictions with respect to one counterparty, group of related customers and related parties of the Bank, as well as other applicable requirements.

**2 BASIS OF PREPARATION****Statement of Compliance**

These financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS) on a going concern basis. The financial statements were prepared on a historical cost basis, except for financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and investment properties measured at fair value..

After considering key risks the management believes that the going concern basis is appropriate for the preparation of these financial statements, which is described in Note 39. The financial and capital position of the Group/Bank and its business activities, the objectives and policies of risk management and the key risks to which the Group/Bank is exposed are described in section 'Risk Management'. Liquidity risk management is particularly important with regard to the going concern basis as the inability to attract sufficient funds to fulfil payment liabilities may cause the Bank to borrow funds at excessive cost, breach regulatory requirements, delay regular settlements or make the Group/Bank no longer compliant with the going concern basis. For more information please refer to section 'Liquidity risk management'. Of equal importance to the Group's/Bank's compliance with the going concern basis is compliance with regulatory requirements, in particular those relating to capital adequacy.

Business activities are planned and carried out by the Group/Bank in view of the available capital and in line with regulatory requirements. The capital adequacy calculation and wider disclosures on current and expected capital adequacy requirements are provided in section 'Capital management'. In addition to other risk policies and procedures the Group/Bank has a comprehensive liquidity risk management and capital planning framework in place.

The management of the Group/ and the Bank consistently monitors and evaluates the market situation and its potential impact on the Group/ and the Bank, if any. Based on the information available to date the management is certain that the measures implemented by the Bank are sufficient and appropriate and there is no material impact on the Group's/Bank's and the Group's operations at the reporting date nor is any expected in the future.

The preparation of financial statements under IFRS as adopted by the EU requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities and the reported income and expenses for the reporting period. Although such estimates are based on reasonable information available to management regarding these events and activities, actual results may differ from these estimates.



**Notes to the Bank's separate and the Group's consolidated financial statements****2 BASIS OF PREPARATION (continued)****Basis of measurement**

The financial statements are prepared on the historical cost basis except for the following:

- financial assets at fair value through profit or loss are stated at fair value (including financial assets held for trading);
- financial assets at fair value through other comprehensive income are stated at fair value;
- investment property is carried at fair value.

**Functional and Presentation Currency**

All amounts in these financial statements are presented in thousands of euro (EUR'000), unless stated otherwise. Euro is the functional currency of the Group/Bank.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The following significant accounting policies have been applied in the preparation of the consolidated and separate financial statements:

**Basis for consolidation***Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The investment in AS MTB Finance, in which the Bank holds a 100% interest and voting rights, is accounted for in the Bank's separate financial statements at cost less impairment.

*Transactions eliminated on consolidation*

Intra-group transactions, balances and unrealised profits arising from intra-group transactions are eliminated in the course of consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

*Loss of control*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in a former subsidiary is measured by the Group at fair value when control is lost.

*Currency translation*

Foreign exchange transactions are translated into the respective functional currency at the reference exchange rate published by the European Central Bank on the date of the respective transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest rate and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the spot exchange rate at the date of acquisition or the date that the fair value was determined, respectively. Foreign currency differences arising on translation are recognised in the profit and loss statement.

Assets and liabilities of foreign subsidiaries, including goodwill and fair value adjustments arising at the acquisition, are translated into functional currency at the reference exchange rate published by the European Central Bank at the end of the reporting period. The income and expenses of foreign subsidiaries are translated into functional currency at the average exchange rates on the date of transaction.

The exchange rates for the most significant currencies as set by the European Central Bank at reporting date were as follows:



**Notes to the Bank's separate and the Group's consolidated financial statements****3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

Currency	Reporting date	
	31.12.2020	31.12.2019
USD	1.2271	1.1234
RUB	91.4671	69.9563

**Financial instruments**

Financial instruments are classified into the following categories:

*Financial assets at fair value through profit or loss*

Financial assets are measured at fair value through profit or loss if they are not measured at amortised cost or measured at fair value through other comprehensive income.

For equity instruments that would otherwise be measured at fair value through profit or loss, at initial recognition an irrevocable election may be made to recognise those at fair value through other comprehensive income. The option to choose is applicable to each instrument individually.

Interest on financial assets measured at fair value through profit or loss is included in net interest income. Revaluation and trading gains or losses arising from changes in the fair value of the respective financial assets are included directly in the income item "Net gain on revaluation of financial assets measured at fair value through profit or loss". Such financial assets and liabilities after initial recognition are revalued at fair value based on available market prices or broker quoted prices.

*Financial assets at amortised cost*

In order to measure a financial asset at amortised cost, it should be held concurrently within a such business model that aims to hold a financial asset in order to receive its contractual cash flows and the contractual terms of the financial asset should give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI principle). Financial assets measured at amortised cost are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

A gain or loss on a financial asset that is measured at amortised cost is recognised in profit or loss when the financial asset is derecognised, reclassified through the amortisation process or in order to recognise impairment gains or losses. Financial assets at amortised cost are recognised on drawdown. From the date of signing of a relevant contract till drawdown they are accounted for as off-balance sheet commitments.

When amending or revising the contractual cash flows of financial assets that do not result in derecognition, the Group and the Bank shall recalculate the gross carrying amount of the financial assets and recognise revenue or expense from changes in the statement of income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The new gross carrying amount is an estimate of the present value resulting from the initial effective interest rate of the financial asset or the credit-adjusted effective interest rate on a financial asset that is impaired or impaired by discounting the modified or revised contractual cash flows. Estimates of expected cash flows include all contractual cash flows and payments, except for expected credit losses, unless the financial asset is acquired or issued with impairment. Costs or commissions adjust the carrying amount of the modified financial asset and are amortised over the remaining period of repayment of the modified asset.

If financial assets cannot be recovered, they are written off and charged against allowance for credit losses. The management of the Group and the Bank decides on writing-off of financial assets. Recoveries of loans previously written off are credited to the statement of income.

This category includes claims on credit institutions, loans and advances to customers and fixed income securities that correspond to the principle of "solely principal and interest payments".

*Liabilities at amortised cost*

Liabilities at amortised cost include deposits and account balances of credit institutions, balances of customer current accounts and customer deposits, subordinated liabilities and other financial liabilities.

Financial liabilities at amortised cost are initially measured at fair value less direct transaction costs and subsequently measured at amortised cost using the effective interest rate method.



**Notes to the Bank's separate and the Group's consolidated financial statements****3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

The fixed maturity of subordinated deposits is at least five years at the time of their creation and these deposits must be repaid before maturity only in the event of the cessation of business or bankruptcy of the Bank, when those are ranked before shareholders' claims. Likewise, issued subordinated debt securities must be repaid before maturity only in the event of the cessation of business or bankruptcy of the Bank, when they rank before the shareholders' claims.

*Financial assets at fair value through other comprehensive income*

For a financial asset to be measured at fair value through other comprehensive income, it should be concurrently held within a business model the aim thereof is both to receive contractual cash flows and to sell the financial asset and the contractual terms of the financial asset should give rise on specific dates to cash flows that are "solely payments of principal and interest on the principal amount outstanding". The Group's financial assets measured at fair value through other comprehensive income are expected to be held for an indefinite period of time and may be sold if required by liquidity or changes in interest rates, exchange rates or share prices.

Financial assets measured at fair value through other comprehensive income are subsequently, after initial recognition, re-measured at fair value based on available market prices. A revaluation gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. For debt securities the difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income; upon de-recognising of a security the cumulative fair value revaluation gain previously recognised in other comprehensive income is reclassified from equity to profit or loss.

For non-equity financial instruments measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount in the balance sheet. For equity instruments, that are not held for trading and not acquired as a result of business combinations, the Group and the Bank, upon initial recognition, should make an irrevocable election to present the subsequent changes in fair value of the instruments in other comprehensive income or in profit or loss. This election is made on an instrument-by-instrument basis. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss, but cumulative gain or loss on disposal is transferred directly to retained earnings.

*Recognition*

All purchases and sales of financial assets that require delivery in accordance with accepted market principles ('ordinary' purchases and sales) are accounted for at the date of the transaction, which is the date on which the Group / the Bank commits to deliver the financial asset. Other purchases are recognised when the Group / the Bank becomes a party to the contractual terms of the instrument.

*Measurement*

A financial asset or liability is initially measured at fair value plus transaction costs that are directly attributable to the acquisition of a financial asset or liability if the financial asset or liability is not measured at fair value through profit or loss.

After initial recognition, financial assets are measured at fair value without deducting transaction costs that might arise in the event of a sale or exclusion.

*Derecognition**Financial assets – write-off*

Financial assets are written off in full or in part when the Group / the Bank has exhausted all practical possibilities of recovery and has concluded that there is no reason to believe that the amounts will be recovered. The write-off is a de-recognition event. The Group / the Bank may write off financial assets that are still subject to enforcement activity when the Group/ the Bank seeks to recover amounts that are due under contracts, however, there is no reason to believe that they will be recovered.



**Notes to the Bank's separate and the Group's consolidated financial statements****3 SIGNIFICANT ACCOUNTING POLICIES (continued)***Financial assets – de-recognition*

The Group / the Bank derecognises financial assets when:

- the assets are redeemed or the rights to cash flows from the assets expired; or
- the Group / the Bank transfers the rights to the cash flows from the financial assets or enter into a relevant agreement, while
  - (i) transferring all material risks and rewards of ownership of the asset, or
  - (ii) neither transferring nor retaining all material risks and rewards inherent in the ownership of the asset, nor retaining control. Control is maintained if the other party to the transaction does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale transaction.

*Repurchase and reverse repurchase agreements*

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents the interest expense and is recognised in the statement of comprehensive income over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the "reverse repo" agreement using the effective interest method. If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

*Derivatives*

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are initially recognised in the statement of financial position at their fair value. Attributable transaction costs are recognised in the profit and loss statement of the relevant period. Fair values are obtained from quoted market prices or discounted cash flow models, as appropriate. OTC derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group and the Bank do not use hedge accounting.

*Offsetting*

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

**Property and equipment**

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment. Cost includes expenses that are directly attributable to the acquisition of the asset.

Depreciation is charged to the profit and loss statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date when the asset becomes available for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Depreciation methods, useful lives and residual values are assessed annually. The annual depreciation rates are as follows:

Buildings	5%
Furniture and cars	20%
Computers	35%
Other fixed assets	20%

**Notes to the Bank's separate and the Group's consolidated financial statements****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****Intangible assets**

Intangible assets acquired by the Group or the Bank are stated at cost less accumulated amortisation and impairment losses.

Software licences are capitalised based on the costs incurred to acquire and customise the specific software. Depreciation is charged to the profit and loss statement on a straight-line basis over the estimated useful lives of the individual assets. The estimated useful lives are 5 to 7 years.

**Reposessed assets**

As part of the normal course of business the Group and Bank occasionally take possession of property that originally was pledged as security for a loan. When the Group and Bank acquire (i.e. gains a full title to) a property in this way, the property's classification follows the nature of its intended use by the Group and Bank. When the Group and the Bank are uncertain of their intentions with respect to property that they have reposessed, those properties are classified as investment property. Other types of collateral (reposessed finance lease objects) are classified as other assets and carried at cost net of impairment loss.

**Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or for administrative purposes. All investment properties are carried at fair value through profit and loss. The fair value of investment property is based on a valuation by an independent appraiser who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The fair value of the Group's investment property is measured by independent appraisers on a regular basis.

**Recognition of income and expenses**

All significant categories of income and expenses are recognised on an accrual basis.

Interest income is recognised as it accrues in the profit and loss statement using the effective interest method. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Loan origination fees and other fees including the related direct costs that are considered an integral part of the total loan profitability are deferred and amortised to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been

**Fair value measurement principles**

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of liabilities represents the risk of default.

A number of the Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities carried at fair value or disclosures on their fair value should be made in the financial statements.

The Group and the Bank have an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models against observed market transactions;
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.



**Notes to the Bank's separate and the Group's consolidated financial statements****3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

The methods described below have been used for the determination of fair values.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in the profit and loss statement depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out. When available, the Group and the Bank measure the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the fair value is established by the Group and the Bank using a valuation technique. Valuation techniques include recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique should make maximum use of market inputs, rely as little as possible on estimates specific to the Group and the Bank, incorporate all factors that market participants would consider in setting a price, and be consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group and the Bank calibrate valuation techniques and test them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Group and the Bank assess and document the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- Verifying that equity broker or pricing service is approved by the Group and the Bank for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement.

In determining the fair value of assets or liabilities the Group and the Bank use observable market data to the extent possible. Fair value is classified into different levels of the fair value hierarchy based on the inputs used in the measurement techniques:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group and the Bank recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. For further analysis of the basis for fair value refer to Note 37.

**Impairment losses***Financial assets*

The Management of the Group and the Bank considers both specific exposures and portfolio-level risks in determining the balance of impairment allowance for expected credit losses. The expected credit loss assessment is forward-looking and is based on unbiased and probability-weighted information about past events, current conditions and forecasts of future economic conditions. Impairment allowance for expected credit losses is recognised even if no credit loss event has happened. A loan or portfolio of loans is impaired and impairment losses are incurred if, and only if, there is objective evidence that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans, and it can be reliably estimated.



**Notes to the Bank's separate and the Group's consolidated financial statements****3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

For off-balance contingent liabilities, allowances for expected future losses are recognised as provisions. The provisioning principles for expected losses arising from off-balance sheet financial commitments and contingent liabilities are consistent with the principles and methods applied for on-balance sheet exposures. Additional considerations are applied to adjustments for expected conversion and future use patterns of the committed limits as well as the Group's performance in timely identification and termination of limits for deteriorating exposures.

The Group and the Bank have grouped the loans into 3 stages, based on the applied impairment methodology, as described below:

Stage 1 – performing loans: when loans are first recognised, the Group and the Bank recognise an allowance based on twelve months expected credit losses.

Stage 2 – loans with significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the Group and the Bank record an allowance for the lifetime expected credit loss. The Group and the Bank use the following criteria to determine a significant increase in credit risk: contractual payments are overdue by more than 30 days, the loan is included in the watch list, the value of the collateral is lower than the carrying amount of the loan, a negative outlook for the industry.

Stage 3 – impaired loans with objective evidence of impairment. The Group and the Bank recognise lifetime expected credit losses for these loans and, in addition, accrue interest income on the amortised cost of the loan net of allowances. Provisions for impairment losses on individual loans are calculated according to the present value of their discounted future cash flows, however, the collateral value is adjusted to reflect the amount expected to be earned from the collateral. The definition of 'default' as used by the Group and the Bank to classify financial assets into Stage 3 does not differ from the one provided in Article 178 of Regulation 575/2013, i.e. exposure delayed 90 and more days (less days for some products), significant restructuring, insolvency or bankruptcy, or similar legal proceedings started or other indicators of unlikelihood to pay. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting to the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, a concession that the Bank or the Group would not otherwise consider;
- the borrower entering bankruptcy or other financial reorganisation becomes highly probable;
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- a combination of several other events that cause a loan to become credit impaired.

The Group and the Bank recognise impairment for fair value through other comprehensive income (FVOCI) debt securities as applicable, depending on whether they are classified as Stage 1, 2 or 3, as explained above. However, in this event the expected credit losses will not reduce the carrying amount of these financial assets in the financial statement, which shall remain to be stated at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost will be recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss.

For FVOCI debt securities considered to be 'low risk', the Group and the Bank apply a policy which assumes that the credit risk on the instrument has not increased significantly since initial recognition. Such instruments will include trade, investment grade securities where the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. For 'low risk' assets Expected Credit Loss (ECL) is calculated as explained in Stage 1 above.

When estimating lifetime ECLs for undrawn loan commitments, the Group and the Bank: a) estimate the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment, and b) calculate the present value of cash shortfalls between the contractual cash flows that are due to the Group and the Bank and the cash flows the Group and the Bank expect to receive for that expected portion of the loan drawn down.

For financial guarantee contracts, the Group and the Bank calculate the lifetime of ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party.

For revolving facilities such as credit cards and overdrafts, the Group and the Bank measure ECLs by determining the period over which they expect to be exposed to credit risk, taking into account the credit risk management actions that they expect to take once the credit risk has increased and that serve to mitigate losses.



**Notes to the Bank's separate and the Group's consolidated financial statements****3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

Following a decrease in credit risk, a financial asset may be re-classified from Stage 3 to Stage 2 or from Stage 2 to Stage 1. The Group and the Bank use a sufficiently long (in some events – up to 2 years) probation period since all factors of enhanced risk or default do not exist anymore, to establish a possibility to move a financial asset from Stage 3 to Stage 2 and from Stage 2 to Stage 1.

Expected credit loss will be determined by the Group and the Bank using the so-called EAD x PD x LGD method, where EAD is exposure at default, PD is probability of default and LGD is loss given default. The main macroeconomic and industry factors taken into account are gross domestic product, inflation rate, unemployment rate, COVID-19 most affected industries and real estate prices. For measurement of expected credit losses financial instruments are grouped based on similar probability of default and common credit peculiarities as well as individual assessment of borrowers (for legal entities).

As part of the portfolio based EAD x PD x LGD method each component is determined separately and then all components are aggregated on the portfolio level. PD evaluation is made by the Bank using migration matrices based on historical performance of portfolio of financial assets adjusted for forward-looking forecasts. EAD evaluation is made by the Group and the Bank using payment schedules adjusted, where necessary, for advance payments and taking into account off-balance sheet transactions.

Model validation includes reviews of input data, underlying assumptions used for expected credit loss evaluation, and review of model output data. Back-testing is performed by testing whether the Stage 2 indicators correctly reflect an increase in credit risk, and namely, the Bank analyses the number and amount of cases when a loan is reclassified directly from Stage 1 to Stage 3, as well as it is intended to compare the actual historical performance of portfolio to the expected credit loss estimation results as per developed models.

The Group and the Bank first assess whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. If the Group and the Bank determine that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans with similar credit risk characteristics and collectively assess them for impairment. As soon as information is available that specifically identifies losses on individually impaired loans included in a group of loans with similar credit risk characteristics, those loans are removed from the group. Assets that are individually assessed for impairment or for which an impairment loss is already recognised, are excluded from the total financial assets group tested to identify the risk of impairment.

The assessment of whether lifetime expected credit losses should be recognised is based on significant increases in the likelihood (Stage 2) or risk of a default (Stage 3) occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring. In most cases, there will be a significant increase in credit risk before a financial asset becomes credit-impaired or an actual default occurs (Stage 3), thus default (Stage 3) and credit-impaired loan classification will be closely aligned and will indicate non-performance of the borrower or significance of forbearance measures undertaken, but classification will not necessarily equal in all cases.

For individually assessed loans, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the profit and loss statement.

If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed. Any subsequent reversal of the impairment loss is recognised in the profit and loss statement, to the extent that the carrying value of the loan does not exceed what its amortised cost would have been absent the impairment at the reversal date. When a borrower fails to make a contractual payment of interest or principal due, but the Group believes that impairment is not appropriate on the basis of the level of collateral available or the stage of collections of amounts owed to the Group, the carrying amount of the loan is classified as past due but not impaired.

For purchased or originated credit-impaired financial assets, expected credit losses are discounted using the credit-adjusted effective interest rate determined at initial recognition. For purchased or originated credit-impaired financial assets only the cumulative changes in lifetime expected credit losses since initial recognition are recognised as a loss allowance. Favourable changes in lifetime expected credit losses are recognised as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.



**Notes to the Bank's separate and the Group's consolidated financial statements****3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fully impaired loans, the recovery of which may become economically unviable, may be written-off and charged against impairment allowance. They are not written-off until the necessary legal procedures have been completed and the amount of the loss is determined. When a loan or receivable is written-off, the claim against the borrower normally is not forgiven. Subsequent recoveries of amounts previously written-off are reported in the statement of profit and loss as recovered written-off assets within net credit losses on financial instruments.

For unused credits that have been granted, under the terms of the credit agreement, but not used, a conversion factor is calculated, which depends on historical data on the use of credit limits for the past 3 years (but in any case by applying a minimum conversion factor depending on the time limits available). The unused credit amount is multiplied by the conversion factor and added to the loan balance.

Similarly, as for loans to customers, the Group and the Bank estimate expected credit losses to reflect changes in credit risk since initial recognition of debt securities, loans to credit institutions and central banks exposures and commitments to extend credit. Impairment allowances are recognised based on forward looking information, even if no credit loss event has happened. The assessment considers broad range of information, but as most of these types of exposures are rated, it relies heavily on external credit ratings and rating agencies' reported default rates derived by calculating multi-period rating transition matrices. The LGD depends on the type of issuer (counterparty) and the external credit rating. Discounted cash flow is used to calculate EAD. The effective interest rate on debt securities is the yield at the time of purchase. The effective interest rate on a money market transaction is the interest rate of the transaction. Expected losses for balances in correspondent accounts and interbank overnight loans are not calculated due to the short-term nature of transactions (not exceeding one day).

If no credit rating is assigned, then the country's long-term credit rating is used, downgraded by 1 rating notch. Impairment provisions apply to financial assets measured at amortised cost but does not apply to financial assets measured at fair value through profit or loss. The Group and the Bank will recognise impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as described above. The expected credit losses will not reduce the carrying amount of these financial assets in the statement on financial position, which remains at fair value.

For financial assets measured at fair value through other comprehensive income, the loss allowances are recognised in other comprehensive income and does not reduce their carrying amount in the balance sheet.

The impact of the reversal of existing allowances and recognition of a new impairment allowance for loans and receivables according to IFRS 9 is a net increase in allowances by 1,892 thousand euros for the Group and the Bank. It decreases capital and reserves. In order to reduce the negative impact of implementation of IFRS 9 on the capital ratios of the Group and the Bank, for the purposes of capital adequacy calculation the Group and the Bank use the 5-year transition period provided under the Regulation (EU) 2017/2395 (of 12 December 2017) concerning the impact of IFRS 9 on equity (CET1). During 2020, it is permitted to charge 70% of the allowance for expected loss back to equity.

*Covid 19 effects on credit risk*

In the spring of 2020, the Bank and its subsidiary AS "MTB Finance" joined the Finance Latvia Association moratorium on temporary non-legislative loan payment moratorium for legal entities and private persons (it envisaged loan payment grace period according to criteria set out in the moratorium). Despite that European Banking Authority (EBA) decided to amend the "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis" to apply for moratorium until 31 March 2021, Finance Latvia Association (according to the decision by the majority of the members) chose not to prolong the application date for moratorium. Therefore, the moratorium was applicable for the Bank's customers from 12 March 2020 until 30 September 2020 (for grace period of principal payments up to six month).

Although, it was possible to apply for individual solutions (that would not get the same favourable treatment within regulatory reporting as for the moratorium according to EBA guidelines), there were no customers that chose such option. The Bank did continue to monitor its clients' ability to make loan payments according to individual schedules, in the context of long-term changes in the market and society habits, as well as following the customers' ability to service their liabilities in the longer term after the grace period ends.

According to the FCMC recommendation "To review and align the risk appetite and credit risk management (by performing in-depth analysis and by implementing compatible monitoring system and risk indicators) in the light of COVID-19 development", starting from February 2021, the Bank has complemented the review of new transactions with in-depth analysis of COVID-19 effects, as well as implemented risk indicator for regular monitoring of corporate customers.



**Notes to the Bank's separate and the Group's consolidated financial statements****3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

Additionally, since the end of 2020, the Bank adjusted the expected credit loss calculation methodology, that now includes macroeconomic scenario analysis and negative shock on collateral values due to COVID-19 effects. The change of the methodology and models were made with conservative principles in mind, instead of adjusting the final outcome.

**Non-financial assets**

The carrying amounts of the Group's and Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. The main assets and cash generating units considered by the Group comprise investment properties. Properties are valued on an individual basis. Impairment losses are recognised as profit or loss in the profit and loss statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, except goodwill, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**Loan commitments**

In the normal course of business, the Group and the Bank enter into credit related commitments comprising irrevocable credit line facilities, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group and the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably. For unused credit amounts that have been granted but not used in accordance with the terms of the loan agreement, a conversion factor is calculated, depending on the historical use of the credit limits over the last 3 years. The amount of unused credit is multiplied by the conversion factor and added to the loan balance. For the purpose of calculating EAD for unused loans, it is assumed that the unused credits will be repaid in accordance with the repayment schedule of the relevant loan agreement.

Financial guarantee liabilities and provisions for other credit related commitments are included within other liabilities.

**Taxation**

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Corporate income tax is calculated on the basis of distributed profit (20/80 of the net amount payable to shareholders). Corporate tax on distributed profit will be recognized when the shareholders of the Company make a decision about profit distribution.

The Company calculates and pays corporate income tax also for the conditionally distributed profit (20/80 of calculated taxable base), which includes taxable objects in accordance with the Corporate Income Tax law, such as the expenditure not related to economic activity, the doubtful debts of debtors and the loans to the related parties, if they meet criteria provided in the Corporate Income Tax law, as well other expenses exceeding statutory limits for deduction. Corporate income tax for the conditionally distributed profit is recognized in the profit or loss statement in the year for which it is assessed. Corporate income tax for the distributed profit and corporate income tax for the conditionally distributed profit is included in the profit and loss statement line item "Corporate income tax for the reporting year" and disclosed by the components in the notes to the financial statements.



**Notes to the Bank's separate and the Group's consolidated financial statements****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****Deferred tax**

According to the new Law on Enterprise Income Tax of the Republic of Latvia adopted on 28 July 2017, and effective from 1 January 2018, a 20% rate is only applied to distributed profits. Therefore, deferred tax assets and liabilities are recognisable at nil amount.

**Cash and Cash Equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the Bank of Latvia and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group and the Bank in the management of its short-term commitments, less amounts due to the Bank of Latvia and credit institutions with original maturities of less than 3 months.

**Finance lease**

A finance lease is lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

When assets are leased out under finance lease terms, the net investment in finance lease is recognised as a receivable. The net investment in finance lease represents the difference between the gross receivable and the unearned finance income.

**Operating lease**

An operating lease is a lease other than a finance lease.

Assets leased out under an operating lease are presented within property and equipment in the statement of financial position net of accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment.

*The Group and the Bank as a lessee*

Where the Bank acts as a lessee, the standard requires that right-of-use (RoU) assets and lease liabilities arising from most leases are recognised on the balance sheet. Depreciation of the RoU assets and interest expenses related to lease liabilities are recognised in the profit and loss statement. In the cash flow statement payments for the principal portion of the lease liability are presented within financing activities and payments for the interest portion are presented within operating activities.

The lease liability is initially measured as the present value of lease payments that are not paid at the commencement date. Over time, the liability will increase with interest expense accruals and decrease with lease payments. The RoU asset is initially measured at cost i.e. the same amount as the initial measurement of the lease liability plus certain other costs, for example lease payments made at or before commencement date. The RoU asset is thereafter depreciated over the lease term. Lease payments are discounted using the incremental borrowing rate. The Bank applies a single discount rate to a portfolio of leases with reasonably similar characteristics.

*The Group as lessor*

When acting as a lessor all leases shall be classified as either an operating lease or a finance lease. Operating leases are those leases where the lessor bears the economic risks and benefits.

**Provisions**

A provision is recognised in the statement of financial position when the Group and Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and provision amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**Dividends**

The Group and the Bank receive dividends from the equity instruments that are recorded to income when the right to receive payment is established.

Proposed dividends are recognised in the financial statements only when approved by the shareholders.



**Notes to the Bank's separate and the Group's consolidated financial statements****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****Employee benefits**

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operation expenses on an accrual basis. The Group and the Bank pay contributions to the State Social Insurance Fund on behalf of its employees during the employment period in accordance with local legal requirements and the Group and Bank will have no obligations to pay further contributions relating to employee services in respect to pension of retired employees.

**Adoption of new and/or amended IFRSs and IFRIC interpretations**

The following amended standards became effective from 1 January 2020, but did not have any material impact on the Group's and the Bank's financial statements:

**Amendments to the Conceptual Framework for Financial Reporting** (effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular, the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

**Definition of a business - Amendments to IFRS 3** (effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organized workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

**Definition of materiality - Amendments to IAS 1 and IAS 8** (effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

**Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7** (effective for annual periods beginning on or after 1 January 2020). These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.

**Covid-19 Related Rent Concessions - Amendments to IFRS 16** (effective for annual periods beginning on or after 1 January 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.

**Standards or interpretations effective for the first time for the annual periods beginning on or after 1 January 2021 or not yet adopted by the EU**

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).

***Notes to the Bank's separate and the Group's consolidated financial statements***

Amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU).

Amendments to IFRS 17 and an amendment to IFRS 4 (effective for annual periods beginning on or after 1 January 2023, not yet adopted by the EU).

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective for annual periods beginning on or after 1 January 2021, not yet adopted by the EU).

The Group and the Bank are assessing impact of new standards and amendments on their financial statements.



**Notes to the Bank's separate and the Group's consolidated financial statements****4 RISK MANAGEMENT**

The Board of the Group and the Bank has developed a system for the identification, supervision and management of the key financial risks. The Bank's Council has approved this risk management system. This system is being constantly updated to consider market conditions and the development of the Bank's and the Group's main operations. The following policies have been approved in order to achieve the Bank's and the Group's objectives related to capital adequacy, credit risk, market risk, operational risk management, reputation risk, conflict of interest prevention activities, personal data protection and processing activities and anti-money laundering and counter-terrorism and proliferation financing and sanctions risk management:

1. Liquidity risk management policy;
2. Credit policy;
3. Credit risk management policy and strategy;
4. Risk transactions and risk control policy for large transactions;
5. Currency risk management policy;
6. Country risk management policy;
7. Interest rate risk management policy;
8. Anti-money laundering and counterterrorism and proliferation financing and sanctions risk management policy;
9. Operational compliance risk management policy;
10. Capital and liquidity adequacy assessment policy;
11. Operational risk management policy;
12. Conflicts of interest prevention policy;
13. Reputation risk management policy;
14. Personal data protection and processing policy.

The Board of the Bank is responsible for the implementation of the risk management policy approved by the Council of the Bank.

Comprehensive management of the risk control functions at the Bank is ensured by Chief Risk Officer (CRO). The CRO ensures that the following functions are performed:

- Set-up, supervision and timely improvement of the Bank's risk management system;
- Providing, on a regular basis, to the Bank's Council, Board and heads of relevant units comprehensive and clear information on the Bank's overall risk profile, all key risks to the Bank and compliance with the risk strategy;
- Advising and supporting the Bank's Council and Board in the development of risk strategies and in making other decisions related to the Bank's risks.

To promote independence, the CRO's duties exclude such functions that relate to the performance of the activities to be controlled.

**Liquidity risk**

Liquidity risk is defined as the risk that the Group and the Bank may be unable to sustain its current and future cash flows and secure borrowings to prevent threats to the Bank's daily operations or overall financial position of the Bank (liquidity risk of financing) and risk that the Group and the Bank may be unable to sell its financial assets in the desired term without material losses due to a market collapse or insufficient market depth (market liquidity risk).

The Group and Bank maintains adequate amounts of liquid assets to ensure compliance with liquidity ratio required by the normative acts of the Republic of Latvia. According to the requirement set by the Financial and Capital Market Commission, during 2020 the Bank was required to maintain an individual liquidity ratio 40%. The Bank is following this requirement. The Bank's liquidity ratio as at 31 December 2020 is 77.53% and that as at 31 December 2019 was 73.70%.

Regulations (EC) No.575/2013 introduced the concept of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as measurements of the Bank's and the Group's liquidity position. The minimum liquidity coverage ratio requirement is being introduced gradually. The minimum requirements to be complied with is 100%. The minimum net stable funding ratio (NSFR) requirement of 100% will be introduced in June 2021

EUR'000	2020	2020	2019	2019
	Group	Bank	Group	Bank
Liquidity reserve	76,358	76,396	82,518	82,518
Net cash outflows	15,302	15,133	15,619	15,621
Liquidity coverage ratio, %	499	505	528	528



**Notes to the Bank's separate and the Group's consolidated financial statements****4 RISK MANAGEMENT (continued)**

The Group and the Bank have approved internal limits for liquidity net position of the term structures of assets and liabilities in all currencies, EUR and USD. Internal limits for liquidity are used for risk analysis and control of liquidity and desirable structure of financing sources. An early warning system was developed in order to help identify exposure of the Bank's and the Group's liquidity position and necessity to attract additional sources. Based on data from early notification indices the Group and the Bank identify adverse trends impacting liquidity and analyse these trends and assess whether any hedging measures are required for liquidity risk. The Bank's Treasury Division organises and manages the daily process of resource management in order to ensure solvency, liquidity and profitability of the Bank. The Risk Management Division of the Bank evaluates and plans the term structure of assets and liabilities on a regular basis and carries out control over liquidity risk management, including monitors compliance with the required liquidity norms and internal limits defined by the Group and the Bank. Liquidity stress testing is performed using 6 scenarios. Scenarios include both internal and external factors. Stress testing is performed to the following stress levels: internal and typical to the Bank unfavourable events, changes of general market conditions, banking crisis and general market crisis at the same time. The impact of various shock scenarios on the liquidity ratio and the Bank's income is analysed. The reverse stress testing is also carried out. The Board Bank develops and the Council approves a Business Continuity Plan for liquidity crises that specifies: preventive measures for the reduction of the likelihood of liquidity crisis, methods and activities of timely identification of liquidity crisis and risk assessment, measures that have to be taken immediately in order to overcome liquidity crisis. The plan is tested on a regular basis. For maturity analysis of assets and liabilities refer to Note 34.

*Credit risk*

Credit risk is the risk that a counterparty, or borrower, fails or refuses to meet contractual obligations to the Group and the Bank.

The main objective of the Group's and the Bank's credit risk management is to ensure an optimal level of profit, financial stability of the Group and the Bank by adhering to the limits of tolerable credit risk across various categories, ensuring effective credit risk identification, measurement, monitoring and evaluation system, risk forecasting, estimation of its probable volumes and consequences, identifying, developing and implementing risk mitigation measures.

The Group and the Bank have developed appropriate credit risk management strategy, policies and procedures to manage the credit risk. The Credit Policy of the Group and the Bank sets out the basic principles for the management of credit exposures, credit risk diversification instruments, various permitted concentration levels and limits, basic principles for assessing the creditworthiness of borrowers and the document governing the decision on granting loans and changing credit conditions. The Group's and the Bank's credit risk management policies and strategies set out basic methods for credit risk management, identification, measurement and monitoring (ongoing supervision), control and mitigation, credit monitoring policies and quality evaluation criteria. The credit risk evaluation system includes:

- risk assessment to make a decision on granting a loan;
- monitoring and management of credit risk;
- profit adjustment representing risk;
- risk analysis of credit portfolios;
- capital adequacy and capital distribution assessment;
- regular credit risk stress testing by the use of different scenarios.

The Group and the Bank apply various credit risk minimisation methods:

- limits and other restrictions, including limits on the total amount of loans granted to a single borrower or group of related persons, compliance with which is regularly monitored;
- diversification of the loan portfolio;
- assessing the creditworthiness of borrowers and guarantors;
- taking security and regular revaluation;
- setting special and / or additional conditions for loan issue;
- loan monitoring and supervision, including through the Early Warning Indicator System;
- regular loan quality assessment, etc.

The Group's and the Bank's credit risk is managed by Council, Board and Credit Committee. The established Asset Valuation Committee regularly monitors Group's and Bank's credit risk.

Credit risk control at the Group and the Bank is carried out by a dedicated unit – Credit Risk Management Unit. The Group and the Bank continuously monitor the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other



**Notes to the Bank's separate and the Group's consolidated financial statements****4 RISK MANAGEMENT (continued)**

information submitted by the borrower, or otherwise obtained by the Bank. The current market value of security is regularly determined by either independent appraisal companies or the Bank's specialists, the changes in real estate prices are analysed.

The Group and the Bank's maximum exposure to credit risk in the statement of financial position is generally reflected in the carrying amount of financial assets. The impact of possible netting of assets and liabilities to reduce potential credit risk exposure is not significant.

The Group and the Bank determine concentration limits and monitor credit risk concentration by industry/sector, geographic location, type of loan, country of residence, loan currency and type of collateral. Overall, concentration of the loan portfolio is verified across seven positions. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 10 "Loans" and Note 36 "Maximum credit risk". In order to meet the requirements defined in the Risk transactions and Large risk transactions control policy, the Group and the Bank perform an assessment and control of risks associated with all assets and liabilities, including contingent liabilities of the Group and the Bank on a regular basis. Limits are regarded as the main tool for the control of risk transactions.

*Capital management*

Regulation No [575/2013](#) requires credit institutions to maintain Common Equity Tier 1 capital ratio of 4.5%, Tier 1 capital ratio of 6% and total capital ratio of 8%. Capital ratios are calculated by the Bank as follows: Common Equity Tier 1 capital ratio is Tier 1 equity of the Bank expressed as a percentage against total exposures; Tier 1 capital ratio is Tier 1 capital expressed as a percentage against total exposures; and total capital ratio is equity expressed as a percentage against total exposures. Total exposures are the sum of notional risk weighted assets and contingent liabilities are determined as the sum of capital requirements of risks multiplied by 12.5. According to the requirement set by the Financial and Capital Market Commission, until 20 April 2020 the Bank was required to maintain an individual capital adequacy ratio of 12.45% and starting from April 21 – 11.40%. In addition, according to the Credit Institutions Law the Bank is required to maintain a sufficient level of Tier 1 capital to cover the total capital buffer requirement which consists of a capital buffer of 2.5% of total exposures and the specific countercyclical capital buffer determined as the total value of exposures multiplied by the countercyclical capital buffer rate specific for the particular credit institution.

Weighted average value of assets is estimated in accordance with pre-defined risk grades, determining risks in accordance with the amount of capital, necessary to maintain these assets. Weighted average value of guarantees and potential liabilities are estimated in accordance with lending risk adjustment grades and risk grades defined for liabilities of partners. The following risk grades are applied: 0%, 20%, 35%, 50%, 100%, 150%.

Capital management is carried out at the Bank according to the Capital and Liquidity Adequacy Assessment Policy. The process of capital adequacy assessment is organised at the Bank by CRO and implemented by the Risk Management Division.

An integral part of the capital adequacy assessment process at the Bank is the calculation, planning and maintenance of capital adequacy. The Bank's objectives when managing capital, which complies with the term "equity" in the statement of financial position, are:

- To comply with the capital regulatory requirements.
- To safeguard the Bank's ability to continue as a going concern to provide returns for shareholders.
- To maintain the sufficient capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management on a regular basis, employing techniques based on the guidelines developed by the Basel Committee and the European Union directives, as implemented by the Financial and Capital Market Commission.

For the calculation of capital adequacy refer to Note 35 and for the impact on the ability of the Group and the Bank to continue as a going concern to Note 39.

Capital adequacy calculation of the Group and the Bank in accordance with the FCMC regulations implies several transitional adjustments as implemented by the EU and FCMC. Some of the transitional adjustments are expected to have a favourable impact for several future years which will then gradually reduce over time. The transitional adjustments are applicable to 2018 and later periods. For the purpose of capital adequacy calculation, the Group and the Bank use the 5-year transition period provided under Regulation (EU) 2017/2395 (of 12 December 2017) concerning the impact of IFRS 9 on equity (CET1). The Group's and the Bank's long-term capital position for regulatory purposes is planned and managed in line with expected regulatory requirements.



**Notes to the Bank's separate and the Group's consolidated financial statements****4 RISK MANAGEMENT (continued)***Currency risk*

Currency risk represents the potential losses from revaluation of balance sheet and off-balance-sheet items denominated in foreign currencies due to movements in foreign exchange rates. Gold is regarded as foreign currency. The objective of currency risk management is to mitigate the impact of adverse changes in exchange rates by minimising open positions in foreign currencies. The Bank does not use foreign currency open positions to generate income from speculative operations. The Group and the Bank performs daily controls of compliance with limits defined in Currency risk management policy, for transactions with foreign currency. The Group and the Bank are subject to the Credit Institutions Law which requires that the open position in an individual currency should not exceed 10% of the Bank's capital and the total open foreign currency position should not exceed 20% of the Bank's capital applicable to limiting large exposures according to Regulation No 575/2013. In accordance with the Currency Risk Management Policy, structural units of the Group and Bank are cooperating with the Risk Management Division in evaluation of the currency risk component of the planned transactions and elaboration of risk hedging method for it. For currency analysis refer to Note 33.

*Interest rate risk*

Interest rate risk is represented by possible negative influence on the Group's and the Bank's income that can result from possible changes of interest rates. The GAP analysis is used for measurement of interest rates risk. Assets, liabilities, guarantees and contingent liabilities, subjected to interest rate risk, are divided in accordance with minimum period, left till possible repricing dates of interest rates. Basis risk is the likelihood to incur losses due to changes in interest rates on financial instruments with equal repricing dates but different base rates. Basis risk is managed by repricing loans (at floating interest rates) and deposits (with floating interest rates) to the same base rates. Repricing risk is the likelihood to incur losses due to changes in interest rates and different remaining maturities of assets, liabilities and contingent items. Yield curve risk is the likelihood to incur losses due to unexpected changes in the slope and shape of the yield curve. Repricing risk and yield curve risk are managed by matching interest rate sensitive assets and liabilities in each term interval (i.e. maintaining the net position of interest rate risk in each term interval within internal limits). Optionality risk is the likelihood to incur losses when the financial instrument directly (options) or indirectly (loans with early repayment option, demand deposits etc.) provides the customer with an option. Optionality risk is managed by setting enough commission fees for early withdrawal of a deposit and early repayment of a loan. The Group and Bank calculate the influence on yearly net interest income, with parallel increase of interest rates for 100 base points. In order to assess the impact of adverse changes in interest rates on profitability and economic value in market emergencies the Bank performs interest rate risk stress testing. In accordance with requirements of Interest rate risk management policy, interest rate risk must be assessed whenever limits for financial instruments are determined. For the results of sensitivity analysis refer to Note 31.

*Country risk*

Country risk is represented by possible losses in cases, where a debtor of the Group and Bank, being non-resident, will not be able to meet its liabilities against the Group and Bank, due to political, social or economic circumstances of the country of residency of the debtor. Country risk is managed by the Board of the Bank. Based on analysis of economic, political and social conditions of each country, limits are determined for geographic concentration of assets, liabilities and off-balance sheet items, for the purpose of management of country risk. The evaluation provided by international rating agencies is considered when assessing country risk. Limitations have been approved for placement of assets in countries graded as non-OECD, as well as for limitations on residual balances of nostro accounts. Limits for partners and transaction types are determined based on evaluation of risks of country and partners. Compliance with the limits is ensured by the Risk Management Division via regular control. For geographical concentration refer to Note 30.

*Anti-money laundering and counter-terrorism and proliferation financing and risk sanctions management*

The Bank's objective in anti-money laundering and counter-terrorism and proliferation financing (hereinafter referred to as - AML/CTF/CPF) and sanctions risk management is to safeguard the Bank's reputation and stability in relationships with customers and in the society as a whole, to cooperate and provide financial services to trustworthy customers and business partners, the business activity of which is understandable to the Bank to prevent the Bank from being involved in ML/TF/PF in breach of sanctions, so that to prevent losses related to loss of customers and trust.

Improvement of the ML/TF/PF risk and sanctions risk management process is one of the priorities of the Bank's strategy and business plan and during the reporting period the Bank actively continued to improve the ML/TF/PF and sanctions risk management system, by establishing an internal control system for the ML/TF/PF risk management in line with the specific business activities of the Bank based on an assessment of the level of ML/TF/PF risk characteristics for its customers, operational geographies, services and products, and delivery channels that impact the Bank's exposure to the ML/TF/PF risk.



**Notes to the Bank's separate and the Group's consolidated financial statements****4 RISK MANAGEMENT (continued)**

In order to manage the ML/TF/PF risk, a risk control approach is used to assess the ML/TF/PF risk, by controlling the maximum permitted risk exposure against the those set in the ML/TF/PF risk management strategy. The Bank regularly identifies, assesses and analyses the Bank's ML/TF/PF risk exposures, preventing any significant increase in ML/TF/PF risks.

Within the framework of the ML/TF/PF risk and sanctions risk management, the adequacy of the Bank's resources is determined, as well as the amount of capital required to cover the risks related to the Bank's operations is taken into account.

The Bank ensures the management of the ML/TF/PF risk and sanctions risk in compliance with:

- the laws and regulations of the countries in which the Bank operates;
- the Bank's business development strategy, an important part of which is the management of the ML/TF/PF risk and sanctions risk;
- the ML/TF risk management strategy, which details the framework for the ML/TF risk management and the internal control system for AML/CTF, measures restricting and reducing the ML/TF risk and the permissible exposure to the ML/TF risk for each year;
- the ML/TF/PF risk and sanctions risk management policy, which specifies measures for implementing the ML/TF/PF risk management strategy and the responsibilities and accountability of organizational units and employees in managing the ML/CF/PF risk and sanctions risk;
- the internal regulatory requirements governing the field of the Bank's ML/TF/PF risk and sanctions risk management.

Under the impact of the volatile regulatory environment, in 2020 the Bank paid particular attention to the development of ML/TF/PF risk and sanctions risk management methods in a most efficient manner to achieve high ML/TF/PF risk and sanctions risk prevention standards, in full compliance with regulatory requirements, and by making timely improvements and investments both in human resources and technologies.

During the reporting period, the Bank's main activities in managing the ML/TF/PF risk and sanctions risk were as follows:

- improvement of the ML/TF/PF and sanctions risk management system in line with the new regulation and technical capabilities;
- the Bank has improved ML/TF/PF and sanctions risk management and controls, including by very widely using ACCUITY data bases, which are being constantly updated, on sanctioned persons, companies, ships, regions, dual use goods, the reputation of persons (EDD), politically exposed persons (PEPs), in order to prevent servicing sanctioned transactions or individuals, and to minimize, to the extent possible, the potential ML/TF/PF risk that may arise from customer transactions;
- the Bank has actively used and improved the multi-tier customer acceptance system, Customer risk scoring system, which are provided by the internationally renowned company FICO Tonbeller (SIRON);
- the Bank has been actively using and improving automated systems for supervision and monitoring of customer transactions, which are developed by FICO Tonbeller (SIRON), and has integrated them with the Bank's systems, and adjusted them to the Bank's operational processes and risk management;
- the Bank has been actively using and improved the automated screening system, developed by the internationally renowned company, - ACCUITY system for pre-execution control of transactions and integrated it with other systems of the Bank;
- the Bank has made significant additions to the capacity of the organisational structure for ML/TF/PF risk and sanctions risk management. The qualifications of the employees are being evaluated according to the principles laid down in the ML/TF/PF risk and sanctions risk management procedure in order to establish the level of qualification and to measure the adequacy of resources to manage the ML/TF/PF risk and sanctions risk under the Strategy;
- active work is carried out by the Control Committee, which is a collegial body that assesses the major ML/TF/PF risks and sanctions risks and decides on the implementation of risk mitigation measures;
- employees of the Bank improved their knowledge in external training, with the participation of foreign experts in the field of ML/TF/PF risk and sanctions risk management, including in trainings organized by the international association ACAMS. Overall, in 2020 the Bank's employees, including Board members, attended 51 training courses on AML/CTF/CPF;

During the 2020 independent audit and assurance company Deloitte carried out three AML/CTF/CPF related assessments. The results confirmed that the Bank's internal AML/CTF/CPF control systems are in line with the Republic of Latvia laws and regulations, as well as meet the best practice guidelines. The Bank has received evaluations of the following AML/CTF/CPF audits:



**Notes to the Bank's separate and the Group's consolidated financial statements****4 RISK MANAGEMENT (continued)**

- 1) Audit of AML/CTF/CPF internal control systems;
- 2) Audit of Sanctions risk management internal control system;
- 3) Audit of AML/CTF/CPF related information system compliance with the applicable laws, regulations, and standards.

Bank has received final opinions on the previously mentioned audits with positive evaluations and separate recommendations regarding improvements of the covered areas. The key recommendations were for improvements of the allocation of points in the Customer risk scoring system, and suggestion to improve separate policies and processes by incorporating the customer assessment principles in more detail. The Bank plans to fulfill all recommendations and proposals made by the audit during 2021.

In 2020 the Bank continued changing its business strategy and significantly reduced its reliance on services provided to foreign customers, significantly reduced the volume of payments in US dollars and the number of foreign high-risk customers and their business volumes.

The Bank's measures have been evaluated also by the Financial and Capital Market Commission, which in 2020 conducted the full anti-money laundering review of the Bank's activity.

In the next period, the Bank intends to continue reducing the Bank's ML/TF/PF risk exposure, by eliminating higher risk customers, conducting an effective monitoring of transactions and not allowing the conduct of suspicious transactions.

During future periods, the Bank plans to continue growing the volume of small and medium size company business in Latvia, which will allow to continue reducing the Bank's overall ML/TF/PF and sanction risks. The Bank plans to significantly improve the IT systems for ML/TF/PF risk and sanctions risk management, by upgrading to latest versions of the automatized systems SIRON and ACCUITY, and by introducing CRM system for more effective document handling and storage within AML/CTF/CPF management area and customer relationship processes.

*Operational risk*

Operational risk is the risk of losses resulting from inadequate or improper internal processes, human and systems error, or the impact of external events, including legal risk but excluding strategic and reputational risk. Aiming to set up a system for the management of operational risk that would reduce the frequency of risk occurrences and the amount of loss to a level acceptable to the Bank and to safeguard the Bank's assets and capital, the Council has approved an appropriate policy. In order to implement this policy, the Board has approved a procedure that specifies the methods for identification, assessment, regular monitoring, control and mitigation of operational risk. Operational risk is managed by the Bank employing the following approaches: reporting of operational risk events; maintaining a data base of operational risk; establishing and controlling operational risk indicators any changes in which may indicate an increased likelihood of risk; self-assessing operational risk; and stress testing using both internal data and information on external operational risk events. The Bank uses insurance to reduce risk. Operational risk is managed by Risk Management Division.

To support the Bank's business continuity and to decrease operational losses due to *force majeure* circumstances the Board drafts and the Council approves and improves the business continuity plan and the information system recovery plan.

*Operational compliance risk*

Operational compliance risk is the risk that the Bank may incur losses or legal obligations, be subject to sanctions or suffer impairment of reputation as a result of a failure to comply or a breach of compliance laws, regulations and standards. Operational compliance risk is inherent in all operations of the Bank. Management of operational compliance risk involves control, due identification, documentation, assessment, classification and efficient prevention of this risk or decreasing it to a level that the Bank finds acceptable, and follow-up of the risk. The operational compliance control is directed at the existing Bank's operations and due planning and execution of measures to prevent or decrease operational compliance risk regarding new products and services of the Bank or other lines of business. Management of operational compliance risk is effected according to a policy approved by the Council using the following measures and approaches: systemic compliance reviews of the Bank's structural units, policies, internal procedures, other normative and informative materials; assessment of innovations; identification of operational compliance risks caused by external conditions; analysis of the reports of the Bank's structural units; analysis of statistical and analytical performance data; experts' questioning technique; analysis of reports of internal and external auditors and regulator or other parties; maintenance of an operational compliance risk data base and control over due prevention of identified risks or decreasing such risks to an acceptable level. Operational compliance risk is managed by the Compliance Control Division who reports to the management on a regular basis about Bank's compliance risk level, as well as on recommended and completed tasks to improve compliance risk management.



**Notes to the Bank's separate and the Group's consolidated financial statements****5 ESTIMATES AND JUDGMENTS**

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, the actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

*Going concern*

These consolidated and separate financial statements are prepared on a going concern basis. The application of the going concern basis requires management to make a number of considerations and exercise judgment. Refer to Note 39.

*Impairment of financial assets at amortised cost*

The management makes a number of judgements regarding financial instruments: classification of financial assets, evaluation of the business model assets, and the contractual terms of a financial asset, in accordance with the 'principal and interest payments only' principle. Note 3, "Impairment losses: criteria for determining a significant increase in the credit risk of a financial asset from initial recognition, including Forward-Looking Information in the Estimation of expected credit loss and models used to calculate expected credit loss.

*Fair value measurement of financial instruments*

Financial instruments measured at fair value are based on their market values. The fair value of financial instruments measured at amortized cost is the present value of estimated future cash flows discounted at the market rate of interest. The fair value of short term financial assets and liabilities approximates their amortized cost.

*Fair value of investment property*

In assessing the fair value of investment property, management relies on external experts, independent property valuers who have appropriate and recognised professional qualifications and recent experience in valuing the same category of property in the same place. External evaluations use the income measurement method or the comparative method (or both). The income method is based on the discounted estimated future cash flows of the property. The comparative method is based on recent transactions with similar properties.

**Correction of prior period errors:**

In 2020, an error was identified in the Bank's and the Group's financial statements. The error relates to recognition and fair valuation of investments in equity securities. In 2020 the Bank and the Group recognised in its balance sheet 16,400 Mastercard Inc. B Class shares. These shares should have been recognised in the previous periods, besides, the Bank and the Group should have valued these shares at fair value at the date of adoption of IFRS 9 that requires investments in equity instruments to be valued at fair value. In order to correct the errors, restatement of comparative information was performed in accordance with requirements of IAS 8.

Detailed information on correction of errors is as follows:

- As at 1 January 2019 the Bank's and the Group's statement of financial position line item Financial assets at fair value through other comprehensive income and Fair value reserve was understated by EUR 2,424 thousand.
- As at 31 December 2019 the Bank's and the Group's statement of financial position line item Financial assets at fair value through other comprehensive income and Fair value reserve was understated by EUR 3,915 thousand.
- The Bank's and the Group's statement of profit or loss and other comprehensive income line item Net gains on financial assets measured at FVOCI (*items that could not be subsequently reclassified to profit or loss*) for the year ended 31 December 2019 was understated by EUR 1,491 thousand.
- the above restatements did not have impact on the Bank's and the Group's statements of cash flows for the year ended 31 December 2019.

*Notes to the Bank's separate and the Group's consolidated financial statements***5 ESTIMATES AND JUDGMENTS (continued)****Quantitative impact on financial statements:****The Bank, 1 January 2019**

Adjustment made to the statement of financial position	Comment	1 January 2019 before adjustments (thousand EUR)	Adjustment (thousand EUR)	1 January 2019 adjusted (thousand EUR)
Financial assets at fair value through other comprehensive income	Fair valuation of equity instruments	-	2,424	2,424
<b>Total assets</b>		<b>182,848</b>	<b>2,424</b>	<b>185,272</b>
Fair value reserve	Fair valuation of equity instruments	141	2,424	2,565
<b>Total shareholder's equity</b>		<b>8,358</b>	<b>2,424</b>	<b>10,782</b>

**The Group, 1 January 2019**

Adjustment made to the statement of financial position	Comment	1 January 2019 before adjustments (thousand EUR)	Adjustment (thousand EUR)	1 January 2019 adjusted (thousand EUR)
Financial assets at fair value through other comprehensive income	Fair valuation of equity instruments	-	2,424	2,424
<b>Total assets</b>		<b>182,734</b>	<b>2,424</b>	<b>185,158</b>
Fair value reserve	Fair valuation of equity instruments	141	2,424	2,565
<b>Total shareholder's equity</b>		<b>8,032</b>	<b>2,424</b>	<b>10,456</b>

**The Bank, 31 December 2019**

Adjustment made to the statement of financial position	Comment	31 December 2019 before adjustments (thousand EUR)	Adjustment (thousand EUR)	31 December 2019 adjusted (thousand EUR)
Financial assets at fair value through other comprehensive income	Fair valuation of equity instruments	-	3,915	3,915
<b>Total assets</b>		<b>163,256</b>	<b>3,915</b>	<b>167,171</b>
Fair value reserve	Fair valuation of equity instruments	-	3,915	3,915
<b>Total shareholder's equity</b>		<b>4,020</b>	<b>3,915</b>	<b>7,935</b>

**The Group, 31 December 2019**

Adjustment made to the statement of financial position	Comment	31 December 2019 before adjustments (thousand EUR)	Adjustment (thousand EUR)	31 December 2019 adjusted (thousand EUR)
Financial assets at fair value through other comprehensive income	Fair valuation of equity instruments	-	3,915	3,915
<b>Total assets</b>		<b>162,710</b>	<b>3,915</b>	<b>167,171</b>
Fair value reserve	Fair valuation of equity instruments	-	3,915	3,915
<b>Total shareholder's equity</b>		<b>3,326</b>	<b>3,915</b>	<b>7,241</b>



**Notes to the Bank's separate and the Group's consolidated financial statements****5 ESTIMATES AND JUDGMENTS (continued)****Quantitative impact on financial statements (continued):****The Bank, 31 December 2019**

Adjustment made to the statement of profit or loss and other comprehensive income	Comment	2019 before adjustments (thousand EUR)	Adjustment (thousand EUR)	2019 adjusted (thousand EUR)
Net gains on financial assets measured at FVOCI	Fair valuation of equity instruments	-	1,491	1,491
<i>Items that could not be subsequently reclassified to profit or loss</i>		-	1,491	1,491
<b>Total comprehensive loss</b>		<b>(4,338)</b>	<b>1,491</b>	<b>(2,847)</b>

**The Group, 31 December 2019**

Adjustment made to the statement of profit or loss and other comprehensive income	Comment	2019 before adjustments (thousand EUR)	Adjustment (thousand EUR)	2019 adjusted (thousand EUR)
Net gains on financial assets measured at FVOCI	Fair valuation of equity instruments	-	1,491	1,491
<i>Items that could not be subsequently reclassified to profit or loss</i>		-	1,491	1,491
<b>Total comprehensive loss</b>		<b>(4,706)</b>	<b>1,491</b>	<b>(3,215)</b>

**6 CASH AND DUE FROM THE BANK OF LATVIA**

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Cash	1,406	1,406	2,882	2,882
Cash in branch	-	-	3,803	3,803
Due from the Bank of Latvia (including obligatory reserve)	74,223	74,223	72,330	72,330
<b>Total</b>	<b>75,629</b>	<b>75,629</b>	<b>79,015</b>	<b>79,015</b>

Due from the Bank of Latvia represents the EUR nominated balance on the correspondent account with the Bank of Latvia.

According to the regulations of the European Central Bank, the Bank is required to maintain obligatory reserves with the Bank of Latvia equal to 1% of the closing monthly balances due of deposits with agreed maturity or period of notice up to 2 years and debt securities issued with initial maturity up to 2 years. For all other liabilities included in the reserve calculation the applicable rate is 0%.

The compulsory reserve is compared to the Bank's average monthly balance on the correspondent account with the Bank of Latvia. The Bank's average cash and correspondent account balance should exceed the compulsory reserve requirement.

As at 31 December 2020 and 31 December 2019 the Bank was in compliance with the above requirements.

**Notes to the Bank's separate and the Group's consolidated financial statements****7 DEMAND DEPOSITS WITH CREDIT INSTITUTIONS****(a) Geographical segments**

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Credit institutions of OECD countries	250	250	2,029	2,029
Credit institutions of Latvia	5	5	6	6
Credit institutions of non-OECD countries	277	277	334	334
	532	532	2,369	2,369

The Bank maintained relationship with 14 correspondent banks (2019: 21).

Placements with credit institutions decreased as a result of decrease in clients' deposits.

The main correspondent banks of the Group and the Bank:

EUR'000	2020	2019
Raiffeisen Bank International AG, Austria	-	1,587 (67%)
Lietuvos Bankas, Lithuania	-	213 (9%)
Deutsche Bundesbank	227 (43%)	220 (9%)

**(b) Credit rating structure (Standard&Poors)**

When allocating financial resources to monetary financial institutions of the Republic of Latvia, external credit ratings assigned to financial institutions are assessed. For financial institutions with no individual rating, the rating of the parent bank as well as the assessment of financial and operational performance is considered. After commencement of business relations, the Group /the Bank monitors monetary financial institutions and controls the compliance of granted limits with credit risk assessment.

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
-rated from AAA to A-	31	31	23	23
-rated from BBB+ to BBB-	-	-	1,587	1,587
-rated from BB+ to B-	112	112	166	166
-not rated	389	389	593	593
	532	532	2,369	2,369

**8 FINANCIAL ASSETS AT AMORTISED COST – DEBT SECURITIES****(a) Latvian government bonds with fixed income**

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Latvian government bonds with fixed income (S&P – A, Moody's – A3)	1,570	1,570	2,680	2,680

**(b) Other states government bonds with fixed income**

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Lithuanian government bonds with fixed income (S&P – A-, Moody's – Baa1)	-	-	5,407	5,407
<b>Total debt securities at amortised cost</b>	<b>1,570</b>	<b>1,570</b>	<b>8,087</b>	<b>8,087</b>



**Notes to the Bank's separate and the Group's consolidated financial statements****9 FINANCIAL ASSETS BY CATEGORY**

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Financial assets at amortised cost:				
<i>Debt securities</i>	1,570	1,570	8,087	8,087
<i>Loans and receivables</i>	41,837	62,259	46,058	65,968
Financial assets at fair value through profit or loss:				
<i>Equity securities</i>	469	469	890	890
Financial assets at fair value through other comprehensive income:				
<i>Debt securities</i>	1,016	1,016	-	-
<i>Equity securities</i>	-	-	3,915	3,915

**10 LOANS AND RECEIVABLES****(a) Loans by groups:**

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Individuals	6,909	6,348	8,427	7,673
Legal entities	49,744	72,653	68,038	90,427
Personnel of the Bank	90	90	97	97
<b>Total loans, gross</b>	<b>56,743</b>	<b>79,091</b>	<b>76,562</b>	<b>98,197</b>
Impairment allowance	(14,906)	(16,832)	(30,504)	(32,229)
<b>Total loans, net</b>	<b>41,837</b>	<b>62,259</b>	<b>46,058</b>	<b>65,968</b>

**(b) Loans by type:**

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Loans	56,107	68,564	75,211	86,414
Credit lines	327	10,218	1,302	11,734
Overdrafts	309	309	49	49
<b>Loans, gross</b>	<b>56,743</b>	<b>79,091</b>	<b>76,562</b>	<b>98,197</b>
Impairment allowance	(14,906)	(16,832)	(30,504)	(32,229)
<b>Total loans, net</b>	<b>41,837</b>	<b>62,259</b>	<b>46,058</b>	<b>65,968</b>

**Notes to the Bank's separate and the Group's consolidated financial statements****10 LOANS AND RECEIVABLES (continued)****(c) Loans issued by industry, gross:**

EUR'000	2020		2020		2019		2019	
	Group	%	Bank	%	Group	%	Bank	%
<b>Legal entities</b>								
Real estate property	24,361	49	24,361	34	26,063	38	26,063	29
Construction	-	-	-	-	3,537	5	3,537	4
Electricity	7,162	14	7,162	10	13,467	20	13,467	15
Wholesale and retail	3,434	7	3,434	5	7,385	11	7,385	8
Industrial markets	5,057	10	5,057	7	5,612	8	5,612	6
Transport, warehousing and communication	36	-	36	-	616	1	616	-
Loans issued to financial intermediaries	-	-	28,261	39	-	-	28,547	32
Finance lease	5,352	11	-	-	6,158	9	-	-
Others	4,342	9	4,342	5	5,200	8	5,200	6
<b>Total</b>	<b>49,744</b>	<b>100</b>	<b>72,653</b>	<b>100</b>	<b>68,038</b>	<b>100</b>	<b>90,427</b>	<b>100</b>
<b>Individuals and personnel of the Bank</b>								
Consumer loans	160	2	160	2	189	2	189	2
Credit cards	294	4	294	5	309	4	309	4
Mortgage loans	3,510	50	3,510	54	4,222	50	4,222	55
Finance lease	561	8	-	-	754	9	-	-
Business loans	181	3	181	3	2,822	33	2,822	36
Others	2,293	33	2,293	36	228	2	228	3
<b>Total</b>	<b>6,999</b>	<b>100</b>	<b>6,438</b>	<b>100</b>	<b>8,524</b>	<b>100</b>	<b>7,770</b>	<b>100</b>

**(d) Loans by geographical classification:**

EUR'000	2020		2019	
	Group	Bank	Group	Bank
Residents of Latvia	55,224	77,572	75,152	96,787
Residents of OECD countries	483	483	688	688
Residents of non-OECD countries	1,036	1,036	722	722
<b>Loans and advances to non-banking customers, gross</b>	<b>56,743</b>	<b>79,091</b>	<b>76,562</b>	<b>98,197</b>
Impairment allowance	(14,906)	(16,832)	(30,504)	(32,229)
<b>Loans and advances to customers, net</b>	<b>41,837</b>	<b>62,259</b>	<b>46,058</b>	<b>65,968</b>

**(e) Movements in the impairment allowance:**

EUR'000	2020		2019	
	Group	Bank	Group	Bank
<b>Balance at the beginning of the year</b>	<b>30,504</b>	<b>32,229</b>	<b>27,463</b>	<b>28,946</b>
Increase in provisions for impairment	3,483	3,644	4,169	5,298
Release of prior periods' loan loss provisions	(1,567)	(1,622)	(336)	(1,231)
Write-off of prior periods' loan loss provisions	(17,514)	(17,419)	(792)	(784)
<b>Balance at the end of the reporting period</b>	<b>14,906</b>	<b>16,832</b>	<b>30,504</b>	<b>32,229</b>



**Notes to the Bank's separate and the Group's consolidated financial statements****10 LOANS AND RECEIVABLES (continued)****(f) Loans and accrued interest allocation, depending on delay of payments:**

Group EUR'000		Loans not overdue	Overdue loans					
			Up to 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days
31 December 2020								
Gross loans	56,743	27,264	2,109	1,542	541	774	3,078	21,435
Impairment allowance	(14,906)	(2,336)	(130)	(731)	-	-	(819)	(10,890)
31 December 2019								
Gross loans	76,562	31,056	1,079	3,796	216	4,450	4,771	31,194
Impairment allowance	(30,504)	(5,427)	(361)	(3,013)	(126)	(2,371)	(4,317)	(14,889)

Bank		Loans not	Overdue loans					
EUR'000		overdue						
			Up to	30-60	61-90	91-180	181-360	More than
			30 days	days	days	days	days	360 days
31 December 2020								
Gross loans and advances	79,091	53,266	1,644	1,542	422	-	2,113	20,104
Impairment allowance	(16,832)	(4,658)	(129)	(731)	-	-	(819)	(10,495)
31 December 2019								
Gross loans and advances	98,197	52,691	1,079	3,796	216	4,450	4,771	31,194
Impairment allowance	(32,229)	(5,427)	(361)	(3,536)	(126)	(3,573)	(4,317)	(14,889)

The amounts shown in the table represent the gross carrying amount of the loans by type of collateral and do not necessarily represent the fair value of the underlying security:

	2020 Group		2020 Bank		2019 Group		2019 Bank	
	EUR'000	%	EUR'000	%	EUR'000	%	EUR'000	%
Commercial buildings	28,290	50	28,290	36	38,556	50	38,556	39
Commercial assets pledge	7,618	13	7,618	10	7,031	9	7,031	7
Land mortgage	1,648	3	1,648	2	2,087	3	2,087	2
Mortgage on residential	10,476	18	10,476	13	15,600	20	15,600	16
Guarantee	1,637	3	1,637	2	1,907	3	1,907	2
Lease and other	6,153	11	240	-	7,247	9	335	1
No collateral	921	2	29,182	37	4,134	6	32,681	33
<b>Total</b>	<b>56,743</b>	<b>100</b>	<b>79,091</b>	<b>100</b>	<b>76,562</b>	<b>100</b>	<b>98,197</b>	<b>100</b>

**Notes to the Bank's separate and the Group's consolidated financial statements****10 LOANS AND RECEIVABLES (continued)****Significant credit risk concentration**

As at 31 December 2020 and 31 December 2019, the Bank had 12 and 20 borrowers or groups of related borrowers, respectively, whose total loan liabilities exceeded 10% of the Bank's capital as disclosed in Note 35. The gross amount of the above loans as at 31 December 2020 and 31 December 2019 was 61,807 thousand EUR and 50,686 thousand EUR, respectively. An impairment allowance was recognised for the above loans as at 31 December 2020 and 31 December 2020 in the amount of 8,795 thousand EUR and 21,851 thousand EUR, respectively.

According to regulatory requirements, the credit exposure to one client or a group of related clients cannot exceed more than 25% of the Bank's capital. The Bank exceeded this requirement in one case (27.83%) as at 31 December 2020 and in three cases (26.68% % till 49.81%) as at 31 December 2019. The respective risk was reduced by increasing the capital. Consequently, at the date of signing this report, the Bank exceeded the regulatory requirement in one case.

**(g) Breakdown of the Group's/ the Bank's loans by their qualitative assessment after the adoption of IFRS 9:**

EUR'000	31 December 2020		31 December 2019	
	Group	Bank	Group	Bank
Credit risk has not increased significantly (Stage 1)	22,374	21,479	13,674	12,462
Credit risk has increased significantly (Stage 2)	5,618	26,509	9,580	30,034
Loans, which have evidence of impairment (Stage 3)	28,751	31,103	53,308	55,701
<b>Total gross loans</b>	<b>56,743</b>	<b>79,091</b>	<b>76,562</b>	<b>98,197</b>
Impairment allowance	(14,906)	(16,832)	(30,504)	(32,229)
<b>Total net loans</b>	<b>41,837</b>	<b>62,259</b>	<b>46,058</b>	<b>65,968</b>



**Notes to the Bank's separate and the Group's consolidated financial statements****10 LOANS AND RECEIVABLES (continued)****(g) Breakdown of the Group's/ the Bank's loans by their qualitative assessment after the adoption of IFRS 9:**

Group	Credit loss allowances				Gross carrying amount			
	Stage 1 (12- months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit- impaired)	Total	Stage 1 (12- months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit- impaired)	Total
<b>As at 31 December 2019</b>	<b>813</b>	<b>1,014</b>	<b>28,677</b>	<b>30,504</b>	<b>13,674</b>	<b>9,580</b>	<b>53,308</b>	<b>76,562</b>
Movements between stages:								
to lifetime ECL (from Stage 1 to Stage 2)	(135)	48	-	(87)	(1,070)	795	-	(275)
to lifetime ECL with credit impairment (from Stage 1 and Stage 2 to Stage 3)	-	(88)	-	(88)	-	(435)	421	(14)
from lifetime ECL without credit impairment (from Stage 3 to Stage 2)	-	15	(62)	(47)	-	280	(313)	(33)
to 12-months ECL (from Stage 2 to Stage 1)	370	(275)	-	95	3,414	(3,711)	-	(297)
New originated or purchased	205	-	-	205	8,735	-	-	8,735
De-recognised	(32)	(13)	(19)	(64)	(950)	(484)	(423)	(1,857)
<b>Total movements with impact on impairment allowance charge for the period</b>	<b>408</b>	<b>(313)</b>	<b>(81)</b>	<b>14</b>	<b>10,129</b>	<b>(3,555)</b>	<b>(315)</b>	<b>6,259</b>
Movements without impact on impairment allowance charge for the period:								
Write-offs	-	-	(17,226)	(17,226)	-	-	(17,226)	(17,226)
Modification of contractual cash flows (no movements between stages)*	(457)	(194)	2,265	1,614	(1,429)	(407)	(7,016)	(8,852)
<b>Total movements without impact on impairment allowance charge for the period</b>	<b>(457)</b>	<b>(194)</b>	<b>(14,961)</b>	<b>(15,612)</b>	<b>(1,429)</b>	<b>(407)</b>	<b>(24,242)</b>	<b>(26,078)</b>
<b>As at 31 December 2020</b>	<b>764</b>	<b>507</b>	<b>13,635</b>	<b>14,906</b>	<b>22,374</b>	<b>5,618</b>	<b>28,751</b>	<b>56,743</b>

\* Ordinary contractual cash flows from repayment of principal.

**Notes to the Bank's separate and the Group's consolidated financial statements****10 LOANS AND RECEIVABLES (continued)**

Bank	Credit loss allowances				Gross carrying amount			
	Stage 1 (12- months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit- impaired)	Total	Stage 1 (12- months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit- impaired)	Total
<b>As at 31 December 2019</b>	<b>813</b>	<b>1,014</b>	<b>30,402</b>	<b>32,229</b>	<b>12,462</b>	<b>30,034</b>	<b>55,701</b>	<b>98,197</b>
Movements between stages:								
to lifetime ECL (from Stage 1 to Stage 2)	(135)	48	-	(87)	(1,070)	795	-	(275)
to lifetime ECL with credit impairment (from Stage 1 and Stage 2 to Stage 3)	-	(88)	-	(88)	-	(435)	421	(14)
from lifetime ECL without credit impairment (from Stage 3 to Stage 2)	-	15	(62)	(47)	-	262	(283)	(21)
to 12-months ECL (from Stage 2 to Stage 1)	370	(275)	-	95	3,395	(3,682)	-	(287)
New originated or purchased	205	-	-	205	8,735	2,546	-	11,281
De-recognised	(32)	(13)	(19)	(64)	(721)	(1,732)	(363)	(2,816)
<b>Total movements with impact on impairment allowance charge for the period:</b>	<b>408</b>	<b>(313)</b>	<b>(81)</b>	<b>14</b>	<b>10,339</b>	<b>(2,246)</b>	<b>(225)</b>	<b>7,868</b>
Movements without impact on impairment allowance charge for the period:								
Write-offs	-	-	(17,226)	(17,226)	-	-	(17,226)	(17,226)
Modification of contractual cash flows (no movements between stages)*	(457)	(194)	2,466	1,815	(1,322)	(1,279)	(7,147)	(9,748)
<b>Total movements without impact on impairment allowance charge for the period</b>	<b>(457)</b>	<b>(194)</b>	<b>(14,760)</b>	<b>(15,411)</b>	<b>(1,322)</b>	<b>(1,279)</b>	<b>(24,373)</b>	<b>(26,974)</b>
<b>As at 31 December 2020</b>	<b>764</b>	<b>507</b>	<b>15,561</b>	<b>16,832</b>	<b>21,479</b>	<b>26,509</b>	<b>31,103</b>	<b>79,091</b>

\* Ordinary contractual cash flows from repayment of principal.



*Notes to the Bank's separate and the Group's consolidated financial statements***10 LOANS AND RECEIVABLES (continued)****(h) Finance lease receivables:**

Loans and advances to customers include the following finance lease receivables for leases of certain fixed assets where the Group is a lessor:

EUR'000	2020	2019
<b>Gross investment in finance leases, receivable with maturity:</b>		
Less than one year	4,367	4,157
Between one and five years	1,383	1,877
More than 5 years	163	878
<b>Total gross investment in finance leases, receivables</b>	<b>5,913</b>	<b>6,912</b>
Impairment allowance	(1,259)	(725)
<b>Net investment in finance lease</b>	<b>4,654</b>	<b>6,187</b>
 <b>Net investments in finance leases with maturity:</b>		
Less than one year	3,108	3,634
Between one and five years	1,383	1,675
More than 5 years	163	878
	<b>4,654</b>	<b>6,187</b>

*Notes to the Bank's separate and the Group's consolidated financial statements***11 PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS**

<b>Group EUR'000</b>	<b>Buildings</b>	<b>Vehicles</b>	<b>Office equipment</b>	<b>Leasehold improvements</b>	<b>Right-of- use assets</b>	<b>Total</b>
<b>Cost</b>						
<b>As at 31 December 2018</b>	<b>708</b>	<b>114</b>	<b>1,121</b>	<b>9</b>	<b>-</b>	<b>1,952</b>
Additions	-	-	235	-	921	1,156
Disposals	(66)	(20)	-	(2)	-	(88)
<b>As at 31 December 2019</b>	<b>642</b>	<b>94</b>	<b>1,356</b>	<b>7</b>	<b>921</b>	<b>3,020</b>
Additions	-	-	137	-	-	137
Sales	(81)	(57)	-	-	-	(138)
Disposals	-	-	(35)	(7)	(172)	(214)
<b>31 December 2020</b>	<b>561</b>	<b>37</b>	<b>1,458</b>	<b>-</b>	<b>749</b>	<b>2,805</b>
<b>Accumulated depreciation</b>						
<b>As at 31 December 2018</b>	<b>348</b>	<b>97</b>	<b>743</b>	<b>-</b>	<b>-</b>	<b>1,188</b>
Depreciation for the reporting year	33	5	225	-	340	603
Depreciation of disposed fixed assets	(48)	(13)	-	-	-	(61)
<b>As at 31 December 2019</b>	<b>333</b>	<b>89</b>	<b>968</b>	<b>-</b>	<b>340</b>	<b>1,730</b>
Depreciation for the reporting year	31	2	218	-	222	473
Depreciation of disposed fixed assets	(23)	(56)	(34)	-	(142)	(255)
<b>31 December 2020</b>	<b>341</b>	<b>35</b>	<b>1,152</b>	<b>-</b>	<b>420</b>	<b>1,948</b>
<b>Balance</b>						
<b>As at 31 December 2018</b>	<b>360</b>	<b>17</b>	<b>378</b>	<b>9</b>	<b>-</b>	<b>764</b>
<b>As at 31 December 2019</b>	<b>309</b>	<b>5</b>	<b>388</b>	<b>7</b>	<b>581</b>	<b>1,290</b>
<b>31 December 2020</b>	<b>220</b>	<b>2</b>	<b>306</b>	<b>-</b>	<b>329</b>	<b>857</b>



*Notes to the Bank's separate and the Group's consolidated financial statements***11 PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS (continued)**

Bank EUR'000	Buildings	Vehicles	Office equipment	Leasehold improvements	Right-of-use assets	Total
<b>Cost</b>						
As at 31 December 2018	708	22	1,121	9	-	1,860
Additions	-	-	235	-	921	1,156
Disposals	(66)	(20)	-	(2)	-	(88)
As at 31 December 2019	642	2	1,356	7	921	2,928
Additions	-	-	137	-	-	137
Sales	(81)	-	-	-	-	(81)
Disposals	-	(2)	(35)	(7)	(172)	(216)
31 December 2020	561	-	1,458	-	749	2,768
<b>Accumulated depreciation</b>						
As at 31 December 2018	348	11	743	-	-	1,102
Depreciation for the reporting year	33	3	225	-	340	601
Depreciation of disposed fixed assets	(48)	(13)	-	-	-	(61)
As at 31 December 2019	333	1	968	-	340	1,642
Depreciation for the reporting year	31	-	218	-	222	471
Depreciation of disposed fixed assets	(23)	(1)	(34)	-	(142)	(200)
31 December 2020	341	-	1,152	-	420	1,913
<b>Balance</b>						
As at 31 December 2018	360	11	378	9	-	758
As at 31 December 2019	309	1	388	7	581	1,286
31 December 2020	220	-	306	-	329	855

**Movement of lease liability**

As at 31 December 2018	-	-
Initial application of IFRS 16	921	
Lease payments	(328)	
Interest accrued	12	
Interest paid	(12)	
As at 31 December 2019	593	
Lease payments	(252)	
Interest accrued	9	
Interest paid	(9)	
31 December 2020	341	

*Notes to the Bank's separate and the Group's consolidated financial statements***12 INVESTMENT PROPERTY**

Group EUR'000	Land	Buildings	Total
<b>Cost</b>			
At 31 December 2018	6,273	11,089	17,362
Disposed	-	(662)	(662)
Acquired	-	1,950	1,950
Reclassified	-	-	-
As at 31 December 2019	6,273	12,377	18,650
Disposed	(981)	(673)	(1,654)
Acquired	52	4,249	4,301
31 December 2020	5,344	15,953	21,297
<b>Change in fair value</b>			
As at 31 December 2018	-	(1,555)	(1,555)
Revaluation impact	-	(496)	(496)
As at 31 December 2019	-	(2,051)	(2,051)
Revaluation impact	-	-	-
31 December 2020	-	(2,051)	(2,051)
<b>Balance</b>			
At 31 December 2018	6,273	9,534	15,807
As at 31 December 2019	6,273	10,326	16,599
31 December 2020	5,344	13,902	19,246

Income from lease of investment property in 2020 amounted to EUR 315 thousand (2019: EUR 413 thousand) and related maintenance expenses in 2020 amounted to EUR 165 thousand (2019: EUR 148 thousand).

Investment property consists of land, residential properties and commercial properties.

The fair value measurement for investment property is categorised as Level 3 in the fair value hierarchy.

Group EUR'000	2020 Fair value	2019 Fair value	Key assumptions
Residential real estate, Salaspils region	2,061	2,776	Determined based on comparable market transactions method and income method (50% and 50% respectively). Discount rate 9%.
Sand and gravel deposit, Talsi region	3,700	3,700	Discount rate of 15.12%. Cash flow period of 10 years. Income based on sale of various quality of extracted sand and gravel.
Residential real estate, Riga	2,787	2,787	Land and building value determined based on comparable market transactions. Price set EUR 2,651 per m <sup>2</sup> .
Commercial real estate, Daugavpils	750	750	Discount rate of 11.32%. Cash flow period of 6 years. Occupancy rate of 80% to 95%. Rent ranging from EUR 2,5 to EUR 10,38 per m <sup>2</sup>



**Notes to the Bank's separate and the Group's consolidated financial statements****13 OTHER ASSETS**

Other assets are as follows:

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
<i>Financial assets:</i>				
Receivables	1,693	108	1,898	275
Credit card transactions in transit	214	214	214	214
Other financial assets	3,202	3,202	4,830	4,830
	<b>5,109</b>	<b>3,524</b>	<b>6,942</b>	<b>5,319</b>
<i>Non-financial assets:</i>				
Deferred expenses	271	243	129	106
Assets held for sale	584	-		
Other non-financial assets	190	-	1,331	163
	<b>1,045</b>	<b>243</b>	<b>1,460</b>	<b>269</b>
<b>Total</b>	<b>6,154</b>	<b>3,767</b>	<b>8,402</b>	<b>5,588</b>

**Notes to the Bank's separate and the Group's consolidated financial statements****14 DEPOSITS:**

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
<b>Sector profile:</b>				
<b>Non-banking deposits</b>				
Legal entities	50,160	50,200	53,291	53,291
Individuals	80,925	80,925	101,073	101,073
State institutions	189	189	2,012	2,012
<b>Total non-banking deposits:</b>	<b>131,274</b>	<b>131,314</b>	<b>156,376</b>	<b>156,376</b>
<b>Total deposits</b>	<b>131,274</b>	<b>131,314</b>	<b>156,376</b>	<b>156,376</b>
<b>Geographical profile:</b>				
Residents	92,484	92,524	83,191	83,191
Non-residents	38,790	38,790	73,185	73,185
<i>Residents of OECD countries</i>	<i>10,497</i>	<i>10,497</i>	<i>35,708</i>	<i>35,708</i>
<i>Residents of non-OECD countries</i>	<i>28,294</i>	<i>28,294</i>	<i>37,477</i>	<i>37,477</i>
<b>Total deposits</b>	<b>131,274</b>	<b>131,314</b>	<b>156,376</b>	<b>156,376</b>
EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
<b>Demand deposits</b>				
Legal entities	47,161	47,201	49,411	49,411
Private individuals	56,687	56,687	67,196	67,196
State institutions	189	189	2,012	2,012
<b>Total demand deposits</b>	<b>104,037</b>	<b>104,077</b>	<b>118,619</b>	<b>118,619</b>
<b>Term deposits</b>				
Legal entities	3,000	3,000	3,881	3,881
Private individuals	24,237	24,237	33,876	33,876
<b>Total term deposits</b>	<b>27,237</b>	<b>27,237</b>	<b>37,757</b>	<b>37,757</b>
<b>Total current accounts and deposits from non-banking customers</b>	<b>131,274</b>	<b>131,314</b>	<b>156,376</b>	<b>156,376</b>

As at 31 December 2020, the customer deposit balances of EUR 146 thousand (2019: EUR 152 thousand) were blocked by the Bank as collateral for loans and other contingent liabilities granted by the Bank.

**Concentrations of current accounts and customer deposits**

As at 31 December 2020 and 31 December 2019 the Bank had no customers whose balances exceeded 10% of total customer deposits.



**Notes to the Bank's separate and the Group's consolidated financial statements****15 SUBORDINATED LIABILITIES**

As at 31 December 2020 subordinated liabilities comprise loans received from 7 private individuals and 5 legal entities (31 December 2019: 5 private individuals and 1 legal entity).

EUR'000	Maturity	Interest rate	2020 Group	2020 Bank	2019 Group	2019 Bank
Loan No. 1	26.04.2025	4.00%	433	433	433	433
Loan No. 2	05.04.2023	4.00%	281	281	281	281
Loan No. 3	02.09.2022	4.00%	581	581	564	564
Loan No. 4	01.09.2022	4.00%	288	288	288	288
Loan No. 5	31.03.2022	3.50%	280	280	280	280
Loan No. 6	28.08.2023	3.75%	203	203	203	203
Loan No. 7	13.07.2025	5.00%	501	501	-	-
Loan No. 8	27.08.2025	5.00%	500	500	-	-
Loan No. 9	29.12.2025	5.00%	315	315	-	-
Loan No. 10	30.11.2025	5.00%	1,004	1,004	-	-
Loan No. 11	22.12.2025	5.00%	125	125	-	-
Loan No. 12	22.12.2025	5.00%	125	125	-	-
<b>Total</b>			<b>4,636</b>	<b>4,636</b>	<b>2,049</b>	<b>2,049</b>

In case of liquidation of the Bank subordinated loans are to be satisfied after the claims of all other creditors of the Bank, but before claims of shareholders of the Bank.

**16 OTHER LIABILITIES**

Other liabilities are as follows:

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
<b>Financial liabilities</b>				
Cash in transit	714	714	1,022	1,022
Unmatched funds	9	9	16	16
Other financial liabilities, incl.	1,283	1,283	1,469	1,469
<i>Lease liabilities (IFRS 16)</i>	341	341	593	593
	<b>2,006</b>	<b>2,006</b>	<b>2,507</b>	<b>2,507</b>
<b>Non-financial liabilities</b>				
Accrued expenses and deferred income	1,372	552	501	353
	<b>1,372</b>	<b>552</b>	<b>501</b>	<b>353</b>
<b>Total</b>	<b>3,378</b>	<b>2,558</b>	<b>3,008</b>	<b>2,860</b>

Cash in transit includes amounts requested by customers for payment with a value date of 2 January 2020 and 2019 respectively.

Unmatched funds include amounts which are under investigation and are not yet attributed to the Bank's customer accounts. Unmatched funds are investigated within ten working days after they are received.

Other liabilities include provisions for unused vacations in amount of EUR 275 thousand for the Group and EUR 268 thousand for the Bank (2019: EUR 325 thousand and EUR 320 thousand, respectively).

**Notes to the Bank's separate and the Group's consolidated financial statements****17 SHARE CAPITAL**

	Nominal value EUR	2020 Number of shares	Share capital EUR'000	2019 Number of shares	Share capital EUR'000
Ordinary shares	71.10	360,040	25,599	233,451	16,598

**Shareholders**

	2020 Number of shares	%	2019 Number of shares	%
Private individuals	76,893	21	130,365	56
Legal entities	283,147	79	103,086	44
<b>Total</b>	<b>360,040</b>	<b>100</b>	<b>233,451</b>	<b>100</b>

The Bank's capital is registered and fully paid. Ordinary shares rank equally with respect to dividends, as may be declared, and entitle all holders to equal voting rights at the shareholders' meeting. All shares rank equal with respect to residual assets. As at 31 December 2020, there were 6 shareholders – 4 legal entities and 2 private individuals (As at 31 December 2019: 7 – 3 legal entities and 4 individuals).

In 2020, Industra strengthened its tier one capital by attracting new investments of EUR 9 million. The contributions to the capital of Industra were secured by two investors – J.A. Investment Holding, owner Jurijs Adamovičs, who secured 55.5 per cent of the investment of nine million euro, and HPI 2, owners Ralfs Kļaviņš and Andis Kļaviņš, paying 44.5 per cent of the investment. As a result, the share capital of the Bank increased to EUR 25,599 thousand. Currently, largest shareholders of Industra are J.A. Investment Holdings – 34.6% and HPI 2 – 28.3% of the capital of the Bank.

The use of share premium is defined by applicable Latvian legislation.

**18 INTEREST INCOME**

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Interest income calculated using effective interest rate:				
Interest income on assets at amortised cost:	1,059	1,241	1,335	1,548
<i>Loans and receivables from customers</i>	<i>1,056</i>	<i>1,238</i>	<i>1,297</i>	<i>1,510</i>
<i>Loans and receivables from banks</i>	<i>3</i>	<i>3</i>	<i>38</i>	<i>38</i>
Interest income from financial assets at fair value through profit or loss	122	122	133	133
Other interest income	1 -	1 -	397	397
Interest income from finance lease	205	-	278	-
<b>Total</b>	<b>1,387</b>	<b>1,364</b>	<b>1,785</b>	<b>1,720</b>

**19 INTEREST EXPENSE**

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
<b>Interest expenses on liabilities at amortised cost:</b>				
Current accounts and deposits of customers	346	346	527	527
Other interest expense	711	711	735	735
<b>Total</b>	<b>1,057</b>	<b>1,057</b>	<b>1,262</b>	<b>1,262</b>



**Notes to the Bank's separate and the Group's consolidated financial statements****20 FEE AND COMMISSION INCOME**

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Commissions from money transfers, cash operations and servicing accounts	4,342	4,342	5,231	5,231
Fees from cards services	1,105	1,105	1,999	1,999
Commissions from lending services and guarantees	131	131	79	79
Brokerage fees	17	17	13	13
Other commission income	152	150	298	291
<b>Total</b>	<b>5,747</b>	<b>5,745</b>	<b>7,620</b>	<b>7,613</b>

**21 FEE AND COMMISSION EXPENSE**

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Commissions paid to correspondent banks	119	119	154	154
Commissions for transactions with payment cards	960	960	1,581	1,581
Fees for operations with securities	31	31	34	34
Other commission expense	14	14	108	108
<b>Total</b>	<b>1,124</b>	<b>1,124</b>	<b>1,877</b>	<b>1,877</b>

**22 GAIN ON TRADING WITH FINANCIAL INSTRUMENTS, NET**

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Profit from foreign currency transactions	623	623	1,009	1,009
(Loss)/profit from revaluation of foreign currencies	(176)	(117)	33	64
Profit from transactions with financial instruments	546	546	1	1
Income from dividends	24	24	-	-
<b>Total</b>	<b>1,017</b>	<b>1,076</b>	<b>1,043</b>	<b>1,074</b>

**Notes to the Bank's separate and the Group's consolidated financial statements****23 ADMINISTRATIVE EXPENSES**

Salaries represent the basic remuneration of the employees, social insurance contributions as well as other personnel expenses. As at 31 December 2020 the Group and the Bank employed on average 187 and 185 employees, respectively (2019: 195 and 193). Administrative expenses are as follows:

EUR'000	2020	2020	2019	2019
	Group	Bank	Group	Bank
Salaries to members of the Council and the Board	722	665	668	559
Personnel salaries	4,115	4,013	3,845	3,772
State compulsory social insurance contributions	1,030	994	1,004	960
Professional services	874	861	908	884
Rent of premises and other maintenance expenses	347	347	269	269
Office supplies	51	51	14	14
Advertising and marketing	62	62	52	52
Other expenses	696	647	1,131	962
<b>Total</b>	<b>7,897</b>	<b>7,640</b>	<b>7,891</b>	<b>7,472</b>

Fees paid to the audit company PricewaterhouseCoopers SIA for annual audit of financial statements and other services included in the professional services line item are as follows:

EUR'000	2020	2020	2019	2019
	Group	Bank	Group	Bank
Annual audit fees	108	103	149	145
Non-audit services	4	4	2	2

Total personnel expenses are included in the following profit or loss item:

EUR'000	2020	2020	2019	2019
	Group	Bank	Group	Bank
Administrative expenses	5,867	5,672	5,517	5,291
<b>Total</b>	<b>5,867</b>	<b>5,672</b>	<b>5,517</b>	<b>5,291</b>

**24 DEPRECIATION**

Total depreciation of property and equipment and leasehold improvements consists of:

EUR'000	2020	2020	2019	2019
	Group	Bank	Group	Bank
Depreciation of PPE	252	250	274	272
Depreciation of right-of-use assets	222	222	340	340
<b>Total</b>	<b>474</b>	<b>472</b>	<b>614</b>	<b>612</b>



**Notes to the Bank's separate and the Group's consolidated financial statements****25 CASH AND CASH EQUIVALENTS**

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Cash	1,406	1,406	2,882	2,882
Current placements with the Bank of Latvia	74,223	74,223	72,330	72,330
Demand deposits and term deposits with other credit institutions with initial maturity of less than three months	532	532	2,369	2,369
Cash in branch	-	-	3,803	3,803
<b>Total</b>	<b>76,161</b>	<b>76,161</b>	<b>81,384</b>	<b>81,384</b>

**26 INVESTMENTS IN SUBSIDIARIES***Investments in subsidiaries*

Investments in subsidiaries	Investment %	
	2020	2019
<b>AS MTB Finance *</b>	100%	100%
<b>EUR'000</b>		
Investments in subsidiaries	44	44
Impairment allowance	(44)	(44)
<b>Investment in subsidiary, net</b>	<b>-</b>	<b>-</b>

EUR'000	Current assets	Long-term assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Net assets
31 December 2020	4,905	20,505	25,410	23,088	6,987	30,075	(4,665)
31 December 2019	6,899	18,653	25,552	22,976	6,312	29,288	(3,736)

EUR'000	Income	Expenses	Net loss
31 December 2020	801	(1,730)	(929)
31 December 2019	705	(1,508)	(873)

\* AS "MTB Finance" owns 100% shares of:

MULT YATIRIM VE DANISMANLIK EMLAK TURIZM INSAAT ITHALAT IHRACAT SANAYI TICARET LIMITED SIRKETI (registration No. 52424) in Turkey, Antalya district, Kumluca region, Karaoz micro region, Jenica village

SIA L69 in Latvia, Rīga, Brīvības iela 38 - 12A, LV-1050

SIA TALSU GRANTS in Latvia, Rīga, Dzīrmavu iela 62 - 20, LV-1050

**27 RELATED PARTY TRANSACTIONS**

Related parties are defined as shareholders of the Bank who have a significant holding in the Bank and spouses, parents and children of the individual shareholders, members of the Council and the Board, head of the Internal Audit Service, CRO, compliance controller, the spouses, parents and children of these persons, and companies in which they have a controlling interest. In line with Section 43 of the Credit Institution Law, risk transactions with related parties must not exceed 15% of the Bank's equity, applicable to limiting large exposures according to Regulation No 575/2013.

As at 31 December 2020 and 31 December 2019 the Bank was in compliance with this requirement.

**Notes to the Bank's separate and the Group's consolidated financial statements**

The transactions carried out with AS MTB Finance were as follows:

EUR'000	2020 Bank	Average weighted rate	2019 Bank	Average weighted rate
Loans issued to AS MTB Finance	28,261	2.0%	28,547	2.5%
Deposits from AS MTB Finance	40	-	-	-

The Bank's and the Group's assets and liabilities from transactions with related parties:

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Credit exposures to other related parties, net				
Loans, net				
- Management	-	-	93	93
- Consolidated subsidiaries	-	25,173	-	26,098
- Companies related to the shareholders	78	78	-	-
<b>Credit exposures to related parties, net</b>	<b>78</b>	<b>25,251</b>	<b>93</b>	<b>26,191</b>

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Liabilities to other related parties				
Deposits				
- Management	219	219	116	116
- Consolidated subsidiaries	-	40	-	-
- Others	156	156	-	-
- Subordinated liabilities	501	501	-	-
<b>Liabilities to related parties</b>	<b>876</b>	<b>916</b>	<b>116</b>	<b>116</b>

The Bank's and the Group's operating income and expenses from transactions with related parties:

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Interest income				
- Consolidated subsidiaries	-	590	-	429
Interest expense				
- Management and companies related to shareholders	2	2	-	-



**Notes to the Bank's separate and the Group's consolidated financial statements****27 RELATED PARTY TRANSACTIONS (continued)**

The total amount of related party loans and deposits at the year end:

EUR'000	2020 Bank	Weighted average rate	2019 Bank	Weighted average rate
Deposits from AS MTB Finance and other related parties	916	0,1%	116	0.1%
<b>Loans to other related parties</b>				
Opening balance	93		1,664	
Issued loans in current year	80		-	
Repaid loans in current year	-		-	
The relationship with the bank ended in the reporting year	(93)		(1,571)	
<b>Loans to other related parties</b>	<b>80</b>	<b>14.0%</b>	<b>93</b>	<b>2.0%</b>

Remuneration to the Council and the Board:

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Remuneration to the Council and the Board	722	665	668	559
<b>Total</b>	<b>722</b>	<b>665</b>	<b>668</b>	<b>559</b>

**28 ASSETS AND LIABILITIES UNDER MANAGEMENT**

Assets EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Fiduciary loan	1,000	1,000	1,000	1,000
<b>Total</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>

Liabilities EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Funds received from corporate customers	1,000	1,000	1,000	1,000
<b>Total</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>

Liabilities under management consist of funds of non-resident clients in the total amount of EUR 1,000 thousand.

A fiduciary loan is a transaction whereby the Group and the Bank have attracted a fiduciary deposit that has been issued to a borrower specified by those depositors on behalf of the depositors and at the depositor's risk. The property owned by customers is managed separately from the property of the Group and the Bank and is kept in separate accounts at credit institutions through which the funds are invested. Assets under management often represent a securities portfolio separated from the Bank's and the Group's assets and is treated as a unified management object with its own structure, liquidity degree, sources of resources, yield and common risk. The Group and the Bank are engaged in securities purchase and sales on behalf of their clients. Such securities are not recognised on statement of financial position of the Group and the Bank.

**Notes to the Bank's separate and the Group's consolidated financial statements****29 CONTINGENT LIABILITIES AND COMMITMENTS**

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans, credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to ten years. The Bank also provides guarantees by acting as settlement agent in transactions with securities.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum exposure that would be recognised in the statement of comprehensive income if counterparties failed to honour their contracted liabilities to any extent.

EUR'000	2020 Group	2020 Bank	2019 Group	2019 Bank
Loans and credit line liabilities	321	372	250	285
Guarantees and letters of credit	63	63	96	96
<b>Total</b>	<b>384</b>	<b>435</b>	<b>346</b>	<b>381</b>



*Notes to the Bank's separate and the Group's consolidated financial statements***30 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES AND COMMITMENTS**

The geographical segmentation of the Bank's and the Group's assets, liabilities and contingent liabilities and commitments as at 31 December 2020 was as follows:

Group Assets EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Cash and balances due from the Bank of Latvia	75,593	36	-	-	75,629
Demand deposits with credit institutions	5	250	268	9	532
Financial assets at amortised cost	1,570	-	-	-	1,570
Financial assets at fair value through profit or loss	-	469	-	-	469
Financial assets at fair value through other comprehensive income	1,016	-	-	-	1,016
Loans and receivables	41,451	352	34	-	41,837
Intangible assets	2	-	-	-	2
Property and equipment and right-of-use assets	857	-	-	-	857
Investment properties	18,980	266	-	-	19,246
Other assets	3,299	2,801	-	54	6,154
<b>Total assets</b>	<b>142,773</b>	<b>4,174</b>	<b>302</b>	<b>63</b>	<b>147,312</b>

Group Liabilities EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Deposits	89,913	10,064	11,717	14,944	126,638
Subordinated liabilities	2,570	433	1,430	203	4,636
Other liabilities	3,376	4	-	-	3,380
Capital and reserves	12,658	-	-	-	12,658
<b>Total equity, reserves and liabilities</b>	<b>108,517</b>	<b>10,501</b>	<b>13,147</b>	<b>15,147</b>	<b>147,312</b>
<b>Contingent liabilities and commitments</b>	<b>384</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>384</b>

*Notes to the Bank's separate and the Group's consolidated financial statements***30 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES AND COMMITMENTS (continued)**

Bank Assets EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Cash and balances due from the Bank of Latvia	75,593	36	-	-	75,629
Demand deposits with credit institutions	5	250	268	9	532
Financial assets at amortised cost	1,570	-	-	-	1,570
Financial assets at fair value through profit or loss	-	469	-	-	469
Financial assets at fair value through other comprehensive income	1,016	-	-	-	1,016
Loans and receivables	61,873	352	34	-	62,259
Intangible assets	2	-	-	-	2
Property and equipment and right-of-use assets	855	-	-	-	855
Investment properties	920	-	-	-	920
Other assets	1,012	2,701	-	54	3,767
<b>Total assets</b>	<b>142,846</b>	<b>3,808</b>	<b>302</b>	<b>63</b>	<b>147,019</b>

Bank Liabilities EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Deposits	89,953	10,064	11,717	14,944	126,678
Subordinated liabilities	2,570	433	1,430	203	4,636
Other liabilities	2,559	1	-	-	2,560
Capital and reserves	13,145	-	-	-	13,145
<b>Total equity, reserves and liabilities</b>	<b>108,227</b>	<b>10,498</b>	<b>13,147</b>	<b>15,147</b>	<b>147,019</b>
<b>Contingent liabilities and commitments</b>	<b>435</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>435</b>



**Notes to the Bank's separate and the Group's consolidated financial statements****30 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES AND COMMITMENTS (continued)**

The geographical segmentation of the Bank's and the Group's assets, liabilities and contingent liabilities and commitments as at 31 December 2019 was as follows:

Group	Latvia	OECD	CIS	Other	Total
Assets		countries	countries	countries	
EUR'000					
Cash and balances due from the Bank of Latvia	74,890	4,125	-	-	79,015
Demand deposits with credit institutions	6	2,029	318	16	2,369
Financial assets at amortised cost	2,680	5,407	-	-	8,087
Financial assets at fair value through profit or loss	-	890	-	-	890
Financial assets at fair value through other comprehensive income	-	-	-	3,915	3,915
Loans and receivables	45,419	595	44	-	46,058
Property and equipment and right-of-use assets	1,284	-	-	6	1,290
Investment property	16,237	362	-	-	16,599
Other assets	4,583	3,766	-	53	8,402
<b>Total assets</b>	<b>145,099</b>	<b>17,174</b>	<b>362</b>	<b>3,990</b>	<b>166,625</b>

Group	Latvia	OECD	CIS	Other	Total
Liabilities		countries	countries	countries	
EUR'000					
Deposits	83,191	35,281	16,761	19,094	154,327
Subordinated liabilities	-	427	1,142	480	2,049
Other liabilities	2,901	107	-	-	3,008
Capital and reserves	7,241	-	-	-	7,241
<b>Total equity, reserves and liabilities</b>	<b>93,333</b>	<b>35,815</b>	<b>17,903</b>	<b>19,574</b>	<b>166,625</b>

<b>Contingent liabilities and commitments</b>	<b>299</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>306</b>
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*Notes to the Bank's separate and the Group's consolidated financial statements***30 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES AND COMMITMENTS (continued)**

Bank	Latvia	OECD countries	CIS countries	Other countries	Total
<b>Assets</b>					
<b>EUR'000</b>					
Cash and balances due from the Bank of Latvia	74,890	4,125	-	-	79,015
Demand deposits with credit institutions	6	2,029	318	16	2,369
Financial assets at amortised cost	2,680	5,407	-	-	8,087
Financial assets at fair value through profit or loss	-	890	-	-	890
Financial assets at fair value through other comprehensive income	-	-	-	3,915	3,915
Loans and receivables	65,329	595	44	-	65,968
Property and equipment and right-of-use assets	1,280	-	-	6	1,286
Investment properties	53	-	-	-	53
Other assets	1,769	3,766	-	53	5,588
<b>Total assets</b>	<b>146,007</b>	<b>16,812</b>	<b>362</b>	<b>3,990</b>	<b>167,171</b>
<b>Liabilities</b>					
<b>EUR'000</b>					
Deposits	83,191	35,281	16,761	19,094	154,327
Subordinated liabilities	-	427	1,142	480	2,049
Other liabilities	2,753	107	-	-	2,860
Capital and reserves	7,935	-	-	-	7,935
<b>Total equity, reserves and liabilities</b>	<b>93,879</b>	<b>35,815</b>	<b>17,903</b>	<b>19,574</b>	<b>167,171</b>
<b>Contingent liabilities and commitments</b>	<b>335</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>342</b>



**Notes to the Bank's separate and the Group's consolidated financial statements****31 INTEREST RATE REPRICING ANALYSIS**

The interest rate repricing analysis of the Bank's and the Group's assets and liabilities as at 31 December 2020 was as follows:

Group EUR'000	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Not sensitive to changes in interest rates	Total
<b>Assets</b>								
Cash and balances due from the Bank of Latvia	74,223	-	-	-	-	-	1,406	75,629
Demand deposits with credit institutions	532	-	-	-	-	-	-	532
Financial assets at amortised cost	-	754	816	-	-	-	-	1,570
Financial assets at fair value through profit or loss	-	-	-	-	-	-	469	469
Financial assets at fair value through other comprehensive income	-	-	-	-	1,016	-	-	1,016
Loans and receivables	12,447	1,452	21,659	867	3,955	1,457	-	41,837
Intangible assets	-	-	-	-	-	-	2	2
Property and equipment and right-of-use assets	-	-	-	-	-	-	857	857
Investment property	-	-	-	-	-	-	19,246	19,246
Other assets	-	-	-	-	-	-	6,154	6,154
<b>Total assets</b>	<b>87,202</b>	<b>2,206</b>	<b>22,475</b>	<b>867</b>	<b>4,971</b>	<b>1,457</b>	<b>28,134</b>	<b>147,312</b>
<b>Liabilities</b>								
Deposits	97,312	2,296	4,749	6,349	5,572	10,360	-	126,638
Subordinated liabilities	-	-	-	-	4,355	281	-	4,636
Other liabilities	-	-	-	-	-	-	3,380	3,380
<b>Total liabilities</b>	<b>97,312</b>	<b>2,296</b>	<b>4,749</b>	<b>6,349</b>	<b>9,927</b>	<b>10,641</b>	<b>3,380</b>	<b>134,654</b>
Capital and reserves	-	-	-	-	-	-	12,658	12,658
<b>Total liabilities, capital and reserves</b>	<b>97,312</b>	<b>2,296</b>	<b>4,749</b>	<b>6,349</b>	<b>9,927</b>	<b>10,641</b>	<b>16,038</b>	<b>147,312</b>
<b>Interest rate risk</b>	<b>(10,110)</b>	<b>(90)</b>	<b>17,726</b>	<b>(5,482)</b>	<b>(4,956)</b>	<b>(9,184)</b>	<b>12,096</b>	<b>-</b>

**Notes to the Bank's separate and the Group's consolidated financial statements****31 INTEREST RATE REPRICING ANALYSIS (continued)**

Bank EUR'000	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Not sensitive to changes in interest rates	Total
<b>Assets</b>								
Cash and balances due from the Bank of Latvia	74,223	-	-	-	-	-	1,406	75,629
Demand deposits with credit institutions	532	-	-	-	-	-	-	532
Financial assets at amortised cost	-	754	816	-	-	-	-	1,570
Financial assets at fair value through profit or loss	-	-	-	-	-	-	469	469
Financial assets at fair value through other comprehensive income	-	-	-	-	1,016	-	-	1,016
Loans and receivables	13,823	1,805	20,491	17,912	7,532	696	-	62,259
Intangible assets	-	-	-	-	-	-	2	2
Property and equipment and right-of-use assets	-	-	-	-	-	-	855	855
Investment property	-	-	-	-	-	-	920	920
Other assets	-	-	-	-	-	-	3,767	3,767
<b>Total assets</b>	<b>88,578</b>	<b>2,559</b>	<b>21,307</b>	<b>17,912</b>	<b>8,548</b>	<b>696</b>	<b>7,419</b>	<b>147,019</b>
<b>Liabilities</b>								
Deposits	97,352	2,296	4,749	6,349	5,572	10,360	-	126,678
Subordinated liabilities	-	-	-	-	4,355	281	-	4,636
Other liabilities	-	-	-	-	-	-	2,560	2,560
<b>Total liabilities</b>	<b>97,352</b>	<b>2,296</b>	<b>4,749</b>	<b>6,349</b>	<b>9,927</b>	<b>10,641</b>	<b>2,560</b>	<b>133,874</b>
Capital and reserves	-	-	-	-	-	-	13,145	13,145
<b>Total liabilities, capital and reserves</b>	<b>97,352</b>	<b>2,296</b>	<b>4,749</b>	<b>6,349</b>	<b>9,927</b>	<b>10,641</b>	<b>15,705</b>	<b>147,019</b>
Interest rate risk	(8,774)	263	16,558	11,563	(1,379)	(9,945)	(8,286)	-



**Notes to the Bank's separate and the Group's consolidated financial statements****31 INTEREST RATE REPRICING ANALYSIS (continued)**

The interest rate repricing analysis of the Group's and the Bank's assets and liabilities as at 31 December 2019 was as follows:

Group EUR'000	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Not sensitive to changes in interest rates	Total
<b>Assets</b>								
Cash and balances due from the Bank of Latvia	72,330	-	-	-	-	-	6,685	79,015
Demand deposits with credit institutions	2,369	-	-	-	-	-	-	2,369
Financial assets at amortised cost	-	2,292	-	-	1,645	4150	-	8,087
Financial assets at fair value through profit or loss	-	-	-	-	-	-	890	890
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	3,915	3,915
Loans and receivables	18,113	1,131	15,020	5,189	5,775	830	-	46,058
Property and equipment and right-of-use assets	-	-	-	581	-	-	709	1,290
Investment property	-	-	-	-	-	-	16,599	16,599
Other assets	-	-	-	-	-	-	8,402	8,402
<b>Total assets</b>	<b>92,812</b>	<b>3,423</b>	<b>15,020</b>	<b>5,770</b>	<b>7,420</b>	<b>4,980</b>	<b>37,200</b>	<b>166,625</b>
<b>Liabilities</b>								
Deposits	123,889	3,787	6,376	11,886	8,252	137	-	154,327
Subordinated liabilities	-	-	-	-	1,622	427	-	2,049
Other liabilities	-	-	-	-	-	-	3,008	3,008
<b>Total liabilities</b>	<b>123,889</b>	<b>3,787</b>	<b>6,376</b>	<b>11,886</b>	<b>9,874</b>	<b>564</b>	<b>3,008</b>	<b>159,384</b>
Capital and reserves	-	-	-	-	-	-	7,241	7,241
<b>Total liabilities, capital and reserves</b>	<b>123,889</b>	<b>3,787</b>	<b>6,376</b>	<b>11,886</b>	<b>9,874</b>	<b>564</b>	<b>10,249</b>	<b>166,625</b>
<b>Interest rate risk</b>	<b>(31,077)</b>	<b>(364)</b>	<b>8,644</b>	<b>(6,116)</b>	<b>(2,454)</b>	<b>4,416</b>	<b>26,951</b>	<b>-</b>

*Notes to the Bank's separate and the Group's consolidated financial statements***31 INTEREST RATE REPRICING ANALYSIS (continued)**

Bank EUR'000	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Not sensitive to changes in interest rates	Total
<b>Assets</b>								
Cash and balances due from the Bank of Latvia	72,330	-	-	-	-	-	6,685	79,015
Demand deposits with credit institutions	2,369	-	-	-	-	-	-	2,369
Financial assets at amortised cost	-	2,292	-	-	1,645	4,150	-	8,087
Financial assets at fair value through profit or loss	-	-	-	-	-	-	890	890
Financial assets at fair value through other comprehensive	-	-	-	-	-	-	3,915	3,915
Loans and receivables	19,365	1,392	14,857	20,343	7,387	2,624	-	65,968
Property and equipment and right-of-use assets	-	-	-	581	-	-	705	1,286
Investment property	-	-	-	-	-	-	53	53
Other assets	-	-	-	-	-	-	5,588	5,588
<b>Total assets</b>	<b>94,064</b>	<b>3,684</b>	<b>14,857</b>	<b>20,924</b>	<b>9,032</b>	<b>6,774</b>	<b>17,836</b>	<b>167,171</b>
<b>Liabilities</b>								
Deposits	123,889	3,787	6,376	11,886	8,252	137	-	154,327
Subordinated liabilities	-	-	-	-	1,622	427	-	2,049
Other liabilities	-	-	-	-	-	-	2,860	2,860
<b>Total liabilities</b>	<b>123,889</b>	<b>3,787</b>	<b>6,376</b>	<b>11,886</b>	<b>9,874</b>	<b>564</b>	<b>2,860</b>	<b>159,236</b>
Capital and reserves	-	-	-	-	-	-	7,935	7,935
<b>Total liabilities, capital and reserves</b>	<b>123,889</b>	<b>3,787</b>	<b>6,376</b>	<b>11,886</b>	<b>9,874</b>	<b>564</b>	<b>9,740</b>	<b>167,171</b>
<b>Interest rate risk</b>	<b>(29,825)</b>	<b>(103)</b>	<b>8,481</b>	<b>9,038</b>	<b>(842)</b>	<b>6,210</b>	<b>7,041</b>	<b>-</b>



**Notes to the Bank's separate and the Group's consolidated financial statements****31 INTEREST RATE REPRICING ANALYSIS (continued)***Sensitivity analysis*

The following table disclosed the sensitivity to reasonably possible changes in interest rates of the Bank's statement of comprehensive income. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The sensitivity of statement of comprehensive income is the effect of the assumed changes in the interest rates on the net interest income for one year, following the reporting period end date, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2020 and 31 December 2019.

Sensitivity of the Group's profit and loss to changes in interest rates is not disclosed separately as it does not differ significantly from that of the Bank.

An increase and decrease of interest rates by 100 basis points would result in the following change to the statement of comprehensive income and equity:

EUR'000	2020		2019	
	Profit or loss	Shareholders' equity	Profit or loss	Shareholders' equity
Increase in interest rates	(48)	(22)	(211)	-
Decrease in interest rates	48	22	211	-
Increase in USD interest rates	15	-	(65)	-
Decrease in USD interest rates	(15)	-	65	-

**32 FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES****31 December 2020**

Group EUR'000	Financial assets at amortised cost	Financial assets and liabilities at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Liabilities at amortised cost	Total
<b>Financial assets</b>					
Cash and balances due from the Bank of Latvia	75,629	-	-	-	75,629
Demand deposits with credit institutions	532	-	-	-	532
Financial assets at amortised cost	1,570	-	-	-	1,570
Financial assets at fair value through profit or loss	-	469	-	-	469
Financial assets at fair value through other comprehensive income	-	-	1,016	-	1,016
Loans and receivables	41,837	-	-	-	41,837
Other financial assets	5,109	-	-	-	5,109
<b>Total financial assets</b>	<b>124,677</b>	<b>469</b>	<b>1,016</b>	<b>-</b>	<b>126,162</b>
<b>Financial liabilities</b>					
Deposits	-	-	-	126,638	126,638
Subordinated liabilities	-	-	-	4,636	4,636
Other financial liabilities	-	-	-	2,006	2,006
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>133,280</b>	<b>133,280</b>

**Notes to the Bank's separate and the Group's consolidated financial statements****32 FINANCIAL ASSETS AND LIABILITIES BY TYPES (continued)****31 December 2020**

Bank EUR'000	Financial assets at amortised cost	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities designated at fair value through other comprehensive income	Liabilities at amortised cost	Total
<b>Financial assets</b>					
Cash and balances due from the Bank of Latvia	75,629	-	-	-	75,629
Demand deposits with credit institutions	532	-	-	-	532
Financial assets at amortised cost	1,570	-	-	-	1,570
Financial assets at fair value through profit or loss	-	469	-	-	469
Financial assets at fair value through other comprehensive income	-	-	1,016	-	1,016
Loans and receivables	62,259	-	-	-	62,259
Other financial assets	3,524	-	-	-	3,524
<b>Total financial assets</b>	<b>143,514</b>	<b>469</b>	<b>1,016</b>	<b>-</b>	<b>144,999</b>
<b>Financial liabilities</b>					
Deposits	-	-	-	126,678	126,678
Subordinated liabilities	-	-	-	4,636	4,636
Other financial liabilities	-	-	-	2,006	2,006
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>133,320</b>	<b>133,320</b>



*Notes to the Bank's separate and the Group's consolidated financial statements***32 FINANCIAL ASSETS AND LIABILITIES BY TYPES (continued)****31 December 2019**

Group EUR'000	Financial assets at amortised cost	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities designated at fair value through other comprehensive income	Liabilities at amortised cost	Total
<b>Financial assets</b>					
Cash and balances due from the Bank of Latvia	79,015	-	-	-	79,015
Demand deposits with credit institutions	2,369	-	-	-	2,369
Financial assets at amortised cost	8,087	-	-	-	8,087
Financial assets at fair value through profit or loss	-	890	-	-	890
Financial assets at fair value through other comprehensive income	-	-	3,915	-	3,915
Loans and receivables	46,058	-	-	-	46,058
Other financial assets	6,942	-	-	-	6,942
<b>Total financial assets</b>	<b>142,471</b>	<b>890</b>	<b>3,915</b>	<b>-</b>	<b>147,276</b>
<b>Financial liabilities</b>					
Deposits	-	-	-	154,327	154,327
Subordinated liabilities	-	-	-	2,049	2,049
Other financial liabilities	-	-	-	2,507	2,507
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>158,883</b>	<b>158,883</b>

*Notes to the Bank's separate and the Group's consolidated financial statements***32 FINANCIAL ASSETS AND LIABILITIES BY TYPES (CONTINUED)****31 December 2019**

Bank EUR'000	Financial assets at amortised cost	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities designated at fair value through other comprehensive income	Liabilities at amortised cost	Total
<b>Financial assets</b>					
Cash and balances due from the Bank of Latvia	79,015	-	-	-	79,015
Demand deposits with credit institutions	2,369	-	-	-	2,369
Financial assets at amortised cost	8,087	-	-	-	8,087
Financial assets at fair value through profit or loss	-	890	-	-	890
Financial assets at fair value through other comprehensive income	-	-	3,915	-	3,915
Loans and receivables	65,968	-	-	-	65,968
Other financial assets	5,319	-	-	-	5,319
<b>Total financial assets</b>	<b>160,758</b>	<b>890</b>	<b>3,915</b>		<b>165,563</b>
<b>Financial liabilities</b>					
Deposits	-	-	-	154,327	154,327
Subordinated liabilities	-	-	-	2,049	2,049
Other financial liabilities	-	-	-	2,507	2,507
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>158,883</b>	<b>158,883</b>



*Notes to the Bank's separate and the Group's consolidated financial statements***33 CURRENCY ANALYSIS**

The Group and the Bank actively controls foreign exchange open positions. The Bank operates based on the Law on Credit Institutions stating that the open position in any currency should not exceed 10% of shareholders' equity and that the total open position should not exceed 20% of the shareholders' equity.

The currency analysis of the Group's and the Bank's expected and contingent liabilities of the financial position as at 31 December 2020 was as follows:

Group EUR'000	EUR	USD	Other	Total
<b>Assets</b>				
Cash and balances due from the Bank of Latvia	75,035	226	368	75,629
Demand deposits with credit institutions	267	87	178	532
Financial assets at amortised cost	754	816	-	1,570
Financial assets at fair value through profit or loss	-	469	-	469
Financial assets at fair value through other comprehensive income	1,016	-	-	1,016
Loans and receivables	41,037	800	-	41,837
Intangible assets	2	-	-	2
Property and equipment and right-of-use assets	857	-	-	857
Investment property	19,246	-	-	19,246
Other assets	4,996	975	183	6,154
<b>Total assets</b>	<b>143,210</b>	<b>3,373</b>	<b>729</b>	<b>147,312</b>
<b>Liabilities</b>				
Deposits	113,821	10,617	2,200	126,638
Subordinated liabilities	4,636	-	-	4,636
Other liabilities	3,357	63	(40)	3,380
<b>Total liabilities</b>	<b>121,814</b>	<b>10,680</b>	<b>2,160</b>	<b>134,654</b>
Capital and reserves	8,211	4,447	-	12,658
<b>Total liabilities, capital and reserves</b>	<b>130,025</b>	<b>15,127</b>	<b>2,160</b>	<b>147,312</b>
Net open position in the statement of financial position	13,185	(11,754)	(1,431)	-
Net position arising from currency exchange transactions	(13,332)	11,478	1,854	-
<b>Total net open position</b>	<b>(147)</b>	<b>(276)</b>	<b>423</b>	<b>-</b>

*Notes to the Bank's separate and the Group's consolidated financial statements***33 CURRENCY ANALYSIS (continued)**

Bank EUR'000	EUR	USD	Other	Total
<b>Assets</b>				
Cash and balances due from the Bank of Latvia	75,035	226	368	75,629
Demand deposits with credit institutions	267	87	178	532
Financial assets at amortised cost	754	816	-	1,570
Financial assets at fair value through profit or loss	-	469	-	469
Financial assets at fair value through other comprehensive income	1,016	-	-	1,016
Loans and receivables	61,393	866	-	62,259
Intangible assets	2	-	-	2
Property and equipment and right-of-use assets	855	-	-	855
Investment property	920	-	-	920
Other assets	2,609	975	183	3,767
<b>Total assets</b>	<b>142,851</b>	<b>3,439</b>	<b>729</b>	<b>147,019</b>
<b>Liabilities</b>				
Deposits	113,861	10,617	2,200	126,678
Subordinated liabilities	4,636	-	-	4,636
Other liabilities	2,537	63	(40)	2,560
<b>Total liabilities</b>	<b>121,034</b>	<b>10,680</b>	<b>2,160</b>	<b>133,874</b>
Capital and reserves	8,698	4,447	-	13,145
<b>Total liabilities, capital and reserves</b>	<b>129,732</b>	<b>15,127</b>	<b>2,160</b>	<b>147,019</b>
Net open position in the statement of financial position	13,119	(11,688)	(1,431)	-
Net position arising from currency exchange transactions	(13,331)	11,478	1,853	-
<b>Total net open position</b>	<b>(212)</b>	<b>(210)</b>	<b>422</b>	<b>-</b>



**Notes to the Bank's separate and the Group's consolidated financial statements****33 CURRENCY ANALYSIS (continued)**

The currency analysis of the Group's and the Bank's expected and contingent liabilities as at 31 December 2019 was as follows:

Group EUR'000	EUR	USD	Other	Total
<b>Assets</b>				
Cash and balances due from the Bank of Latvia	77,133	1,551	331	79,015
Demand deposits with credit institutions	736	414	1,219	2,369
Financial assets at amortised cost	4,903	3,184	-	8,087
Financial assets at fair value through profit or loss	-	890	-	890
Financial assets at fair value through other comprehensive income	-	3,915	-	3,915
Loans and receivables	44,871	1,187	-	46,058
Property and equipment and right-of-use assets	1,290	-	-	1,290
Investment property	16,599	-	-	16,599
Other assets	4,938	3,229	236	8,402
<b>Total assets</b>	<b>150,471</b>	<b>14,370</b>	<b>1,784</b>	<b>166,625</b>
<b>Liabilities</b>				
Deposits	139,165	12,650	2,663	154,327
Subordinated liabilities	1,898	-	-	2,049
Other liabilities	2,966	42	-	3,008
<b>Total liabilities</b>	<b>144,029</b>	<b>12,692</b>	<b>2,663</b>	<b>159,384</b>
Capital and reserves	3,033	4,208	-	7,241
<b>Total liabilities, capital and reserves</b>	<b>147,062</b>	<b>16,900</b>	<b>2,663</b>	<b>166,625</b>
Net open position in the statement of financial position	3,409	(2,530)	(879)	-
Net position arising from currency exchange transactions	(4,300)	2,860	1,400	-
<b>Total net open position</b>	<b>(891)</b>	<b>330</b>	<b>521</b>	<b>-</b>

**Notes to the Bank's separate and the Group's consolidated financial statements****33 CURRENCY ANALYSIS (continued)**

<b>Bank EUR'000</b>	<b>EUR</b>	<b>USD</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>				
Cash and balances due from the Bank of Latvia	77,133	1,551	331	79,015
Demand deposits with credit institutions	736	414	1,219	2,369
Financial assets at amortised cost	4903	3,184	-	8,087
Financial assets at fair value through profit or loss	-	890	-	890
Financial assets at fair value through other comprehensive income	-	3,915	-	3,915
Loans and receivables	64,703	1,265	-	65,968
Property and equipment and right-of-use assets	1,286	-	-	1,286
Other assets	2,177	3,229	183	5,588
<b>Total assets</b>	<b>150,939</b>	<b>14,448</b>	<b>1,784</b>	<b>167,171</b>
<b>Liabilities</b>				
Deposits	139,165	12,650	2,663	154,478
Subordinated liabilities	1,898	-	-	1,898
Other liabilities	2,818	42	-	2,860
<b>Total liabilities</b>	<b>143,881</b>	<b>12,692</b>	<b>2,663</b>	<b>159,236</b>
Capital and reserves	3,727	4,208	-	7,935
<b>Total liabilities, capital and reserves</b>	<b>147,608</b>	<b>16,900</b>	<b>2,663</b>	<b>167,171</b>
Net open position in the statement of financial position	3,331	(2,452)	(879)	-
Net position arising from currency exchange transactions	(4,300)	2,860	1,400	-
<b>Total net open position</b>	<b>(969)</b>	<b>408</b>	<b>521</b>	<b>-</b>

An analysis of sensitivity of the Group's and Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2020 and 2019 and a simplified scenario of a 10% change in USD to EUR exchange rates is as follows:

<b>Group EUR'000</b>	<b>2020 Net profit</b>	<b>2019 Net profit</b>
10% appreciation of USD against EUR	(28)	33
10% depreciation of USD against EUR	28	(33)

<b>Bank EUR'000</b>	<b>2020 Net profit</b>	<b>2019 Net profit</b>
10% appreciation of USD against EUR	(21)	41
10% depreciation of USD against EUR	21	(41)



**Notes to the Bank's separate and the Group's consolidated financial statements****34 MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

The amounts below represent the assets and liabilities grouped by residual maturity.

In line with liquidity management policy the liquidity risk is managed by Treasury Division. All units whose operations affect the liquidity of the Group and the Bank are involved in liquidity management. The structure of assets/liabilities and the difference between them are calculated in order to carry out liquidity control. Liquidity is managed by using monetary instruments.

The Bank is active in managing its net liquidity position by means of:

- reducing maturities of assets, including by maintaining large balances on correspondent accounts or interbank overnight deposits and by investing funds in highly liquid debt securities in the available-for-sale portfolio or in highly liquid debt securities in the held-to-maturity portfolio, which are accepted as collateral by the ECB or other market players.
- increasing maturities of liabilities by attracting term deposits.

The Bank approves limits on net liquidity positions in general, as well as in EUR and USD.

As at 31 December 2020 and 31 December 2019 the individual liquidity coverage ratio for the Bank was 505% and 528%, respectively, and for the Group it was 499% and 528%, respectively.

The maturity analysis of the the Group's and the Bank's assets and liabilities as at 31 December 2020 was as follows:

Group EUR'000	Up to 1 month including	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Over 5 years or not determined	Total
<b>Assets</b>							
Cash and balances due from the Bank of Latvia	75,629	-	-	-	-	-	75,629
Demand deposits with credit institutions	532	-	-	-	-	-	532
Financial assets at amortised cost	-	754	816	-	-	-	1,570
Financial assets at fair value through profit or loss	-	-	-	-	469	-	469
Financial assets at fair value through other comprehensive income	-	-	-	-	1,016	-	1,016
Loans and receivables	2,185	379	3,141	5,278	16,497	14,357	41,837
Intangible assets	-	-	-	-	2	-	2
Property and equipment and right-of-use assets	-	-	-	329	528	-	857
Investment property	-	-	-	-	-	19,246	19,246
Other assets	4,069	1	-	-	-	2,084	6,154
<b>Total assets</b>	<b>82,415</b>	<b>1,134</b>	<b>3,957</b>	<b>5,607</b>	<b>18,512</b>	<b>35,687</b>	<b>147,312</b>
<b>Liabilities</b>							
Deposits	97,312	2,296	4,749	6,349	5,572	10,360	126,638
Subordinated liabilities	-	-	-	-	3,928	708	4,636
Other liabilities	3,322	-	-	-	58	-	3,380
<b>Total liabilities</b>	<b>100,634</b>	<b>2,296</b>	<b>4,749</b>	<b>6,349</b>	<b>9,558</b>	<b>11,068</b>	<b>134,654</b>
Capital and reserves	-	-	-	-	-	12,658	12,658
<b>Total capital, liabilities and reserves</b>	<b>100,634</b>	<b>2,296</b>	<b>4,749</b>	<b>6,349</b>	<b>9,558</b>	<b>23,726</b>	<b>147,312</b>
<b>Liquidity risk</b>	<b>(18,219)</b>	<b>(1,162)</b>	<b>(792)</b>	<b>(742)</b>	<b>8,954</b>	<b>11,961</b>	<b>-</b>

*Notes to the Bank's separate and the Group's consolidated financial statements***34 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

Bank EUR'000	Up to 1 month including	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Over 5 years or not determined	Total
<b>Assets</b>							
Cash and balances due from the Bank of Latvia	75,629	-	-	-	-	-	75,629
Demand deposits with credit institutions	532	-	-	-	-	-	532
Financial assets at amortised cost	-	754	816	-	-	-	1,570
Financial assets at fair value through profit or loss	-	-	-	-	469	-	469
Financial assets at fair value through other comprehensive income	-	-	-	-	1,016	-	1,016
Loans and receivables	3,516	732	2,607	22,077	19,772	13,555	62,259
Intangible assets	-	-	-	-	2	-	2
Property and equipment and right-of-use assets	-	-	-	329	526	-	855
Investment property	-	-	-	-	-	920	920
Other assets	2,266	1	-	-	-	1,500	3,767
<b>Total assets</b>	<b>81,943</b>	<b>1,487</b>	<b>3,423</b>	<b>22,406</b>	<b>21,785</b>	<b>15,975</b>	<b>147,019</b>
<b>Liabilities</b>							
Deposits	97,352	2,296	4,749	6,349	5,572	10,360	126,678
Subordinated liabilities	-	-	-	-	3,928	708	4,636
Other liabilities	2,502	-	-	-	58	-	2,560
<b>Total liabilities</b>	<b>99,854</b>	<b>2,296</b>	<b>4,749</b>	<b>6,349</b>	<b>9,558</b>	<b>11,068</b>	<b>133,874</b>
Capital and reserves	-	-	-	-	-	13,145	13,145
<b>Total capital, liabilities and reserves</b>	<b>99,854</b>	<b>2,296</b>	<b>4,749</b>	<b>6,349</b>	<b>9,558</b>	<b>24,213</b>	<b>147,019</b>
<b>Liquidity risk</b>	<b>(17,911)</b>	<b>(809)</b>	<b>(1,326)</b>	<b>16,057</b>	<b>12,227</b>	<b>(8,238)</b>	<b>-</b>



**Notes to the Bank's separate and the Group's consolidated financial statements****34 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

The maturity analysis of the Group's and the Bank's assets and liabilities as at 31 December 2019 was as follows

Group EUR'000	Up to 1 month including	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Over 5 years or not determined	Total
<b>Assets</b>							
Cash and balances due from the Bank of Latvia	79,015	-	-	-	-	-	79,015
Demand deposits with credit institutions	2,369	-	-	-	-	-	2,369
Financial assets at amortised cost	-	2,293	-	-	1,646	4,148	8,087
Financial assets at fair value through profit or loss	-	-	-	-	-	890	890
Financial assets at fair value through other comprehensive income	-	-	-	-	-	3,915	3,915
Loans and receivables	1,014	1,035	1,287	6,089	15,697	20,936	46,058
Property and equipment and right-of-use assets	-	-	-	581	709	-	1,290
Investment property	-	-	-	-	-	16,599	16,599
Other assets	3,595	910	-	1,376	617	1,904	8,402
<b>Total assets</b>	<b>85,993</b>	<b>4,238</b>	<b>1,287</b>	<b>8,046</b>	<b>19,559</b>	<b>47,502</b>	<b>166,625</b>
<b>Liabilities</b>							
Deposits	123,889	3,787	6,376	11,886	8,403	137	154,327
Subordinated liabilities	-	-	-	-	1,471	427	2,049
Other liabilities	2,693	41	1	18	88	167	3,008
<b>Total liabilities</b>	<b>126,582</b>	<b>3,828</b>	<b>6,377</b>	<b>11,904</b>	<b>9,962</b>	<b>731</b>	<b>159,384</b>
Capital and reserves	-	-	-	-	-	7,241	7,241
<b>Total capital, liabilities and reserves</b>	<b>126,582</b>	<b>3,828</b>	<b>6,377</b>	<b>11,904</b>	<b>9,962</b>	<b>7,972</b>	<b>166,625</b>
<b>Liquidity risk</b>	<b>(40,589)</b>	<b>410</b>	<b>(5,090)</b>	<b>(3,858)</b>	<b>9,597</b>	<b>39,530</b>	<b>-</b>

*Notes to the Bank's separate and the Group's consolidated financial statements***34 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

Bank EUR'000	Up to 1 month including	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Over 5 years or not determined	Total
<b>Assets</b>							
Cash and balances due from the Bank of Latvia	79,015	-	-	-	-	-	79,015
Demand deposits with credit institutions	2,369	-	-	-	-	-	2,369
Financial assets at amortised cost	-	2,293	-	-	1,646	4,148	8,087
Financial assets at fair value through profit or loss	-	-	-	-	-	890	890
Financial assets at fair value through other comprehensive income	-	-	-	-	-	3,915	3,915
Loans and receivables	2,266	1,296	1,124	21,243	17,309	22,730	65,968
Property and equipment and right-of-use assets	-	-	-	581	705	-	1,286
Investment property	-	-	-	-	-	53	53
Other assets	3,595	-	-	1,376	617	-	5,588
<b>Total assets</b>	<b>87,245</b>	<b>3,589</b>	<b>1,124</b>	<b>23,200</b>	<b>21,167</b>	<b>30,846</b>	<b>167,171</b>
<b>Liabilities</b>							
Deposits	123,889	3,787	6,376	11,886	8,403	137	154,327
Subordinated liabilities	-	-	-	-	1,471	427	2,049
Other liabilities	2,693	41	1	18	88	19	2,860
<b>Total liabilities</b>	<b>126,582</b>	<b>3,828</b>	<b>6,377</b>	<b>11,904</b>	<b>9,962</b>	<b>583</b>	<b>159,236</b>
Capital and reserves	-	-	-	-	-	7,935	7,935
<b>Total capital, liabilities and reserves</b>	<b>126,582</b>	<b>3,828</b>	<b>6,377</b>	<b>11,904</b>	<b>9,962</b>	<b>8,518</b>	<b>167,171</b>
<b>Liquidity risk</b>	<b>(39,337)</b>	<b>(239)</b>	<b>(5,253)</b>	<b>11,296</b>	<b>11,205</b>	<b>22,328</b>	<b>-</b>



**Notes to the Bank's separate and the Group's consolidated financial statements****34 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

The table below presents the cash flows payable by the Bank under both non-derivative and derivative financial liabilities by remaining contractual maturities as at 31 December 2020 and 31 December 2019.

The amounts disclosed in the table are the contractual undiscounted cash flows in comparison with carrying amounts of financial liabilities, comprising discounted cash flows as at the reporting date.

The Group's analysis of financial liabilities' contractual undiscounted cash flows has not been presented as the differences to the Bank analysis are insignificant.

EUR'000 31 December 2020	Carrying amount	Gross nominal outflow	Less than 1 month	1 – 3 months	3 months to 1 year	1-5 years	Over 5 years
<b>Non-derivative financial liabilities</b>							
Deposits	126,678	129,780	95,667	4,079	12,563	17,471	-
Subordinated liabilities	4,636	5,224	-	-	124	5,100	-
Other financial liabilities	2,006	2,006	2,006	-	-	-	-
<b>Total non-derivative financial liabilities</b>	<b>133,320</b>	<b>137,010</b>	<b>97,673</b>	<b>4,079</b>	<b>12,687</b>	<b>22,571</b>	<b>-</b>
Loans and credit line liabilities	321	321	321	-	-	-	-
Guarantees and letters of credit	63	63	63	-	-	-	-
<b>Total financial liabilities</b>	<b>134,256</b>	<b>137,946</b>	<b>98,609</b>	<b>4,079</b>	<b>12,687</b>	<b>22,571</b>	<b>-</b>

EUR'000 31 December 2019	Carrying amount	Gross nominal outflow	Less than 1 month	1 – 3 months	3 months to 1 year	1-5 years	Over 5 years
<b>Non-derivative financial liabilities</b>							
Deposits	154,478	159,980	117,671	5,018	15,477	21,814	-
Subordinated liabilities	1,898	2,547	-	-	79	1,917	551
Other financial liabilities	2,507	2,507	2,507	-	-	-	-
<b>Total non-derivative financial liabilities</b>	<b>158,883</b>	<b>165,034</b>	<b>120,178</b>	<b>5,018</b>	<b>15,556</b>	<b>23,731</b>	<b>551</b>
Loans and credit line liabilities	246	246	246	-	-	-	-
Guarantees and letters of credit	96	96	96	-	-	-	-
<b>Total financial liabilities</b>	<b>159,225</b>	<b>165,376</b>	<b>120,520</b>	<b>5,018</b>	<b>15,556</b>	<b>23,731</b>	<b>551</b>

**35 CAPITAL ADEQUACY**

The capital requirement for the Group and the Bank is set and monitored by the Financial and Capital Market Commission.

Capital is defined by the Group and the Bank as items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission, banks must maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. Furthermore, according to Section 35.25 of the Credit Institution Law, the Bank is required to ensure that its Tier 1 basic capital is sufficient to meet the total capital buffer requirement which given the provisions of Section 35.3(1) of the Credit Institution Law is comprised of a capital conservation buffer of 2.5% of total exposures calculated according to Article 92(3) of the Regulation and, as required in Section 35.4(1) of the Credit Institutions Law, of the specific countercyclical capital buffer (CCyB) calculated by multiplying the total value of exposures as required by Article 92(3) of the Regulation and the CCyB rate specific for the particular credit institution.

**Notes to the Bank's separate and the Group's consolidated financial statements****35 CAPITAL ADEQUACY (continued)**

As at 31 December 2020 the individual minimum level is set 11.40% which is increased by the total capital buffer requirement of 2.5% calculated as the sum of the capital buffer and the countercyclical capital buffer specific for the particular credit institution (31 December 2019: 12.45% which is increased by the total capital buffer requirement of 2.5% calculated as the sum of the capital buffer and the countercyclical capital buffer specific for the particular credit institution).

The actual capital adequacy ratio of the Group and the Bank was above the individual capital adequacy ratio set by the FCMC in the reporting year ended 31 December 2020 and below the individual capital adequacy ratio set by the FCMC in the reporting year ended 31 December 2019.

In order to achieve compliance with the total capital reserve requirements the Bank took measures to strengthen the capital as described in Note 17 and 39.

The following table shows the composition of the Group's capital position as at 31 December 2020 and 31 December 2019:

Group EUR'000	31 December 2020	31 December 2019
<b>Tier 1</b>		
Share capital	25,599	15,999
Share premium	260	260
Reserve capital	4,156	4,155
Retained earnings/(accumulated loss) carried forward from previous years	(13,773)	(12,981)
Profit/ (loss) for the reporting year	(3,605)	(4,706)
Revaluation reserve of financial assets at FVOCI	20	3,915
Additional value adjustment	-	(5)
Intangible assets	(2)	-
Other adjustments	(1,023)	(726)
Result of transition period conditions	1,325	1,608
<b>Total Tier 1 capital</b>	<b>12,957</b>	<b>7,519</b>
<b>Tier 2 capital</b>		
Subordinated capital (unamortised part)	3,374	1,261
<b>Total Tier 2 capital</b>	<b>3,374</b>	<b>1,261</b>
<b>Statutory deductions from Tier 1 and Tier 2 capital</b>	<b>(43)</b>	<b>(106)</b>
<b>Total shareholders' equity</b>	<b>16,288</b>	<b>8,674</b>
Risk weighted value of exposures to credit risk, counterparty credit risk, impairment of recoverable amounts and unpaid deliveries risk	76,138	86,379
Total exposure to position risk, foreign currency risk and commodity risk	294	431
Total exposure to operational risk	15,001	16,263
Total exposure to credit value adjustment risk	72	20
<b>Total risk exposure</b>	<b>91,505</b>	<b>103,093</b>
<b>Total capital adequacy ratio</b>	<b>17.80%</b>	<b>8.41%</b>
<b>Minimum capital adequacy ratio set by the FCMC</b>	<b>11.40%</b>	<b>12.45%</b>
<b>Minimum capital adequacy ratio set by the FCMC including the total capital buffer requirement</b>	<b>13.90%</b>	<b>14.95%</b>



*Notes to the Bank's separate and the Group's consolidated financial statements***35 CAPITAL ADEQUACY (continued)**

The following table shows the composition of the Bank's capital position as at 31 December 2020 and 31 December 2019:

Bank EUR'000	31 December 2020	31 December 2019
<b>Tier 1</b>		
Share capital	25,599	15,999
Share premium	260	260
Reserve capital	4,156	4,155
Retained earnings of the previous years	(13,080)	(12,656)
Profit/ (loss) for the reporting year	(3,812)	(4,338)
Revaluation reserve of financial assets at FVOCI	20	3915
Additional value adjustment	-	(5)
Intangible assets	(2)	-
Result of transition period conditions	1,325	1,609
<b>Total Tier 1 capital</b>	<b>14,466</b>	<b>8,939</b>
<b>Tier 2 capital</b>		
Subordinated capital (unamortised part)	3,374	1,261
<b>Total Tier 2 capital</b>	<b>3,374</b>	<b>1,261</b>
<b>Statutory deductions from Tier 1 and Tier 2 capital</b>	<b>(43)</b>	<b>(106)</b>
<b>Total shareholders' equity</b>	<b>17,797</b>	<b>10,094</b>
Risk weighted value of exposures to credit risk, counterparty credit risk, impairment of recoverable amounts and unpaid deliveries risk	75,100	86,094
Total exposure to position risk, foreign currency risk and commodity risk	265	1,059
Total exposure to operational risk	14,183	16,118
Total exposure to credit value adjustment risk	72	20
<b>Total risk exposure</b>	<b>89,620</b>	<b>103,291</b>
<b>Total capital adequacy ratio</b>	<b>19.86%</b>	<b>9.77%</b>
<b>Minimum capital adequacy ratio set by the FCMC</b>	<b>11.40%</b>	<b>12.45%</b>
<b>Minimum capital adequacy ratio set by the FCMC including the total reserve requirement</b>	<b>13.90%</b>	<b>14.95%</b>

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment with some adjustments is adopted for off-balance sheet exposure to reflect the more contingent nature of the potential losses. The additional value adjustment was calculated according to the simplified approach based on European Commission Delegated Regulation (EU) 2016/101.

**Notes to the Bank's separate and the Group's consolidated financial statements****35 CAPITAL ADEQUACY (continued)**

Capital adequacy ratio of the Group and the Bank without applying transitional regulations:

31 December 2020 EUR'000	Bank	Group
Tier 1 capital	13,142	11,632
Tier 2 capital	3,374	3,374
Statutory deductions from Tier 1 and Tier 2 capital	(43)	(43)
<b>Total capital, fully loaded</b>	<b>16,473</b>	<b>14,963</b>
<b>Total risk exposure amount, fully loaded</b>	<b>88,141</b>	<b>90,179</b>
<b>Capital adequacy ratio, fully loaded</b>	<b>18.69%</b>	<b>16.59%</b>

The above information is based on the Bank's and the Group's internal reports that are submitted to the Bank's management.

**36 MAXIMUM CREDIT RISK EXPOSURE**

The table below shows the maximum credit risk for the components of the statement of the financial position, including derivatives. Credit risk exposure is disclosed based on subjected to credit risk net carrying amount of statement of financial position items less impairment provisions for loans and advances to customers.

The maximum credit exposures are shown gross, i.e. without taking into account any pledges and collaterals. Detailed information on the type and amount of collateral is presented in the Note 10.

EUR'000	Maximum credit exposure of the Group	
	2020	2019
Balances with the Bank of Latvia	74,223	72,330
Demand deposits with credit institutions	532	2,369
Financial assets at amortised cost	1,570	8,087
Financial assets at fair value through profit or loss	469	890
Financial assets at fair value through other comprehensive income	1,016	3,915
Loans and receivables	41,837	46,058
Other financial assets	5,109	6,942
<b>Total items of the statement of financial position subjected to credit risk</b>	<b>124,756</b>	<b>140,591</b>
Loans and credit line liabilities	321	246
Guarantees and letters of credit	63	96
<b>Contingent liabilities and commitments</b>	<b>384</b>	<b>342</b>
<b>Total maximum credit risk exposure</b>	<b>125,140</b>	<b>140,933</b>

As disclosed above, 34 % from total gross maximum credit risk amount refers to loans and receivables (2019: 33%).



**Notes to the Bank's separate and the Group's consolidated financial statements****36 MAXIMUM CREDIT RISK EXPOSURE (continued)**

EUR'000	Maximum credit exposure of the Bank	
	2020	2019
Balances with the Bank of Latvia	74,223	72,330
Demand deposits with credit institutions	532	2,369
Financial assets at amortised cost	1,570	8,087
Financial assets at fair value through profit or loss	469	890
Financial assets at fair value through other comprehensive income	1,016	3,915
Loans and receivables	62,259	65,968
Other financial assets	3,524	5,319
<b>Total items of the statement of financial position subjected to credit risk</b>	<b>143,593</b>	<b>158,878</b>
Loans and credit line liabilities	372	246
Guarantees and letters of credit	63	96
<b>Contingent liabilities and commitments</b>	<b>435</b>	<b>342</b>
<b>Total maximum credit risk exposure</b>	<b>144,028</b>	<b>159,220</b>

**37 FAIR VALUE OF FINANCIAL INSTRUMENTS****(a) Financial instruments measured at fair value**

The table below analyses the financial instruments of the Group and the Bank measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

31 December 2020 EUR'000	Level 1:	Level 2:	Level 3:	Total
Financial assets at fair value through profit or loss	-	469	-	469
Financial assets at fair value through other comprehensive income	-	1,016	-	1,016
<b>Total</b>	<b>-</b>	<b>1,485</b>	<b>-</b>	<b>1,485</b>
<b>31 December 2019</b>				
Financial assets at fair value through profit or loss	-	890	-	890
Financial assets at fair value through other comprehensive income	-	3,915	-	3,915
<b>Total</b>	<b>-</b>	<b>4,805</b>	<b>-</b>	<b>4,805</b>

**Notes to the Bank's separate and the Group's consolidated financial statements****37 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****(b) Financial instruments not measured at fair value**

The table below analyses the fair values of the financial instruments of the Group and the Bank other than measured at fair value by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2020 Group EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
<b>Financial assets</b>					
Cash and due from central banks	-	75,629	-	75,629	75,629
Demand deposits with credit institutions	-	532	-	532	532
Loans and receivables	-	-	41,837	41,837	41,837
Financial assets at amortised cost	-	1,570	-	1,570	1,570
Other financial assets	-	-	5,109	5,109	5,109
<b>Financial liabilities</b>					
Deposits	-	126,638	-	126,638	126,638
Subordinated liabilities	-	-	4,636	4,636	4,636
Other financial liabilities	-	-	2,006	2,006	2,006
<b>31 December 2019</b>					
Group EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
<b>Financial assets</b>					
Cash and due from central banks	-	79,015	-	79,015	79,015
Demand deposits with credit institutions	-	2,369	-	2,369	2,369
Loans and receivables	-	-	46,058	46,058	46,058
Financial assets at amortised cost	-	8,087	-	8,087	8,087
Other financial assets	-	-	6,942	6,942	6,942
<b>Financial liabilities</b>					
Deposits	-	154,327	-	154,327	154,327
Subordinated liabilities	-	-	2,049	2,049	2,049
Other financial liabilities	-	-	2,507	2,507	2,507



**Notes to the Bank's separate and the Group's consolidated financial statements****37 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

31 December 2020 Bank EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
<b>Financial assets</b>					
Cash and due from central banks	-	75,629	-	75,629	75,629
Demand deposits with credit institutions	-	532	-	532	532
Loans and advances to customers	-	-	62,259	62,259	62,259
Financial assets at amortised cost	-	1,570	-	1,570	1,570
Other financial assets	-	-	3,524	3,524	3,524
<b>Financial liabilities</b>					
Deposits	-	126,678	-	126,678	126,678
Subordinated liabilities	-	-	4,636	4,636	4,636
Other financial liabilities	-	-	2,006	2,006	2,006

31 December 2019 Bank EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
<b>Financial assets</b>					
Cash and due from central banks	-	79,015	-	79,015	79,015
Demand deposits with credit institutions	-	2,369	-	2,369	2,369
Loans and advances to customers	-	-	65,968	65,968	65,968
Financial assets at amortised cost	-	8,087	-	8,087	8,087
Other financial assets	-	-	5,319	5,319	5,319
<b>Financial liabilities</b>					
Deposits	-	154,327	-	154,327	154,327
Subordinated liabilities	-	-	2,049	2,049	2,049
Other financial liabilities	-	-	2,507	2,507	2,507

**38 LITIGATIONS**

In the ordinary course of business the Bank and the Group are subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions of the results of future operations of the Group or the Bank.

**39 GOING CONCERN**

As disclosed in Note 35, in the year ended 31 December 2020, the Group and the Bank were in compliance with the total individual capital adequacy requirement as set by the regulator and above minimum capital requirements set by EU banking regulator.

Minimal level of total capital adequacy ratio set for the Bank and the Group by the regulator is 11.40%, which is increased by the total capital buffer requirement of 2.5%. Henceforth, there was a considerable surplus above the requirements. Minimal level of total capital adequacy requirement, which is increased by the total capital buffer requirement of 2.5% was exceeded by 3.90% for the Group and 5.96% for the Bank.

The Bank did experience financial loss in 2020, but it was mostly due to the loan loss provisions on historical non-performing loans as well as the fact that the new business model is still in its implementation phase and the results appear gradually in the profit and loss statement. The Bank is consistently improving its operational results and expects to regain

**Notes to the Bank's separate and the Group's consolidated financial statements****39 GOING CONCERN (continued)**

profitability in the first half of 2021. By the end of 2020, the Bank did decrease its monthly operational losses by approximately 80% compared to the beginning of the year. The Bank will continue to

- Strengthen its capital base.
- Continue growing its performing loan portfolio.
- Recover non-performing assets and repossessed real estate.
- Implement further cost-cutting measures.
- Review and improve the profitability of its products.

During 2020 the Bank's capital base was strengthened by investing EUR 9 million into Bank's capital. The contributions to the Bank's capital were made by two investors - SIA *J.A. Investment Holdings*, the beneficiary of which is Jurijs Adamovičs, who has provided 55.5 percent of the nine million euro investment, and by newly attracted investor - SIA *HPI 2*, the beneficiaries of which are Ralfs Kļaviņš and Andis Kļaviņš, who have paid in 44.5 percent of the investment.

Capital base was also significantly increased by an initial recognition in the Balance sheet and then disposal of all of the Mastercard Inc B class shares. The total cash consideration that was received for the shares was EUR 4.5 million and it directly increased Tier 1 capital.

The shareholders of the Bank understand the importance of a solid capital base for the Bank and have announced a new share issuance in amount of EUR 2 million that is to be completed until the end of April.

As a part of Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) the stress testing of Bank's liquidity portfolio is carried out semi-annually. Both short-term and long-term testing results confirm that the Bank has sufficient short-term and middle-term liquid assets to ensure its liquidity requirements. As at 31 December 2020 and 31 December 2019 the Bank's liquidity ratio was 77.1% and 73.7% respectively and liquidity coverage ratio was 525% and 528% respectively.

Based on above, the Management of the Group and the Bank conclude that the going concern principle is applicable to the preparation of these separate and consolidated financial statements.

The consolidated and separate financial statements of the Group and the Bank are prepared on a going concern basis.

**40 SUBSEQUENT EVENTS**

There have been no events that would have to be reflected in these financial statements for the period since the end of the reporting year.





## Independent Auditor's Report

To the Shareholders of AS Industra Bank

### Report on the audit of the separate and consolidated financial statements

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#### Our opinion

In our opinion, the separate and consolidated financial statements set out on pages 9 to 84 of the annual report give a true and fair view of the separate and consolidated financial position of AS Industra Bank ("the Bank") and its subsidiaries (together – "the Group") as at 31 December 2020, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Our opinion is consistent with our additional report to the Audit Committee dated 31 March 2021.

#### What we have audited

The Bank's separate and the Group's consolidated financial statements (together "the financial statements") comprise:

- the Bank's Separate and the Group's Consolidated Statements of Financial Position as at 31 December 2020;
- the Bank's Separate and the Group's Consolidated Statements of Profit or Loss and Other Comprehensive Income for the year then ended;
- the Bank's Separate and the Group's Consolidated Statements of Changes in Shareholders' Equity for the year then ended;
- the Bank's Separate and the Group's Consolidated Statements of Cash Flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Bank and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on Audit Services.

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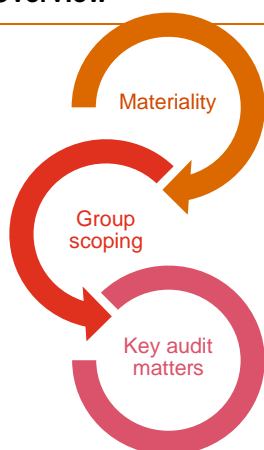
Translation note: This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the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

To the best of our knowledge and belief, we declare that non-audit services that have provided to the Bank and the Group are in accordance with applicable law and regulations in the Republic of Latvia and that we have not provided services that are prohibited under Article 37.6 of Law on Audit Services of the Republic of Latvia.

The non-audit services that we have provided to the Bank and the Group, in the period from 1 January 2020 to 31 December 2020, are disclosed in Note 23 to the financial statements.

## Our audit approach

### Overview



- Overall Bank and Group materiality is EUR 180 thousand, which represents approximately 5% of loss before tax of the Group for the year.
- We have audited the separate financial statements of the Bank.
- We have performed audit of the Bank's subsidiary AS MTB Finance.
- Our audit scope covered substantially all of the Group's revenues and total assets.
- Fair value of investment properties (the Group)
- Expected credit losses on loans (the Group and the Bank)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank and Group materiality separately for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures

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and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<b>Overall materiality</b>	Overall materiality applied to the Bank and the Group was EUR 180 thousand.
<b>How we determined it</b>	5% of loss before tax of the Group.
<b>Rationale for the materiality benchmark applied</b>	<p>We chose loss before tax for the year as the benchmark because in our view, it is the benchmark which is of primary focus by the users of the financial statements.</p> <p>We chose the threshold of 5%, which is within the range of accepted quantitative materiality thresholds for this benchmark.</p>

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 14 thousand, as well as the misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for qualified opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p><b>Fair value of investment properties (the Group)</b></p> <p>Refer to Note 12 “<i>Investment properties</i>” and Note 5 “<i>Estimates and judgement</i>” of the consolidated financial statements.</p> <p>Investment property as per consolidated financial statements mainly comprise investment property held by the subsidiaries of the Bank.</p> <p>We focused on this area because the management makes subjective judgements</p>	<p>We assessed that the Group’s accounting policies in relation to the fair valuation of investment properties are based on IFRS requirements.</p> <p>We tested that upon consolidation the investment properties owned by the subsidiaries of the Bank have been recognised in the consolidated balance sheet as at 31 December 2020.</p> <p>For a selected sample of investment properties, we obtained the independent valuations the Group obtained in respect of the investment properties. We involved our valuation specialists in order to</p>

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when determining the fair value of investment properties, especially where the properties are of a type and location in which currently there is limited or no active market. Therefore, a variety of valuation techniques are used with inputs that are observable in the market and inputs that are not observable in the market.

Management obtains reports from certified independent appraisers to assist them in determining the properties' fair values. Based on the type of investment property various valuation methods are used – market evidence of transaction prices for similar properties or income method.

The most significant judgements made by the management in respect of fair valuation of investment properties are comparative market prices and discounted cash flows, including rent rates, expenses, growth rate etc.

perform the assessment of independent valuations.

Where comparative market data was used, we evaluated whether the location, condition and other relevant attributes of the property are similar to those of the comparable assets used by valuers.

Where valuation models were used, we evaluated the reasonableness of inputs into the valuation models – future cash flows, growth rates, discount rates.

We also performed our own search of comparable market data, as well as assessed the calculation of fair values using discounted future cash flow models where it was considered necessary.

We tested the disclosures in the financial statements in respect of investment properties.

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#### Expected credit losses on loans (the Group and the Bank)

Refer to Note 10 “*Loans and receivables*” and Note 5 “*Estimates and judgements*” to the consolidated and separate financial statements.

We focused on this area because application of IFRS 9 “Financial instruments” expected credit loss (ECL) model for loans impairment losses requires complex and subjective judgements over the estimation of the ECL.

The key features of the ECL model include classification of loans to 3 stages, assessment of credit risk parameters and application of forward-looking information. The amount of ECL for the Group's and the Bank's loans is based on the model calculations taking into consideration the exposure at default (EAD), probability of default (PD), changes in customer credit rating, other known risk factors impacting stage of each exposure, and taking into account estimated future cash flows from the loan repayments or sale of collateral (loss given

We assessed that the Group's and the Bank's accounting policies in relation to the ECL of loans to customers are based on requirements of IFRS 9 by assessing each significant model component: exposure at default, probability of default and loss given default, definitions of default and significant increase in credit risk and use of macroeconomic scenarios.

We assessed the process of incorporating the forward-looking information in the estimates.

Further, on a sample basis we performed testing for accuracy and completeness of loan data, including contract dates, interest rates, collateral values and types, performing/ non-performing status and other inputs used in ECL calculation.

For a sample of loans, we have assessed reasonableness of assumptions related to future expected cash flows and recoverability of loans as made by credit expert for individually assessed loans. We have verified the rationale of these assumptions and verified the reasonableness of the values of collateral used in the assessment.

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default) (LGD), and ECL adjustments by expected impact of future macroeconomic scenarios.

For all loans in Stage 1 and 2 the expected credit losses are calculated using the ECL model, while for all exposures in Stage 3 expected credit losses are calculated on individual basis.

As at 31 December 2020 expected credit losses amounted to EUR 16 832 thousand and EUR 14 906 thousand for the Bank and the Group respectively (refer to note 10).

On a sample basis, we tested the collectively assessed credit loss allowance for loans to customers. We analyzed PD, LGD and EAD used by the Bank. We recalculated the final credit loss allowance for loans and advances assessed on collective basis using the ECL model.

We reviewed all loans from COVID-19 affected industries to evaluate reasonableness of staging as at 31 December 2020.

Finally, we tested the credit risk disclosures relating to loans and allowances for expected credit loss.

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### **How we tailored our Group audit scope**

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

The Group engagement team carried out audit work on the Bank's financial statements and the Bank's subsidiary AS MTB Finance. Our audit work addressed substantially all of the Group's revenues and the Group's total assets.

Audit work in relation to the consolidated and separate financial statements was performed by the Group engagement team, no component auditors were involved.

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### **Reporting on other information including the Management Report**

Management is responsible for the other information. The other information, which we obtained prior to the date of our auditor's report, comprises:

- Management Report, as set out on pages 3 to 6 of the accompanying Annual Report;
- information on the Bank's Management, as set out on page 7 of the accompanying Annual Report; and
- Statement of Responsibility of the Bank's Management, as set out on page 8 of the accompanying Annual Report,

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

Our opinion on the financial statements does not cover the other information identified above, including the Management Report, information on the Bank's Management and the Statement of Responsibility of the Bank's Management.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with

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the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of the applicable legislation.

Based on the work undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report, information on the Bank's Management and the Statement of Responsibility of the Bank's Management for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Management Report has been prepared in accordance with the requirements of the Financial and Capital Market Commission Regulation No 113 "Regulation on preparation of the annual report and consolidated annual report of credit institutions, investment brokerage companies and investment management companies".

In addition, in light of the knowledge and understanding of the Bank and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report, information on the Bank's Management and the Statement of Responsibility of the Bank's Management that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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### **Responsibilities of management and those charged with governance for the financial statements**

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

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

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

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### **Auditor's responsibilities for the audit of the financial statements**

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

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

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- 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 and the Group'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 and the Group'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 or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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## Report on other legal and regulatory requirements

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### Appointment

We were first appointed as auditors by the Bank shareholders' resolution on 10 April 2019. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of 3 years.

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PricewaterhouseCoopers SIA  
Certified audit company  
Licence No. 5

A handwritten signature in blue ink, appearing to read 'Ilandra Lejiņa'.

Ilandra Lejiņa  
Certified auditor in charge  
Certificate No. 168

Member of the Board

Riga, Latvia  
31 March 2021

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