INDUSTRA

ANNUAL REPORT 2021

CONTENT

Management report

If 2020 was the year of the rebirth of the Bank, when the composition of the shareholders was renewed, capital was increased, lending was restored and the name of the Bank changed, 2021 was the year of a take-off, when the Bank grew its credit portfolio, restored its profitability, and launched the development of several projects and products important to the Bank and its customers.

Result of operations

The extensive work carried out in previous years in the areas of corporate governance and business processes enabled the Bank to restore operational profitability at the beginning of the year. Replacing non-performing loans with new, the Bank managed to increase its net interest income by 257%, compared to the year before. Also, the Bank did increase its commission income from servicing resident accounts, from lending as well as in the e-commerce segment. Continuing to improve the efficiency of operational activity and performing a comprehensive cost audit, the administrative expenses were decreased by 752 thousand, or 11%. In 2021 profit of the Bank and group was 1650 thousand and 1519 thousand euro respectively.

Products and sales channels

The introduction of an internet bank, mobile bank, and customer relationship management (CRM) system was launched in 2021. They are scheduled to be completed within 2022.
Industra also launched a project for the introduction of an economic activity revenue account, which will facilitate accounting and tax payments for more than ten thousand economically active persons in Latvia.
Industra also plans to introduce or begin the development of several other new products for the convenience of its customers.

E-commerce

One of the significant developments of Industra in 2021 was the development of a secure electronic payment card service offering to its clients. The risks and constraints of covid-19 have dramatically changed people's shopping habits, replacing visits to physical shops with shopping in Internet shops and platforms. In line with the increasing user experience of e-buyers in all areas of e-commerce, the range of Internet traders' activities have continued to improve. During the reporting period, Industra has completed technical capacity-building work that enable e-traders to take advantage of card payment services and the Bank's payment infrastructure by selling goods and services online.

Lending

Considering the selected niche, the priority product of Industra is corporate lending. In 2021, Industra has provided more than €16 million in funding to local entrepreneurs, as well as granting loans to individuals for the purchase of real estate owned by the Bank's subsidiary. Industra continues to develop sustainable and competitive lending services for Latvian small and medium-sized enterprises from different sectors of the economy with an understandable, cost-effective business and financial model, as well as for the purchase of real estate owned by the Bank and its subsidiary companies.

Investment properties

Historically, the Bank has collected a significant portfolio of investment properties, and its successful management is important to achieve the objectives of the Bank. In 2021, 26% of the portfolio of investment properties was sold and income from unsold properties was increased by leasing them out. The Bank has succeeded in creating a portfolio of financially profitable investment properties, gained experience in their management, and has also identified the development of this segment in its operational strategy, so the development of a portfolio of income generating investment properties in its future activities will be one of the objectives for the sake of income diversification.

Recovery of NPL

In 2021, Industra continued its activities to reduce the proportion of non-performing loans (NPL) in the credit portfolio of the Bank. The Bank continues its work to recover all bad loans on its balance sheet.

Corporate governance

Continuing the strengthening of the Bank's corporate governance, on 23 September 2021, the new Risk Director, Toms Grīnbergs, was appointed. He has more than ten years of experience at Danske Bank as Director of Credit Management and Head of the Financial Planning and Risk Management Division, as well as work experience in the Bank as the Head of the Risk Management Division. The nomination of the new Risk Director was also agreed by the FCMC. The former Risk Director, Dmitry Kozlov, is continuing his work at the Bank in the Risk Management unit.

Management report (continued)

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 2022 we plan to introduce guidelines for the inclusion of ESG and sustainability considerations in customer service, financing and other bank activities.

Risks

For several years now, Industra has been purposefully reducing virtually all of its operational risks. A significant reduction in risks has been achieved in the fields of AML, internal operations and risk management, capital adequacy, capital, and operational risks, resulting in an improvement in the overall risk assessment of the Bank's Supervisory Review and Evaluation Process (SREP) and a reduction of the required individual capital requirement for 2022 from 13.90% to 12.65%.

Future forecasts

In 2022, the 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 banking services of their employees, managers, and owners.

In order to implement the development plans of Industra, the Bank will introduce new internet bank, mobile bank and customer relationship management system in 2022. The implementation of these projects will help the Bank to improve its product mix, attracting new customers, improving internal processes and reducing operational risks.
Furthermore in 2022 Industra will continue to work in the following directions:

- issuance of new loans to Latvian companies,
- increasing the volume of interest-bearing assets, not only by lending, but also by investing in commercial properties and government bonds,
- the development of new products for instant payments, online identification, etc. will be launched,
- further development of e-commerce services,
- extension of the correspondent banking network,
- improvements in operational efficiency thus reducing regulatory risk requirements.

In 2021, Industra has continued to grow its revenue-generating loans to businesses, improved its operational performance and restored its profitability. 2022 will be the year of modernisation, with the introduction of a new and up-to-date online banking and mobile banking, an economic activity revenue account, extended cooperation with fintech companies.
The Bank will focus on simplifying and improving settlement procedures for its customers.

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

Best regards,

Jurijs Adamovičs
Chairman of the Council

Raivis Kakānis
Chairman of the Board

31 March 2022

INFORMATION ON THE BANK'S MANAGEMENT

Council members as of the date of signing these financial statements

Name, surname	Position	Date of appointment
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

Board members as of the date of signing these financial statements

Name, surname	Position	Date of appointment
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

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 7 to 79 are prepared based on source documents and present fairly the financial position of the Group and the Bank as at 31 December 2021 and the results of their operations, and cash flows for the year then ended.

The Bank's separate and the Group's consolidated 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 Kakānis
Chairman of the Board

31 March 2022

The Bank's separate and the Group's consolidated statements of financial position

EUR'000	Note	2021 Group	2021 Bank	2020 Group	2020 Bank
ASSETS					
Cash and balances due from the Bank of Latvia	6	102,980	102,980	75,629	75,629
Demand deposits with credit institutions	7	659	659	532	532
Financial assets at fair value through profit or loss	8	501	501	469	469
Financial assets at fair value through other comprehensive income	8	1,031	1,031	1,016	1,016
Financial assets at amortised cost		44,416	61,495	43,407	63,829
Debt securities		-	-	*1,570*	*1,570*
Loans and receivables	9	*44,416*	*61,495*	*41,837*	*62,259*
Intangible assets		2	2	2	2
Property and equipment and right-of-use assets	10	676	676	857	855
Investment properties	11	14,251	1,193	19,246	920
Other assets	12	7,809	3,734	6,154	3,767
Total assets		**172,325**	**172,271**	**147,312**	**147,019**
LIABILITIES AND EQUITY					
Financial liabilities at amortised cost:		151,033	151,087	131,274	131,314
Deposits	13	*146,380*	*146,434*	*126,638*	*126,678*
Subordinated liabilities	14	*4,653*	*4,653*	*4,636*	*4,636*
Other liabilities	15	5,098	4,372	3,378	2,558
Provisions		7	7	2	2
Total liabilities		**156,138**	**155,466**	**134,654**	**133,874**
Shareholders'equity					
Share capital	16	27,601	27,601	25,599	25,599
Share premium		260	260	260	260
Reserve capital	16	4,156	4,156	4,156	4,156
Fair value reserve		28	28	20	20
Accumulated losses		(15,858)	(15,240)	(17,377)	(16,890)
Total Shareholders'equity		**16,187**	**16,805**	**12,658**	**13,145**
Total liabilities and equity		**172,325**	**172,271**	**147,312**	**147,019**

The accompanying notes on pages 11 to 79 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 7 to 79 on 31 March 2022.

Jurijs Adamovičs
Chairman of the Council

Raivis Kakānis
Chairman of the Board

31 March 2022

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

EUR'000	Note	2021 Group	2021 Bank	2020 Group	2020 Bank
Interest income	17	2,315	2,376	1,387	1,364
including income at effective interest rate		*2,047*	*2,309*	*1,059*	*1,241*
Interest expenses	18	(1,136)	(1,136)	(1,057)	(1,057)
Net interest income		**1,179**	**1,240**	**330**	**307**
Commission and fee income	19	12,710	12,708	5,747	5,745
Commission and fee expense	20	(5,036)	(5,036)	(1,124)	(1,124)
Net commission income		**7,674**	**7,672**	**4,623**	**4,621**
Gain on trading with financial instruments, net	21	232	417	1,017	1,076
Net gain on revaluation of financial assets measured at fair value through profit or loss		-	-	653	653
Other operating income		564	127	705	122
Other operating expenses		(369)	(119)	(361)	(172)
Net operating income		**9,280**	**9,337**	**6,967**	**6,607**
Administrative expenses	22	(7,182)	(6,888)	(7,897)	(7,640)
Depreciation of property and equipment and right-of-use assets	23	(411)	(409)	(474)	(472)
Revaluation of investment property	11	73	273	-	-
Net impairment allowance result	9	(241)	(663)	(1,916)	(2,022)
Loss from assets write-off		-	-	(285)	(285)
Profit/(loss) before taxation		**1,519**	**1,650**	**(3,605)**	**(3,812)**
Income tax expenses		-	-	-	-
Profit/(loss) after taxation		**1,519**	**1,650**	**(3,605)**	**(3,812)**
Profit/(loss) for the reporting period		**1,519**	**1,650**	**(3,605)**	**(3,812)**
Other comprehensive income					
Items that could be reclassified to profit or loss					
Net gains on financial assets (debt instruments) at fair value through other comprehensive income		8	8	20	20
Other comprehensive income for the reporting year		**8**	**8**	**20**	**20**
Total comprehensive income/(loss)		**1,527**	**1,658**	**(3,585)**	**(3,792)**

The accompanying notes on pages 11 to 79 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 7 to 79 on 31 March 2022.

Jurijs Adamovičs
Chairman of the Council

Raivis Kakānis
Chairman of the Board

31 March 2022

The Bank's separate and the 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
As at 31 December 2019	**16,598**	**260**	**4,155**	**3,915**	**(17,687)**	**7,241**
Issue of shares	*9,001*	-	*1*	-	-	*9,002*
Disposal of equity securities	-	-	-	*(3,915)*	*3,915*	-
Loss for the reporting year	-	-	-	-	*(3,605)*	*(3,605)*
Other comprehensive income	-	-	-	*20*	-	**20**
Total comprehensive loss	-	-	-	**20**	**(3,605)**	**(3,585)**
As at 31 December 2020	**25,599**	**260**	**4,156**	**20**	**(17,377)**	**12,658**
Issue of shares	**2,002**	-	-	-	-	**2,002**
Profit for the reporting year	-	-	-	-	**1,519**	**1,519**
Other comprehensive income	-	-	-	**8**	-	**8**
Total comprehensive income	-	-	-	**8**	**1,519**	**1,527**
As at 31 December 2021	**27,601**	**260**	**4,156**	**28**	**(15,858)**	**16,187**

Bank EUR'000	Share capital	Share premium	Reserve capital	Fair value reserve	Accumulated loss	Total equity
As at 31 December 2019	**16,598**	**260**	**4,155**	**3,915**	**(16,993)**	**7,935**
Issue of shares	*9,001*	-	*1*	-	-	*9,002*
Disposal of equity securities	-	-	-	*(3,915)*	*3,915*	-
Loss for the reporting period	-	-	-	-	*(3,812)*	*(3,812)*
Other comprehensive income	-	-	-	*20*	-	**20**
Total comprehensive loss	-	-	-	**20**	**(3,812)**	**(3,792)**
As at 31 December 2020	**25,599**	**260**	**4,156**	**20**	**(16,890)**	**13,145**
Issue of shares	**2,002**	-	-	-	-	**2,002**
Profit for the reporting year	-	-	-	-	**1,650**	**1,650**
Other comprehensive income	-	-	-	**8**	-	**8**
Total comprehensive income	-	-	-	**8**	**1,650**	**1,658**
As at 31 December 2021	**27,601**	**260**	**4,156**	**28**	**(15,240)**	**16,805**

The accompanying notes on pages 11 to 79 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 7 to 79 on 31 March 2022.

Jurijs Adamovičs
Chairman of the Council

Raivis Kakānis
Chairman of the Board

31 March 2022

The Bank's separate and the Group's consolidated statements of cash flows

EUR'000		2021 Group	2021 Bank	2020 Group	2020 Bank
Cash flows from operating activities					
Profit/(loss) before taxation		1,519	1,650	(3,605)	(3,812)
Depreciation of property and equipment and right-of use assets		411	409	474	472
Impairment allowance		241	663	1,916	2,022
Revaluation of investment property		(73)	(273)	-	-
Interest income		(2,315)	(2,376)	(1,387)	(1,364)
Interest expense		1,136	1,136	1,057	1,057
Other changes		74	(38)	579	579
Increase/(decrease) in cash and cash equivalents used in operating activities before changes in operating assets and liabilities		**993**	**1,171**	**(966)**	**(1,046)**
(Increase)/decrease in loans and advances to customers		(2,821)	309	2,305	1,687
Decrease in financial assets		1,570	1,570	9,838	9,838
(Increase)/decrease in other assets		(1,641)	46	2,223	1,821
Increase/(decrease) in deposits		19,742	19,755	(27,690)	(27,650)
Increase/(decrease) in other liabilities		1,725	1,590	55	(618)
Interest received		2,302	2,363	1,387	1,364
Interest paid		(1,136)	(1,136)	(1,057)	(1,057)
Net cash flows from operating activities		**20,734**	**25,668**	**(13,905)**	**(15,661)**
Cash flow from investing activities					
Purchase of property and equipment		(120)	(120)	(137)	(137)
Disposal of property and equipment		120	120	81	81
Acquisition of investment property		(1,800)	-	(4,301)	(868)
Disposal of investment property		6,734	-	1,677	-
Net cash flow from investing activities		**4,934**	**-**	**(2,680)**	**(924)**
Cash flow from financing activities					
Issue of shares		2,002	2,002	9,002	9,002
Increase in subordinated liabilities		17	17	2,587	2,587
Repayment of lease liabilities (IFRS 16)		(209)	(209)	(227)	(227)
Net cash flows from financing activities		**1,810**	**1,810**	**11,362**	**11,362**
Net increase/(decrease) in cash and cash equivalents		**27,478**	**27,478**	**(5,223)**	**(5,223)**
Cash and cash equivalents at the beginning of the year		**76,161**	**76,161**	**81,384**	**81,384**
Cash and cash equivalents at the end of the year	24	**103,639**	**103,639**	**76,161**	**76,161**

The accompanying notes on pages 11 to 79 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 7 to 79 on 31 March 2022.

Jurijs Adamovičs
Chairman of the Council

Raivis Kakānis
Chairman of the Board

31 March 2022

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 4 client service centres in Riga, and client service centres in Liepāja, Ventspils, Daugavpils and Jelgava.

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 2021 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 2022. 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 38. The financial and capital position of the Group and the Bank and their business activities, the objectives and policies of risk management and the key risks to which the Group and the Bank are 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 and the 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 and the 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 and the 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 and the Bank have 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 and the Bank's operations at the reporting date nor is any expected in the future.

The preparation of the 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

The financial statements are presented in euros and all figures are rounded to thousands of euros (thous.EUR) unless indicated otherwise. Euro is functional currency of the Bank and its subsidiaries.

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	
	31.12.2021	**31.12.2020**
USD	1.1326	1.2271
RUB	85.30040	91.4671

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 and 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 and the Bank may write off financial assets that are still subject to enforcement activity when the Group and the Bank seeks to recover amounts that are due under contracts, however, there is no reason to believe that they will be recovered.

Financial assets – de-recognition

The Group and the Bank derecognises financial assets when:

- the assets are redeemed or the rights to cash flows from the assets expired; or
- the Group and the Bank transfer the rights to the cash flows from the financial assets or enter into a relevant agreement, while

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Repossessed assets

As part of the normal course of business the Group and the Bank occasionally take possession of property that originally was pledged as security for a loan. When the Group and the 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 the Bank. When the Group and the Bank are uncertain of their intentions with respect to property that they have repossessed, those properties are classified as investment property. Other types of collateral (repossessed 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 36.

Credit impairment

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 unlikeliness 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 Group or the Bank 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 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.

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 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 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.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

During the moratorium the Bank approved 12 clients' requests which corresponded to the criteria set – 6 corporates (where 2 clients settled their liabilities in full by 31.12.2020) and 6 private persons.

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.

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.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 their short-term commitments, less amounts due to the Bank of Latvia and credit institutions with original maturities of less than 3 months.

Leases

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 income 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 and the Bankas 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 the Bank have 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 in profit or loss when the right to receive payment is established.

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

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 2021, but did not have any material impact on the Group's and the Bank's financial statements:

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

- **Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective for annual periods beginning on or after 1 January 2021).** Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform. The amendments address the accounting issues that arise when financial instruments that reference an IBOR interest rate transition to an alternative benchmark rate. The amendments include a practical expedient for modifications required by the Interest Rate Benchmark Reform (the

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

Reform), to be treated as changes to a floating interest rate. They also permit changes required by the Reform to be implemented in hedge designations and hedge documentation without the hedging relationship being discontinued.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The amendments did not have any impact on the Group's and the Bank's financial position, results or cash flows.

Standards or interpretations effective for the first time for the annual periods beginning on or after 1 January 2022 or not yet adopted by the EU

- **Amendments to IFRS 4 – deferral of IFRS 9** (effective for annual periods beginning on or after 1 January 2023).

- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28** (effective for annual periods beginning on or after a date to be determined by the IASB, not yet adopted by the EU).

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021, not yet adopted by the EU).

- **Classification of liabilities as current or non-current – Amendments to IAS 1** (effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU).

- **Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS9, IFRS16 and IAS 41** (effective for annual periods beginning on or after 1 January 2022).

The 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 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 Group's and the Bank's main operations. The following policies have been approved in order to achieve the Group's and the Bank'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:Liquidity risk management policy;

1. Credit policy;
2. Credit risk management policy and strategy;
3. Risk transactions and risk control policy for large transactions;
4. Currency risk management policy;
5. Country risk management policy;
6. Interest rate risk management policy;
7. Anti-money laundering and counterterrorism and proliferation financing and sanctions risk management policy;
8. Operational compliance risk management policy;
9. Capital and liquidity adequacy assessment policy;
10. Operational risk management policy;
11. Conflicts of interest prevention policy;
12. Reputation risk management policy;
13. 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 2021 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 2021 is 86.12% and that as at 31 December 2020 was 77.53%.

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% was introduced in June 2021.

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Liquidity reserve	101,198	101,198	76,358	76,396
Net cash outflows	24,976	24,743	15,302	15,133
Liquidity coverage ratio, %	**405**	**410**	**499**	**505**

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 Treasure 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 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 33.

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 it's 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

3 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 9 "Loans" and Note 35 "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, during 2021 the Bank was required to maintain an individual capital adequacy ratio of 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 34 and for the impact on the ability of the Group and the Bank to continue as a going concern to Note 38.

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 32.

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 the 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 30.

Country risk

Country risk is represented by possible losses in cases, where a debtor of the Group and the Bank, being non-resident, will not be able to meet its liabilities against the Group and the 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 29.

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. During the reporting period the Bank actively continued to improve the ML/TF/PF and sanctions risk management system, by maintaining 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

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

4 RISK MANAGEMENT (continued)

customers, operational geographies, services and products, and delivery channels that impact the Bank's exposure to the ML/TF/PF risk.

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 provided.

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 2021 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;
- 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, 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.

At the beginning of 2021, the Bank received the results of an independent audit of the audit company Deloitte in the field of NILLTPF and sanctions risk management, receiving confirmation of compliance of its NILLTPF and sanctions risk management internal control system not only with the requirements of the Republic of Latvia, but also with best practices. The Bank obtained the following independent assessments of the NILLTPF and the Sanctions Risk Management System:

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.

During 2021 the Bank worked on 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.

In 2021 the Bank continued changing its business strategy and significantly reduced its reliance on services provided to foreign customers, attracted a number of small and medium-sized enterprises in Latvia, resumed lending and significantly reduced the number of higher-risk customers and the volume of their operations.

In the next period, the Bank will continue to implement the planned improvements, increasing the volume of services provided to Latvian small and medium-sized enterprises, which will reduce the Bank's overall ML/TF/PF and sanction risks. The Bank plans to significantly improve the ML/TF/PF and sanction risk management information technology solutions by introducing the latest versions of IT systems SIRON and ACCUITY, which will be integrated with the new CRM system and Internet banking. New IT technologies will provide the Bank with more efficient ML/TF/PF and sanction risk management processes, decision-making management, and more efficient management of documents and customer communications.

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 38.

Impairment of financial assets at amortised cost

The management makes a number of judgements regarding financial iInstruments: 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.

6 CASH AND DUE FROM THE BANK OF LATVIA

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Cash	2,127	2,127	1,406	1,406
Due from the Bank of Latvia (including obligatory reserve)	100,853	100,853	74,223	74,223
Total	**102,980**	**102,980**	**75,629**	**75,629**

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 2021 and 31 December 2020 the Bank was in compliance with the above requirements.

Cash and balances are available on request from the Bank of Latvia, thus, given the very low probability of default, the expected credit loss is not material.

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

7 DEMAND DEPOSITS WITH CREDIT INSTITUTIONS

(a) Geographical segments

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Credit institutions of OECD countries	230	230	250	250
Credit institutions of Latvia	-	-	5	5
Credit institutions of non-OECD countries	429	429	277	277
Total	**659**	**659**	**532**	**532**

The Bank maintained relationship with 13 correspondent banks (2020: 14).

The main correspondent bank of the Group and the Bank: Deutsche Bundesbank - 230 thousand EUR, (2020 - 227 thousand EUR).

(b) Credit rating structure (Standard&Poors)

When allocating financial resources to monetary financial institutions, 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 and the Bank monitors monetary financial institutions and controls the compliance of granted limits with credit risk assessment.

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
-rated from AAA to A-	19	19	31	31
-rated from BBB+ to BBB-	73	73	-	-
-rated from BB+ to B-	14	14	112	112
-not rated	553	553	389	389
Total	**659**	**659**	**532**	**532**

8 FINANCIAL ASSETS BY CATEGORY

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Financial assets at amortised cost:				
Debt securities	-	-	1,570	1,570
Loans and receivables	44,416	61,495	41,837	62,259
Financial assets at fair value through profit or loss:				
Equity securities (Visa Inc. Class C convertible participating preffed stock)	501	501	469	469
Financial assets at fair value through other comprehensive income:				
Debt securities	1,031	1,031	1,016	1,016

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

9 LOANS AND RECEIVABLES

(a) Loans by groups:

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Individuals	8,469	7,921	6,909	6,348
Legal entities	49,320	69,399	49,744	72,653
Personnel of the Bank	150	150	90	90
Total loans, gross	**57,939**	**77,470**	**56,743**	**79,091**
Impairment allowance	(13,523)	(15,975)	(14,906)	(16,832)
Total loans, net	**44,416**	**61,495**	**41,837**	**62,259**

(b) Loans by type:

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Loans	54,233	64,705	56,107	68,564
Credit lines	3,683	12,742	327	10,218
Overdrafts	23	23	309	309
Loans, gross	**57,939**	**77,470**	**56,743**	**79,091**
Impairment allowance	(13,523)	(15,975)	(14,906)	(16,832)
Total loans, net	**44,416**	**61,495**	**41,837**	**62,259**

(c) Loans issued by industry, gross:

EUR'000	2021 Group	%	2021 Bank	%	2020 Group	%	2020 Bank	%
Legal entities								
Real estate property	25,257	51%	23,712	34%	24,361	49%	24,361	34%
Construction	513	1%	188	0%	-	-	-	-
Electricity	6,916	14%	6,916	10%	7,162	14%	7,162	10%
Wholesale and retail	3,321	7%	3,274	5%	3,434	7%	3,434	5%
Industrial markets	5,685	12%	5,685	8%	5,057	10%	5,057	7%
Transport, warehousing and communications	413	1%	26	0%	36	0%	36	0%
Loans issued to financial intermediaries	-	0%	24,020	35%	-	-	28,261	39%
Finance lease	4,489	9%	-	0%	5,352	11%	-	-
Others	2,726	5%	5,578	8%	4,342	9%	4,342	5%
Total	**49,320**	**100%**	**69,399**	**100%**	**49,744**	**100**	**72,653**	**100%**
Individuals and personnel of the Bank								
Consumer loans	187	2%	187	2%	160	2%	160	2%
Credit cards	285	3%	285	4%	294	4%	294	5%
Mortgage loans	3,605	42%	3,605	45%	3,510	50%	3,510	54%
Finance lease	548	6%	0	0%	561	8%	-	-
Business loans	119	1%	119	1%	181	3%	181	3%
Others	3,875	46%	3,875	48%	2,293	33%	2,293	36%
Total	**8,619**	**100%**	**8,071**	**100%**	**6,999**	**100**	**6,438**	**100%**

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

9 LOANS AND RECEIVABLES (continued)

(d) Loans by geographical classification:

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Residents of Latvia	53,892	73,423	55,224	77,572
Residents of OECD countries	465	465	483	483
Residents of non-OECD countries	3,582	3,582	1,036	1,036
Loans and advances to non-banking customers, gross	**57,939**	**77,470**	**56,743**	**79,091**
Impairment allowance	(13,523)	(15,975)	(14,906)	(16,832)
Loans and advances to customers, net	44,416	61,495	41,837	62,259

(e) Movements in the impairment allowance:

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Balance at the beginning of the year	**14,906**	**16,832**	**30,504**	**32,229**
Increase in provisions for impairment	476	1,002	3,483	3,644
Release of prior periods' loan loss provisions	(401)	(401)	(1,567)	(1,622)
Write-off of prior periods' loan loss provisions	(1,458)	(1,458)	(17,514)	(17,419)
Balance at the end of the reporting period	13,523	15,975	14,906	16,832

(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 2021								
Gross loans	**57,939**	34,532	2,848	408	-	48	98	20,005
Impairment allowance	**(13,523)**	(1,743)	(600)	(110)	-	(26)	(98)	(10,946)
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)

Bank 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 2021								
Gross loans and advances	**77,470**	55,739	2,200	382	-	48	98	19,003
Impairment allowance	**(15,975)**	(5,397)	(398)	(110)	-	(26)	(98)	(9,946)
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)

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

9 LOANS AND RECEIVABLES (continued)

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:

	2021 Group EUR'000	%	2021 Bank EUR'000	%	2020 Group EUR'000	%	2020 Bank EUR'000	%
Commercial buildings	28,028	48%	28,028	36%	28,290	50%	28,290	36%
Commercial assets pledge	8,399	14%	8,399	11%	7,618	13%	7,618	10%
Land mortgage	5,471	9%	5,471	7%	1,648	3%	1,648	2%
Mortgage on residential	7,163	12%	7,163	9%	10,476	18%	10,476	13%
Guarantee	895	2%	895	1%	1,637	3%	1,637	2%
Lease and other	7,620	13%	3,131	4%	6,153	11%	240	-
No collateral	363	2%	24,383	32%	921	2%	29,182	37%
Total	57,939	100%	77,470	100%	56,743	100%	79,091	100%

Significant credit risk concentration

As at 31 December 2021 and 31 December 2020, the Bank had 12 borrowers or groups of related borrowers, respectively, whose total loan liabilities exceeded 10% of the Bank's capital as disclosed in Note 34. The gross amount of the above loans as at 31 December 2021 and 31 December 2020 was 61,899 thousand EUR and 61,807 thousand EUR, respectively. An impairment allowance was recognised for the above loans as at 31 December 2021 and 31 December 2020 in the amount of 9,876 thousand EUR and 8,795 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 (31.30%) as at 31 December 2021 and in one case (28.25%) as at 31 December 2020.

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

EUR'000	31 December 2021 Group	31 December 2021 Bank	31 December 2020 Group	31 December 2020 Bank
Credit risk has not increased significantly (Stage 1)	27,935	27,234	22,374	21,479
Credit risk has increased significantly (Stage 2)	5,317	20,483	5,618	26,509
Loans, which have evidence of impairment (Stage 3)	24,687	29,753	28,751	31,103
Total gross loans	**57,939**	**77,470**	**56,743**	**79,091**
Impairment allowance	(13,523)	(15,975)	(14,906)	(16,832)
Total net loans	44,416	61,495	41,837	62,259

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

9 LOANS AND RECEIVABLES (continued)

Breakdown of the Group's and the Bank's loans by their qualitative assessment after the adoption of IFRS 9:

Group EUR'000	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
As at 31 December 2020	**764**	**507**	**13,635**	**14,906**	**22,374**	**5,618**	**28,751**	**56,743**
Movements between stages:								
to lifetime ECL (from Stage 1 to Stage 2)	-	-	-	-	(62)	60	-	(2)
to lifetime ECL with credit impairment (from Stage 1 and Stage 2 to Stage 3)	-	(42)	43	1	-	(586)	390	(196)
New originated or purchased	211	16	-	227	10,635	940	1,902	13,477
Movements without impact on impairment allowance charge for the period:	(234)	8	474	248	(2,458)	(259)	(846)	(3,563)
De-recognised	(44)	(8)	(349)	(401)	(2,554)	(456)	(4,052)	(7,062)
Total movements for the period	**(67)**	**(26)**	**168**	**75**	**5,561**	**(301)**	**(2,606)**	**2,654**
Write-offs	-	-	(1,458)	(1,458)	-	-	(1,458)	(1,458)
As at 31 December 2021	**697**	**481**	**12,345**	**13,523**	**27,935**	**5,317**	**24,687**	**57,939**

Bank EUR'000	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
As at 31 December 2020	**764**	**507**	**15,561**	**16,832**	**21,479**	**26,509**	**31,103**	**79,091**
Movements between stages:								
to lifetime ECL with credit impairment (from Stage 1 and Stage 2 to Stage 3)	-	(42)	43	1	-	(586)	390	(196)
New originated or purchased	211	16	485	712	10,599	673	2,576	13,848
Movements without impact on impairment allowance charge for the period:	(234)	8	515	289	(2,327)	(3,194)	(850)	(6,371)
De-recognised	(44)	(8)	(349)	(401)	(2,517)	(2,919)	(2,008)	(7,444)
Total movements for the period:	**(67)**	**(26)**	**694**	**601**	**5,755**	**(6,026)**	**108**	**(163)**
Write-offs	-	-	(1,458)	(1,458)	-	-	(1,458)	(1,458)
As at 31 December 2021	**697**	**481**	**14,797**	**15,975**	**27,234**	**20,483**	**29,753**	**77,470**

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

9 LOANS AND RECEIVABLES (continued)

Breakdown of the Group's and 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
As at 31 December 2019	**813**	**1,014**	**28,677**	**30,504**	**13,674**	**9,580**	**53,308**	**76,562**
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)**
Total movements with impact on impairment allowance charge for the period	**408**	**(313)**	**(81)**	**14**	**10,129**	**(3,555)**	**(315)**	**6,259**
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)**
Total movements without impact on impairment allowance charge for the period	**(457)**	**(194)**	**(14,961)**	**(15,612)**	**(1,429)**	**(407)**	**(24,242)**	**(26,078)**
As at 31 December 2020	**764**	**507**	**13,635**	**14,906**	**22,374**	**5,618**	**28,751**	**56,743**

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

9 LOANS AND RECEIVABLES (continued)

Breakdown of the Group's and the Bank's loans by their qualitative assessment after the adoption of IFRS 9:

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
As at 31 December 2019	**813**	**1,014**	**30,402**	**32,229**	**12,462**	**30,034**	**55,701**	**98,197**
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)**
Total movements with impact on impairment allowance charge for the period:	**408**	**(313)**	**(81)**	**14**	**10,339**	**(2,246)**	**(225)**	**7,868**
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)**
Total movements without impact on impairment allowance charge for the period	**(457)**	**(194)**	**(14,760)**	**(15,411)**	**(1,322)**	**(1,279)**	**(24,373)**	**(26,974)**
As at 31 December 2020	**764**	**507**	**15,561**	**16,832**	**21,479**	**26,509**	**31,103**	**79,091**

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

9 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	2021	2020
Gross investment in finance leases, receivable with maturity:		
Less than one year	1,026	4,367
Between one and five years	1,900	1,383
More than 5 years	1,563	163
Total gross investment in finance leases, receivables	**4,489**	**5,913**
Impairment allowance	(1,202)	(1,259)
Net investment in finance lease	**3,287**	**4,654**
Net investments in finance leases with maturity:		
Less than one year	1,026	3,108
Between one and five years	1,698	1,383
More than 5 years	563	163
	3,287	4,654

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

10 PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Group EUR'000	Buildings	Vehicles	Office equipment	Leasehold improvements	Right-of-use assets	Total
Cost						
As at 31 December 2019	**642**	**94**	**1,356**	**7**	**921**	**3,020**
Additions	-	-	137	-	-	137
Sales	(81)	(57)	-	-	-	(138)
Disposals	-	-	(155)	(7)	(172)	(334)
As at 31 December 2020	**561**	**37**	**1,338**	-	**749**	**2,685**
Additions	-	-	120	-	168	288
Sales	(82)		-	-	-	(82)
Disposals	-	-	(5)	-	(10)	(15)
As at 31 December 2021	**479**	**37**	**1,453**	-	**907**	**2,876**
						-
Accumulated depreciation						-
As at 31 December 2019	**333**	**89**	**968**	-	**340**	**1,730**
Depreciation for the reporting year	31	2	218	-	80	331
Depreciation of disposed fixed assets	(23)	(56)	(154)	-	-	(233)
As at 31 December 2020	**341**	**35**	**1,032**	-	**420**	**1,828**
Depreciation for the reporting year	28	2	171	-	211	412
Depreciation of disposed fixed assets	(35)	-	(5)	-	-	(40)
As at 31 December 2021	**334**	**37**	**1,198**	-	**631**	**2,200**
Balance						
As at 31 December 2019	**309**	**5**	**388**	**7**	**581**	**1,290**
As at 31 December 2020	**220**	**2**	**306**	-	**329**	**857**
As at 31 December 2021	**145**	**-**	**255**	**-**	**276**	**676**

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

10 PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS (continued)

Bank EUR'000	Buildings	Vehicles	Office equipment	Leasehold improvements	Right-of-use assets	Total
Cost						
As at 31 December 2019	**642**	**2**	**1,356**	**7**	**921**	**2,928**
Additions	-	-	137	-	-	137
Sales	(81)	-	-	-	-	(81)
Disposals	-	(2)	(155)	(7)	(172)	(336)
As at 31 December 2020	**561**	**-**	**1,338**	**-**	**749**	**2,648**
Additions	-	-	120	-	168	288
Sales	(82)		-	-	-	(82)
Disposals	-	-	(5)	-	(10)	(15)
As at 31 December 2021	**479**	**-**	**1,453**	**-**	**907**	**2,839**
					-	
Accumulated depreciation					-	
As at 31 December 2019	**333**	**1**	**968**	**-**	**340**	**1,642**
Depreciation for the reporting year	31	-	218	-	81	330
Depreciation of disposed fixed assets	(23)	(1)	(154)	-	-	(178)
As at 31 December 2020	**341**	**-**	**1,032**	**-**	**421**	**1,794**
Depreciation for the reporting year	28	-	171	-	211	409
Depreciation of disposed fixed assets	(35)	-	(5)	-	-	(40)
As at 31 December 2021	**334**	**-**	**1,198**	**-**	**631**	**2,163**
					-	
Balance					-	
As at 31 December 2019	**309**	**1**	**388**	**7**	**581**	**1,286**
As at 31 December 2020	**220**	**-**	**306**	**-**	**329**	**855**
As at 31 December 2021	**145**	**-**	**255**	**-**	**276**	**676**

Movement of lease liability

As at 31 December 2019	**593**
Lease payments	(252)
Interest accrued	9
Interest paid	(9)
As at 31 December 2020	**341**
Lease payments	(209)
Lease additions	147
Interest accrued	6
Interest paid	(6)
As at 31 December 2021	**279**

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

11 INVESTMENT PROPERTY

Group EUR'000	Land	Buildings	Total
Cost			
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**
Disposed	(357)	(6,405)	(6,762)
Acquired	-	1,800	1,800
31 December 2021	**4,987**	**11,348**	**16,335**
Change in fair value			
As at 31 December 2019	**-**	**(2,051)**	**(2,051)**
Revaluation impact	-	-	-
31 December 2020	**-**	**(2,051)**	**(2,051)**
Revaluation impact	273	(200)	73
Adjustments	(14)	(92)	(106)
31 December 2021	**259**	**(2,343)**	**(2,084)**
Balance			
At 31 December 2019	**6,273**	**10,326**	**16,599**
As at 31 December 2020	**5,344**	**13,902**	**19,246**
As at 31 December 2021	**5,246**	**9,005**	**14,251**

Income from lease of investment property in 2021 amounted to EUR 374 thousand (2020: EUR 315 thousand) and related maintenance expenses in 2021 amounted to EUR 188 thousand (2020: EUR 165 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	Fair value 31.12.2021	Fair value 31.12.2020	Key assumptions
Residential real estate, Salaspils region	1,123	2,061	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	Land and building value determined based on comparable market transactions. Price set EUR 2,651 per m^2 .
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^2

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

12 OTHER ASSETS

Other assets are as follows:

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Financial assets:				
Receivables	3,309	6	1,693	108
Credit card transactions in transit	436	436	214	214
Other financial assets	2,626	2,626	3,202	3,202
	6,371	**3,068**	**5,109**	**3,524**
Non-financial assets:				
Deferred expenses	758	666	271	243
Assets held for sale	584	-	584	-
Other non-financial assets	96	-	190	-
	1,438	**666**	**1,045**	**243**
Total	**7,809**	**3,734**	**6,154**	**3,767**

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

13 DEPOSITS

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Sector profile:				
Non-banking deposits				
Legal entities	70,229	70,283	50,160	50,200
Individuals	80,629	80,629	80,925	80,925
State institutions	175	175	189	189
Total non-banking deposits:	**151,033**	**151,087**	**131,274**	**131,314**
Total deposits	**151,033**	**151,087**	**131,274**	**131,314**
Geographical profile:				
Residents	99,733	99,787	92,484	92,524
Non-residents	51,300	51,300	38,790	38,790
Residents of OECD countries	*19,469*	*19,469*	*10,497*	*10,497*
Residents of non-OECD countries	*31,831*	*31,831*	*28,294*	*28,294*
Total deposits	**151,033**	**151,087**	**131,274**	**131,314**

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Demand deposits				
Legal entities	67,793	67,847	47,161	47,201
Private individuals	54,700	54,700	56,687	56,687
State institutions	175	175	189	189
Total demand deposits	**122,668**	**122,722**	**104,037**	**104,077**
Term deposits				
Legal entities	2,875	2,875	3,000	3,000
Private individuals	25,490	25,490	24,237	24,237
Total term deposits	**28,365**	**28,365**	**27,237**	**27,237**
Total current accounts and deposits from non-banking customers	**151,033**	**151,087**	**131,274**	**131,314**

As at 31 December 2021, the customer deposit balances of EUR 362 thousand (2020: EUR 146 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 2021 and 31 December 2020 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

14 SUBORDINATED LIABILITIES

As at 31 December 2021 subordinated liabilities comprise loans received from 7 private individuals and 4 legal entities (31 December 2020: 7 private individuals and 4 legal entity).

EUR'000	Maturity	Interest rate	2021 Group	2021 Bank	2020 Group	2020 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%	598	598	581	581
Loan No. 4	01.09.2022	4.00%	288	288	288	288
Loan No. 5	31.03.2022	3.50%	203	203	280	280
Loan No. 6	28.08.2023	3.75%	500	500	203	203
Loan No. 7	13.07.2025	5.00%	280	280	501	501
Loan No. 8	27.08.2025	5.00%	315	315	500	500
Loan No. 9	29.12.2025	5.00%	501	501	315	315
Loan No. 10	30.11.2025	5.00%	1,004	1,004	1,004	1,004
Loan No. 11	22.12.2025	5.00%	125	125	125	125
Loan No. 12	22.12.2025	5.00%	125	125	125	125
Total			**4,653**	**4,653**	**4,636**	**4,636**

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.

15 OTHER LIABILITIES

Other liabilities are as follows:

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Financial liabilities				
Cash in transit	1,867	1,867	714	714
Unmatched funds	17	17	9	9
Other financial liabilities, incl.	1,122	1,122	1,283	1,283
Lease liabilities (IFRS 16)	*279*	*279*	*341*	*341*
	3,006	**3,006**	**2,006**	**2,006**
Non-financial liabilities				
Accrued expenses and deferred income	2,092	1,366	1,372	552
	2,092	**1,366**	**1,372**	**552**
Total	**5,098**	**4,372**	**3,378**	**2,558**

Cash in transit includes amounts requested by customers for payment with a value date of 2 January 2021 and 2020 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 388 thousand for the Group and EUR 373 thousand for the Bank (2020: EUR 275 thousand and EUR 268 thousand, respectively).

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

16 SHARE CAPITAL

	Nominal value EUR	2021 Number of shares	2021 Share capital EUR'000	2020 Number of shares	2020 Share capital EUR'000
Ordinary shares	71.10	388 200	27,601	360 040	25,599

Shareholders

	2021 Number of shares	2021 %	2020 Number of shares	2020 %
Private individuals	23 125	6%	76 893	21
Legal entities	365 075	94%	283 147	79
Total	**388 200**	**100%**	**360 040**	**100**

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 2021, there were 7 shareholders – 6 legal entities and 1 private individual (as at 31 December 2020: 6 shareholders – 4 legal entities and 2 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.

In 2021, the Bank's capital was increased by another EUR 2 million. This investment was made by all current shareholders of the Bank, as a result, the share capital of the Bank is currently EUR 27,601 thousand and the largest shareholders of the Bank are SIA "J.A. Investment Holdings ", which owns 42.23% of the capital, and SIA" HPI 2 ", which owns 25.00% of the capital.

Thus, the Bank fully complies with EU Regulation no. 575/2013 - the total capital adequacy ratio of the Bank and the Group is 20.5% and 18.2%, respectively, while the total capital adequacy ratio of the Bank and the Group set by the FCMC is 12.65%.

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

17 INTEREST INCOME

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Interest income calculated using effective interest rate:				
Interest income on assets at amortised cost:	2,047	2,309	1,059	1,241
Loans and receivables from customers	*2,046*	*2,308*	*1,056*	*1,238*
Loans and receivables from banks	*1*	*1*	*3*	*3*
Interest income from financial assets at fair value through profit or loss	25	25	122	122
Other interest income	42 -	42 -	417	417
Interest income from finance lease	201	-	205	-
Total	**2,315**	**2,376**	**1,387**	**1,364**

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

18 INTEREST EXPENSE

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Interest expenses on liabilities at amortised cost:				
Current accounts and deposits of customers	381	381	346	346
Other interest expense	755	755	711	711
Total	1,136	1,136	1,057	1,057

19 FEE AND COMMISSION INCOME

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Commissions from money transfers, cash operations and servicing accounts	3,787	3,787	4,342	4,342
Fees from cards services	8,485	8,485	1,105	1,105
Commissions from lending services and guarantees	189	189	131	131
Brokerage fees	75	75	17	17
Other commission income	174	172	152	150
Total	12,710	12,708	5,747	5,745

20 FEE AND COMMISSION EXPENSE

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Commissions paid to correspondent banks	88	88	119	119
Commissions for transactions with payment cards	4,915	4,915	960	960
Fees for operations with securities	26	26	31	31
Other commission expense	7	7	14	14
Total	5,036	5,036	1,124	1,124

21 GAIN ON TRADING WITH FINANCIAL INSTRUMENTS, NET

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Profit from foreign currency transactions	354	354	623	623
(Loss)/profit from revaluation of foreign currencies	(117)	68	(176)	(117)
Profit/(loss) from transactions with financial instruments	(7)	(7)	546	546
Income from dividends	2	2	24	24
Total	232	417	1,017	1,076

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

22 ADMINISTRATIVE EXPENSES

Salaries represent the basic remuneration of the employees, social insurance contributions as well as other personnel expenses. As at 31 December 2021 the Group and the Bank employed on average 166 and 164 employees, respectively (2020: 187 and 185). Administrative expenses are as follows:

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Salaries to members of the Council and the Board	602	590	722	665
Personnel salaries	3,997	3,894	4,115	4,013
State compulsory social insurance contributions	946	921	1,030	994
Professional services	848	848	874	861
Office supplies and maintenance expenses	284	284	398	398
Advertising and marketing	38	38	62	62
Other expenses	467	313	696	647
Total	**7,182**	**6,888**	**7,897**	**7,640**

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	2021 Group	2021 Bank	2020 Group	2020 Bank
Annual audit fees	93	89	108	103
Non-audit services	2	2	4	4

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

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Administrative expenses	5,545	5,405	5,867	5,672
Total	**5,545**	**5,405**	**5,867**	**5,672**

23 DEPRECIATION

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

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Depreciation of PPE	200	198	252	250
Depreciation of right-of-use assets	211	211	222	222
Total	**411**	**409**	**474**	**472**

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

24 CASH AND CASH EQUIVALENTS

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Cash	2,126	2,126	1,406	1,406
Current placements with the Bank of Latvia	100,854	100,854	74,223	74,223
Demand deposits and term deposits with other credit institutions with initial maturity of less than three months	659	659	532	532
Total	103,639	103,639	76,161	76,161

25 INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries

Investments in subsidiaries	Investment % 2021	2020
AS MTB Finance *	100%	100%
EUR'000		
Investments in subsidiaries	44	44
Impairment allowance	(44)	(44)
Investment in subsidiary, net	-	-

EUR'000	Current assets	Long-term assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Net assets
31 December 2021	4,610	16,065	20,675	18,679	7,337	26,016	(5,341)
31 December 2020	4,905	20,505	25,410	23,088	6,987	30,075	(4,665)

EUR'000	Income	Expenses	Net loss
31 December 2021	741	(1,417)	(676)
31 December 2020	801	(1,730)	(929)

* 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 Stabu 70 in Latvia, Rīga, Dzirnavu iela 62 - 20, LV-1050

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

26 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 2021 and 31 December 2020 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	2021 Bank	Average weighted rate	2020 Bank	Average weighted rate
Loans issued to AS MTB Finance	25,290	2.0%	28,261	2.0%
Deposits from AS MTB Finance	54	-	40	-

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

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Credit exposures to other related parties, net				
Loans, net				
- Management	-	-	-	-
- Consolidated subsidiaries	-	25,290	-	25,173
- Companies related to the shareholders	1,200	1,200	78	78
Credit exposures to related parties, net	**1,200**	**26,490**	**78**	**25,251**

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Liabilities to other related parties				
Deposits				
- Management	230	230	219	219
- Consolidated subsidiaries	-	54	-	40
- Others	565	565	156	156
- Subordinated liabilities	-	-	501	501
Liabilities to related parties	**795**	**849**	**876**	**916**

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

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Interest income				
- Consolidated subsidiaries	-	262	-	181
- Management and companies related to shareholders	33	33	-	429
Interest expense				
- Management and companies related to shareholders	8	8	2	2

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

26 RELATED PARTY TRANSACTIONS (continued)

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

EUR'000	2021 Bank	Weighted average rate	2020 Bank	Weighted average rate
Deposits from AS MTB Finance and other related parties	849	0.1%	916	0.1%
Loans to other related parties				
Opening balance	80		93	
Issued loans in current year (net)	1,200		80	
Repaid loans in current year	-		-	
The relationship with the bank ended in the reporting year	(80)		(93)	
Loans to other related parties	**1,200**	**8.09%**	**80**	**14.0%**

Remuneration to the Council and the Board:

EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Remuneration to the Council and the Board	602	590	722	665
Total	**602**	**590**	**722**	**665**

27 ASSETS AND LIABILITIES UNDER MANAGEMENT

Assets EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Fiduciary loan	1,000	1,000	1,000	1,000
Total	**1,000**	**1,000**	**1,000**	**1,000**

Liabilities EUR'000	2021 Group	2021 Bank	2020 Group	2020 Bank
Funds received from corporate customers	1,000	1,000	1,000	1,000
Total	**1,000**	**1,000**	**1,000**	**1,000**

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

28 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	2021 Group	2021 Bank	2020 Group	2020 Bank
Loans and credit line liabilities	1,623	1,698	321	372
Guarantees and letters of credit	259	259	63	63
Total	1,882	1,957	384	435
Impairment allowance	(7)	(7)	(2)	(2)

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

29 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 2021 was as follows:

Group Assets EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Cash and balances due from the Bank of Latvia	102,921	59	-	-	102,980
Demand deposits with credit institutions	-	240	410	9	659
Financial assets at amortised cost	-	-	-	-	-
Financial assets at fair value through profit or loss	-	501	-	-	501
Financial assets at fair value through other comprehensive income	1,007	24	-	-	1,031
Loans and receivables	41,420	1,349	1,647	-	44,416
Intangible assets	2	-	-	-	2
Property and equipment and right-of-use assets	676	-	-	-	676
Investment properties	14,092	159	-	-	14,251
Other assets	5,691	1,641	4	473	7,809
Total assets	**165,809**	**3,973**	**2,061**	**482**	**172,325**

Group Liabilities EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Deposits	97,163	19,036	10,725	19,456	146,380
Subordinated liabilities	2,570	433	1,447	203	4,653
Other liabilities	4,903	202	-	-	5,105
Capital and reserves	16,187	-	-	-	16,187
Total equity, reserves and liabilities	**120,823**	**19,671**	**12,172**	**19,659**	**172,325**
Contingent liabilities and commitments	**1,683**	**200**	**-**	**-**	**1,883**

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

29 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	102,921	59	-	-	102,980
Demand deposits with credit institutions	-	240	410	9	659
Financial assets at amortised cost	-	-	-	-	-
Financial assets at fair value through profit or loss	-	501	-	-	501
Financial assets at fair value through other comprehensive income	1,007	24	-	-	1,031
Loans and receivables	58,499	1,349	1,647	-	61,495
Intangible assets	2	-	-	-	2
Property and equipment and right-of-use assets	676	-	-	-	676
Investment properties	1,193	-	-	-	1,193
Other assets	1,676	1,581	4	473	3,734
Total assets	**165,974**	**3,754**	**2,061**	**482**	**172,271**

Bank Liabilities EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Deposits	97,217	19,036	10,725	19,456	146,434
Subordinated liabilities	2,570	433	1,447	203	4,653
Other liabilities	4,179	200	-	-	4,379
Capital and reserves	16,805	-	-	-	16,805
Total equity, reserves and liabilities	**120,771**	**19,669**	**12,172**	**19,659**	**172,271**
Contingent liabilities and commitments	**1,758**	**200**	**-**	**-**	**1,958**

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

29 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 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 property	18,980	266	-	-	19,246
Other assets	3,299	2,801	-	54	6,154
Total assets	**142,773**	**4,174**	**302**	**63**	**147,312**

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
Total equity, reserves and liabilities	**108,517**	**10,501**	**13,147**	**15,147**	**147,312**
Contingent liabilities and commitments	**384**	**-**	**-**	**-**	**384**

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

29 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 property	920	-	-	-	920
Other assets	1,012	2,701	-	54	3,767
Total assets	142,846	3,808	302	63	147,019

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
Total equity, reserves and liabilities	108,227	10,498	13,147	15,147	147,019
Contingent liabilities and commitments	435	-	-	-	435

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

30 INTEREST RATE REPRICING ANALYSIS

The interest rate repricing analysis of the Bank's and the Group's assets and liabilities as at 31 December 2021 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
Assets								
Cash and balances due from the Bank of Latvia	100,853	-	-	-	-	-	2,127	102,980
Demand deposits with credit institutions	659	-	-	-	-	-	-	659
Financial assets at amortised cost	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-	501	501
Financial assets at fair value through other comprehensive income	-	-	-	-	1,007	-	24	1,031
Loans and receivables	10,059	1,827	26,988	2,646	2,595	301	-	44,416
Intangible assets	-	-	-	-	-	-	2	2
Property and equipment and right-of-use assets	-	-	-	-	-	-	676	676
Investment property	-	-	-	-	-	-	14,251	14,251
Other assets	-	-	-	-	-	-	7,809	7,809
Total assets	**87,202**	**2,206**	**22,475**	**867**	**4,971**	**1,457**	**25,390**	**172,325**
Liabilities								
Deposits	113,724	1,609	2,376	7,435	10,753	10,483	-	146,380
Subordinated liabilities	-	280	-	721	3,054	598	-	4,653
Other liabilities	-	-	-	-	-	-	5,105	5,105
Total liabilities	**113,724**	**1,889**	**2,376**	**8,156**	**13,807**	**11,081**	**5,105**	**156,138**
Capital and reserves	-	-	-	-	-	-	16,187	16,187
Total liabilities, capital and reserves	**113,724**	**1,889**	**2,376**	**8,156**	**13,807**	**11,081**	**21,292**	**172,325**
Interest rate risk	**(2,153)**	**(62)**	**24,612**	**(5,510)**	**(10,205)**	**(10,780)**	**4,098**	**-**

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

30 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
Assets								
Cash and balances due from the Bank of Latvia	100,853	-	-	-	-	-	2,127	102,980
Demand deposits with credit institutions	659	-	-	-	-	-	-	659
Financial assets at amortised cost	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-	501	501
Financial assets at fair value through other comprehensive income	-	-	-	-	1,007	-	24	1,031
Loans and receivables	10,116	1,650	26,136	16,765	6,597	231	-	61,495
Intangible assets	-	-	-	-	-	-	2	2
Property and equipment and right-of-use assets	-	-	-	-	-	-	676	676
Investment property	-	-	-	-	-	-	1,193	1,193
Other assets	-	-	-	-	-	-	3,734	3,734
Total assets	111,628	1,650	26,136	16,765	7,604	231	8,257	172,271
Liabilities								
Deposits	113,778	1,609	2,376	7,435	10,753	10,483	-	146,434
Subordinated liabilities	-	280	-	721	3,054	598	-	4,653
Other liabilities	-	-	-	-	-	-	4,379	4,379
Total liabilities	**113,778**	**1,889**	**2,376**	**8,156**	**13,807**	**11,081**	**4,379**	**155,466**
Capital and reserves	-	-	-	-	-	-	16,805	16,805
Total liabilities, capital and reserves	113,778	1,889	2,376	8,156	13,807	11,081	21,184	172,271
Interest rate risk	(2,150)	(239)	23,760	8,609	(6,203)	(10,850)	(12,927)	-

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

30 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 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
Assets								
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
Total assets	**87,202**	**2,206**	**22,475**	**867**	**4,971**	**1,457**	**28,134**	**147,312**
Liabilities								
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
Total liabilities	**97,312**	**2,296**	**4,749**	**6,349**	**9,927**	**10,641**	**3,380**	**134,654**
Capital and reserves	-	-	-	-	-	-	12,658	12,658
Total liabilities, capital and reserves	**97,312**	**2,296**	**4,749**	**6,349**	**9,927**	**10,641**	**16,038**	**147,312**
Interest rate risk	**(10,110)**	**(90)**	**17,726**	**(5,482)**	**(4,956)**	**(9,184)**	**12,096**	**-**

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

30 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
Assets								
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
Total assets	88,578	2,559	21,307	17,912	8,548	696	7,419	147,019
Liabilities								-
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
Total liabilities	**97,352**	**2,296**	**4,749**	**6,349**	**9,927**	**10,641**	**2,560**	**133,874**
Capital and reserves	-	-	-	-	-	-	13,145	13,145
Total liabilities, capital and reserves	97,352	2,296	4,749	6,349	9,927	10,641	15,705	147,019
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

30 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 2021 and 31 December 2020.

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	2021		2020	
	Profit or loss	Shareholders' equity	Profit or loss	Shareholders' equity
Increase in interest rates	45	(13)	(48)	(22)
Decrease in interest rates	(45)	13	48	22
Increase in USD interest rates	(22)	-	15	-
Decrease in USD interest rates	22	-	(15)	-

31 FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES

31 December 2021

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
Financial assets					
Cash and balances due from the Bank of Latvia	102,980	-	-	-	102,980
Demand deposits with credit institutions	659	-	-	-	659
Financial assets at amortised cost	-	-	-	-	-
Financial assets at fair value through profit or loss	-	501	-	-	501
Financial assets at fair value through other comprehensive income	-	-	1,031	-	1,031
Loans and receivables	44,416	-	-	-	44,416
Other financial assets	6,371	-	-	-	6,371
Total financial assets	**154,426**	**501**	**1,031**	**-**	**155,958**
Financial liabilities					
Deposits	-	-	-	146,380	146,380
Subordinated liabilities	-	-	-	4,653	4,653
Other financial liabilities	-	-	-	3,006	3,006
Total financial liabilities	**-**	**-**	**-**	**154,039**	**154,039**

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

31 FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES (continued)

31 December 2021

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
Financial assets					
Cash and balances due from the Bank of Latvia	102,980	-	-	-	102,980
Demand deposits with credit institutions	659	-	-	-	659
Financial assets at amortised cost	-	-	-	-	-
Financial assets at fair value through profit or loss	-	501	-	-	501
Financial assets at fair value through other comprehensive income	-	-	1,031	-	1,031
Loans and receivables	61,495	-	-		61,495
Other financial assets	3,068	-	-	-	3,068
Total financial assets	**168,202**	**501**	**1,031**	**-**	**169,734**
Financial liabilities					
Deposits	-	-	-	146,434	146,434
Subordinated liabilities	-	-	-	4,653	4,653
Other financial liabilities	-	-	-	3,006	3,006
Totaal liabilities	**-**	**-**	**-**	**154,093**	**154,093**

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

31 FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES (continued)

31 December 2020

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
Financial assets					
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
Total financial assets	**124,677**	**469**	**1,016**	**-**	**126,162**
Financial liabilities					
Deposits	-	-	-	126,638	126,638
Subordinated liabilities	-	-	-	4,636	4,636
Other financial liabilities	-	-	-	2,006	2,006
Total financial liabilities	**-**	**-**	**-**	**133,280**	**133,280**

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

31 FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES (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
Financial assets					
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
Total financial assets	**143,514**	**469**	**1,016**	**-**	**144,999**
Financial liabilities					
Deposits	-	-	-	126,678	126,678
Subordinated liabilities	-	-	-	4,636	4,636
Other financial liabilities	-	-	-	2,006	2,006
Total financial liabilities	**-**	**-**	**-**	**133,320**	**133,320**

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

32 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 2021 was as follows:

Group EUR'000	EUR	USD	Other	Total
Assets				
Cash and balances due from the Bank of Latvia	102,308	282	390	102,980
Demand deposits with credit institutions	390	152	117	659
Financial assets at fair value through profit or loss	24	501	(24)	501
Financial assets at fair value through other comprehensive income	1,007	-	24	1,031
Loans and receivables	43,666	780	(30)	44,416
Intangible assets	2	-	-	2
Property and equipment and right-of-use assets	400	-	276	676
Investment property	14,251	-	-	14,251
Other assets	6,497	856	456	7,809
Total assets	**168,545**	**2,571**	**1,209**	**172,325**
Liabilities				
Deposits	135,421	9,141	1,818	146,380
Subordinated liabilities	4,653	-	-	4,653
Other liabilities	4,737	10	358	5,105
Total liabilities	**144,811**	**9,151**	**2,176**	**156,138**
Capital and reserves	16,187	-	-	16,187
Total liabilities, capital and reserves	**160,998**	**9,151**	**2,176**	**172,325**
Net open position in the statement of financial position	7,547	(6,580)	(967)	-
Net position arising from currency exchange transactions	(7,888)	6,292	1,596	-
Total net open position	**(341)**	**(288)**	**629**	**-**

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

32 CURRENCY ANALYSIS (continued)

Bank EUR'000	EUR	USD	Other	Total
Assets				
Cash and balances due from the Bank of Latvia	102,308	282	390	102,980
Demand deposits with credit institutions	390	152	117	659
Financial assets at fair value through profit or loss	24	501	(24)	501
Financial assets at fair value through other comprehensive income	1,007	-	24	1,031
Loans and receivables	60,670	855	(30)	61,495
Intangible assets	2	-	-	2
Property and equipment and right-of-use assets	400	-	276	676
Investment property	1,193	-	-	1,193
Other assets	2,422	856	456	3,734
Total assets	**168,416**	**2,646**	**1,209**	**172,271**
Liabilities				
Deposits	135,475	9,141	1,818	146,454
Subordinated liabilities	4,653	-	-	4,653
Other liabilities	4,011	10	358	4,379
Total liabilities	**144,139**	**9,151**	**2,176**	**155,466**
Capital and reserves	16,805	-	-	16,805
Total liabilities, capital and reserves	**160,944**	**9,151**	**2,176**	**172,271**
Net open position in the statement of financial position	7,472	(6,505)	(967)	-
Net position arising from currency exchange transactions	(7,888)	6,292	1,596	-
Total net open position	**(416)**	**(213)**	**629**	**-**

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

32 CURRENCY ANALYSIS (continued)

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

Group EUR'000	EUR	USD	Other	Total
Assets				
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
Total assets	**143,210**	**3,373**	**729**	**147,312**
Liabilities				
Deposits	113,821	10,617	2,200	126,638
Subordinated liabilities	4,636	-	-	4,636
Other liabilities	3,357	63	(40)	3,380
Total liabilities	**121,814**	**10,680**	**2,160**	**134,654**
Capital and reserves	8,211	4,447	-	12,658
Total liabilities, capital and reserves	**130,025**	**15,127**	**2,160**	**147,312**
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	-
Total net open position	**(147)**	**(276)**	**423**	**-**

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

32 CURRENCY ANALYSIS (continued)

Bank EUR'000	EUR	USD	Other	Total
Assets				
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
Total assets	**142,851**	**3,439**	**729**	**147,019**
Liabilities				
Deposits	113,861	10,617	2,200	126,678
Subordinated liabilities	4,636	-	-	4,636
Other liabilities	2,537	63	(40)	2,560
Total liabilities	121,034	10,680	2,160	133,874
Capital and reserves	8,698	4,447	-	13,145
Total liabilities, capital and reserves	**129,732**	**15,127**	**2,160**	**147,019**
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	-
Total net open position	**(212)**	**(210)**	**422**	**-**

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 2021 and 2020 and a simplified scenario of a 10% change in USD to EUR exchange rates is as follows:

Group EUR'000	2021 Net profit	2020 Net profit
10% appreciation of USD against EUR	1	(28)
10% depreciation of USD against EUR	(1)	28

Bank EUR'000	2021 Net profit	2020 Net profit
10% appreciation of USD against EUR	(49)	(21)
10% depreciation of USD against EUR	49	21

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

33 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 2021 and 31 December 2020 the individual liquidity coverage ratio for the Bank was 409% and 505%, respectively, and for the Group it was 405% and 499%, respectively.

The contractual maturity analysis of the the Group's and the Bank's assets and liabilities as at 31 December 2021 was as follows:

Group EUR'000	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Over 5 years or not determined	Total
Assets							
Cash and balances due from the Bank of Latvia	102,980	-	-	-	-	-	102,980
Demand deposits with credit institutions	659	-	-	-	-	-	659
Financial assets at fair value through profit or loss	-	-	-	-	501	-	501
Financial assets at fair value through other comprehensive income	-	-	-	-	1,031	-	1,031
Loans and receivables	950	573	1,218	6,605	23,324	11,747	44,416
Intangible assets	-	-	-	-	2	-	2
Property and equipment and right-of-use assets	-	-	-	-	676	-	676
Investment property	-	-	-	-	-	14,251	14,251
Other assets	5,650	-	-	-	-	2,159	7,809
Total assets	110,239	573	1,218	6,605	25,534	28,157	172,325
Liabilities							
Deposits	113,724	1,609	2,376	7,435	10,753	10,483	146,380
Subordinated liabilities	-	280	-	721	3,054	598	4,653
Other liabilities	4,845	2	-	247	11	-	5,105
Total liabilities	118,569	1,891	2,376	8,403	13,818	11,081	156,138
Capital and reserves	-	-	-	-	-	16,187	16,187
Total capital, liabilities and reserves	118,569	1,891	2,376	8,403	13,818	27,268	172,325
Liquidity risk	(8,330)	(1,318)	(1,158)	(1,798)	11,716	889	-

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

33 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

Bank EUR'000	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Over 5 years or not determined	Total
Assets							
Cash and balances due from the Bank of Latvia	102,980	-	-	-	-	-	102,980
Demand deposits with credit institutions	659	-	-	-	-	-	659
Financial assets at fair value through profit or loss	-	-	-	-	501	-	501
Financial assets at fair value through other comprehensive income	-	-	-	-	1,031	-	1,031
Loans and receivables	1,007	396	1,308	20,504	26,865	11,415	61,495
Intangible assets	-	-	-	-	2	-	2
Property and equipment and right-of-use assets	-	-	-	-	676	-	676
Investment property	-	-	-	-	-	1,193	1,193
Other assets	2,159	-	-	-	-	1,575	3,734
Total assets	106,805	396	1,308	20,504	29,075	14,183	172,271
Liabilities							
Deposits	113,778	1,609	2,376	7,435	10,753	10,483	146,434
Subordinated liabilities	-	280	-	721	3,054	598	4,653
Other liabilities	4,119	2	-	247	11	-	4,379
Total liabilities	**117,897**	**1,891**	**2,376**	**8,403**	**13,818**	**11,081**	**155,466**
Capital and reserves	-	-	-	-	-	16,805	16,805
Total capital, liabilities and reserves	117,897	1,891	2,376	8,403	13,818	27,886	172,271
Liquidity risk	(11,092)	(1,495)	(1,068)	12,101	15,257	(13,703)	-

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

33 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The contractual maturity analysis of 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
Assets							
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
Total assets	82,415	1,134	3,957	5,607	18,512	35,687	147,312
Liabilities							
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
Total liabilities	100,634	2,296	4,749	6,349	9,558	11,068	134,654
Capital and reserves	-	-	-	-	-	12,658	12,658
Total capital, liabilities and reserves	100,634	2,296	4,749	6,349	9,558	23,726	147,312
Liquidity risk	(18,219)	(1,162)	(792)	(742)	8,954	11,961	-

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

33 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
Assets							
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
Total assets	81,943	1,487	3,423	22,406	21,785	15,975	147,019
Liabilities							
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
Total liabilities	99,854	2,296	4,749	6,349	9,558	11,068	133,874
Capital and reserves	-	-	-	-	-	13,145	13,145
Total capital, liabilities and reserves	99,854	2,296	4,749	6,349	9,558	24,213	147,019
Liquidity risk	(17,911)	(809)	(1,326)	16,057	12,227	(8,238)	-

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

33 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 2021 and 31 December 2020.

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 2021	Carrying amount	Gross nominal outflow	Less than 1 month	1 – 3 months	3 months to 1 year	1-5 years	Over 5 years
Non-derivative financial liabilities							
Deposits	146,379	146,379	113,724	1,609	9,811	10,753	10,482
Subordinated liabilities	4,653	4,653	-	280	721	3,054	598
Other financial liabilities	3,006	3,006	3,006	-	-	-	-
Total non-derivative financial liabilities	**154,038**	**154,038**	**116,730**	**1,889**	**10,532**	**13,807**	**11,080**
Loans and credit line liabilities	1,623	1,623	1,623	-	-	-	-
Guarantees and letters of credit	259	259	259	-	-	-	-
Total financial liabilities	**155,920**	**155,920**	**118,612**	**1,889**	**10,532**	**13,807**	**11,080**

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
Non-derivative financial liabilities							
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	-	-	-	-
Total non-derivative financial liabilities	**133,320**	**137,010**	**97,673**	**4,079**	**12,687**	**22,571**	-
Loans and credit line liabilities	321	321	321	-	-	-	-
Guarantees and letters of credit	63	63	63	-	-	-	-
Total financial liabilities	**134,256**	**137,946**	**98,609**	**4,079**	**12,687**	**22,571**	-

34 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

34 CAPITAL ADEQUACY (continued)

As at 31 December 2021 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 2020: 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).

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 2021 and above the individual capital adequacy ratio set by the FCMC in the reporting year ended 31 December 2020.

The following table shows the composition of the Group's capital position as at 31 December 2021 and 31 December 2020:

Group EUR'000	31 December 2021	31 December 2020
Tier 1		
Share capital	27,601	25,599
Share premium	260	260
Reserve capital	4,156	4,156
Retained earnings/(accumulated loss) carried forward from previous years	(17,377)	(13,773)
Profit/ (loss) for the reporting year	1,519	(3,605)
Revaluation reserve of financial assets at FVOCI	28	20
Additional value adjustment	(2)	-
Intangible assets	(2)	(2)
Other adjustments	(1,286)	(1,023)
Result of transition period conditions	946	1,325
Total Tier 1 capital	**15,843**	**12,957**
Tier 2 capital		
Subordinated capital (unamortised part)	2,663	3,374
Total Tier 2 capital	**2,663**	**3,374**
Statutory deductions from Tier 1 and Tier 2 capital	**(38)**	**(43)**
Total shareholders' equity	**18,468**	**16,288**
Risk weighted value of exposures to credit risk, counterparty credit risk, impairment of recoverable amounts and unpaid deliveries risk	73,752	76,138
Total exposure to position risk, foreign currency risk and commodity risk	497	294
Total exposure to operational risk	15,420	15,001
Total exposure to credit value adjustment risk	43	72
Total risk exposure	**89,712**	**91,505**
Total capital adequacy ratio	**20.59%**	**17.80%**
Minimum capital adequacy ratio set by the FCMC	**11.40%**	**11.40%**
Minimum capital adequacy ratio set by the FCMC including the total capital buffer requirement	**13.90%**	**13.90%**

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

34 CAPITAL ADEQUACY (continued)

The following table shows the composition of the Bank's capital position as at 31 December 2021 and 31 December 2020:

Bank EUR'000	31 December 2021	31 December 2020
Tier 1		
Share capital	27,601	25,599
Share premium	260	260
Reserve capital	4,156	4,156
Retained earnings of the previous years	(16,890)	(13,080)
Profit/ (loss) for the reporting year	1650	(3,812)
Revaluation reserve of financial assets at FVOCI	29	20
Additional value adjustment	(2)	-
Intangible assets	(2)	(2)
Result of transition period conditions	946	1,325
Total Tier 1 capital	**17,748**	**14,466**
Tier 2 capital		
Subordinated capital (unamortised part)	2,663	3,374
Total Tier 2 capital	**2,663**	**3,374**
Statutory deductions from Tier 1 and Tier 2 capital	**(38)**	**(43)**
Total shareholders' equity	**20,373**	**17,797**
Risk weighted value of exposures to credit risk, counterparty credit risk, impairment of recoverable amounts and unpaid deliveries risk	73,681	75,100
Total exposure to position risk, foreign currency risk and commodity risk	364	265
Total exposure to operational risk	14,661	14,183
Total exposure to credit value adjustment risk	43	72
Total risk exposure	**88,749**	**89,620**
Total capital adequacy ratio	**22.96%**	**19.86%**
Minimum capital adequacy ratio set by the FCMC	**11.40%**	**11.40%**
Minimum capital adequacy ratio set by the FCMC including the total reserve requirement	**13.90%**	**13.90%**

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

34 CAPITAL ADEQUACY (continued)

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

31 December 2021 EUR'000	Group	Bank
Tier 1 capital	14,897	16,801
Tier 2 capital	2,663	2,663
Statutory deductions from Tier 1 and Tier 2 capital	(38)	(38)
Total capital, fully loaded	**17,522**	**19,426**
Total risk exposure amount, fully loaded	**88,841**	**87,734**
Capital adequacy ratio, fully loaded	**19.72%**	**22.14%**

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

35 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 9.

Group EUR'000	2021	2020
Balances with the Bank of Latvia	100,853	74,223
Demand deposits with credit institutions	659	532
Financial assets at amortised cost	-	1,570
Financial assets at fair value through profit or loss	501	469
Financial assets at fair value through other comprehensive income	1,031	1,016
Loans and receivables	44,416	41,837
Other financial assets	6,371	5,109
Total items of the statement of financial position subjected to credit risk	**153,831**	**124,756**
Loans and credit line liabilities	1,623	321
Guarantees and letters of credit	259	63
Contingent liabilities and commitments	**1,882**	**384**
Total maximum credit risk exposure	**155,713**	**125,140**

As disclosed above, 29 % from total gross maximum credit risk amount refers to loans and receivables (2020: 34%).

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

35 MAXIMUM CREDIT RISK EXPOSURE (continued)

Bank EUR'000	2021	2020
Balances with the Bank of Latvia	100,853	74,223
Demand deposits with credit institutions	659	532
Financial assets at amortised cost	-	1,570
Financial assets at fair value through profit or loss	501	469
Financial assets at fair value through other comprehensive income	1,031	1,016
Loans and receivables	61,495	62,259
Other financial assets	3,068	3,524
Total items of the statement of financial position subjected to credit risk	**167,607**	**143,593**
Loans and credit line liabilities	1,698	372
Guarantees and letters of credit	259	63
Contingent liabilities and commitments	**1,957**	**435**
Total maximum credit risk exposure	**169,564**	**144,028**

36 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 2021 EUR'000	Level 1:	Level 2:	Level 3:	Total
Financial assets at fair value through profit or loss	-	501	-	501
Financial assets at fair value through other comprehensive income	-	1,031	-	1,031
Total	-	**1,532**	-	**1,532**

31 December 2020				
Financial assets at fair value through profit or loss	-	469	-	469
Financial assets at fair value through other comprehensive income	-	1,016	-	1,016
Total	-	**1,485**	-	**1,485**

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

36 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 2021 Group EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
Financial assets					
Cash and due from central banks	-	102,980	-	102,980	102,980
Demand deposits with credit institutions	-	659	-	659	659
Loans and receivables	-	-	44,416	44,416	44,416
Financial assets at amortised cost	-	-	-	-	-
Other financial assets	-	-	6,371	6,371	6,371
Financial liabilities					
Deposits	-	146,380	-	146,380	146,380
Subordinated liabilities	-	-	4,653	4,653	4,653
Other financial liabilities	-	-	3,006	3,006	3,006

31 December 2020 Group EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
Financial assets					
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
Financial liabilities					
Deposits	-	126,638	-	126,638	126,638
Subordinated liabilities	-	-	4,636	4,636	4,636
Other financial liabilities	-	-	2,006	2,006	2,006

The carrying amounts of financial assets and liabilities approximates their fair value.

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

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(b) Financial instruments not measured at fair value (continued)

31 December 2021 Bank EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
Financial assets					
Cash and due from central banks	-	102,980	-	102,980	102,980
Demand deposits with credit institutions	-	659	-	659	659
Loans and advances to customers	-	-	61,495	61,495	61,495
Financial assets at amortised cost	-	-	-	-	-
Other financial assets	-	-	3,068	3,068	3,068
Financial liabilities					
Deposits	-	146,434	-	146,434	146,434
Subordinated liabilities	-	-	4,653	4,653	4,653
Other financial liabilities	-	-	3,006	3,006	3,006

31 December 2020 Bank EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
Financial assets					
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
Financial liabilities					
Deposits	-	126,678	-	126,678	126,678
Subordinated liabilities	-	-	4,636	4,636	4,636
Other financial liabilities	-	-	2,006	2,006	2,006

37 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.

38 GOING CONCERN

As disclosed in Note 35, in the year ended 31 December 2021, 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 13.90%. Henceforth, there was a considerable surplus above the requirements. Total capital adequacy requirement was exceeded by 6.69% for the Group and 9.06% for the Bank.

In line with its transformation plan, the Bank restored operational profitability in early 2021 and closed the year with a profit. The bank plans to continue to work with profit.

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-

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

38 GOING CONCERN (continued)

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 2021 and 31 December 2020 the Bank's liquidity ratio was 86.1% and 77.5% respectively and liquidity coverage ratio was 409% and 505% respectively.

As described in note 39, the Russian-Ukrainian war and the ensuing sanctions and negative effects on the economic situation have not produced any significant immediate negative effects on the bank's activities.

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 and no adjustments, including revaluation of assets and liabilities, if such would be necessary, are made to these financial statements should these financial statements not be prepared on a going concern basis.

39 SUBSEQUENT EVENTS

On 24 February 2022, the Russian-Ukrainian war began. As a result, the European Union and OFAC imposed extensive sanctions against Russia, Belarus, their companies, officials, and other stakeholders. Russia, in turn, has imposed countersanctions, including making it difficult to process foreign currency payments and preventing capital outflow from Russia. The war and the ensuing sanctions have had severe consequences for the economies of Russia and Ukraine and have led to further negative effects on the economies of the world due to rising raw material prices.

The bank's credit risk to Russia is immaterial, the bank has no credit risk against Ukraine. Industra immediately suspended cooperation with the Russian and Belarusian banks subject to sanctions, as well as suspended payments in rubles. The bank has also significantly limited any payments with Russian correspondent banks. The management of the bank considers that the situation will not have a material negative impact on the bank's activities.

Aware of the seriousness of the situation and wanting to help, Industra was one of the first banks in Latvia that introduced the possibility of opening an account and obtaining a payment card free of charge for Ukrainian refugees. By the time the report was signed, such accounts had been opened by 150 Ukrainian refugees.

As the situation is uncertain and rapidly evolving, the management of the bank considers that it is currently not possible to provide a numerical estimate of the possible impact of the Russian-Ukrainian war and the consequent sanctions on the Bank. On the date of signature of these financial statements, the Bank has not approved the restructuring of any credit and/or the deferral of principal and interest payments in relation to those events after the balance sheet date. Nor it is currently possible to assess the number and extent of such cases, so it is not possible at this stage to estimate the impact on future loan loss impairment, as set out in IFRS-9.

The Bank considers these events as non-adjusting subsequent events, which are not reflected in the valuation of assets and liabilities on 31 December 2021. However, the Bank's management did take these events into account whilst considering the going concern assumption in the preparation of these financial statements as stated in the Statement of Management's responsibility.

Except for the above, there have been no other events during the period since the end of the reference year which would need to be reflected in these financial statements.

Translation from Latvian original*

Independent Auditor's Report

To the Shareholders of AS Industra Bank

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements set out on pages 7 to 79 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 2021, 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 2022.

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 2021;
- 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

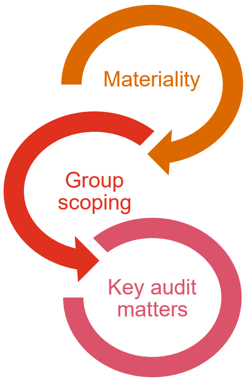
We are independent of the Bank and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on Audit 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.

To the best of our knowledge and belief, we declare that non-audit services that have provided to the Bank and its subsidiaries 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 its subsidiaries, in the period from 1 January 2021 to 31 December 2021, are disclosed in Note 22 to the financial statements.

Our audit approach

Overview



- Overall Bank and Group materiality is EUR 160 thousand, which represents approximately 1% of the Group's net assets.

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

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Overall materiality	Overall materiality applied to the Bank and the Group was EUR 160 thousand.
How we determined it	Approximately 1% of the net assets of the Group.
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because, in our view, it is the benchmark which is of primary focus by the users of the financial statements and forms the basis for capital adequacy for regulatory purposes. We chose the threshold of 1%, which is within the range of accepted quantitative materiality thresholds for this benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 8 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.

Key audit matter	How our audit addressed the key audit matter
Fair value of investment properties (the Group) Refer to Note 11 "*Investment properties*" and Note 5 "*Estimates and judgements*" of the consolidated financial statements. Investment property as per consolidated financial statements mainly comprise investment property held by the subsidiaries of the Bank. We focused on this area because the management makes subjective judgements 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	We assessed whether the Group's accounting policies in relation to the fair valuation of investment properties are based on IFRS requirements. 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 2021. 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 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 valuators. Where valuation models were used, we evaluated the reasonableness of inputs into the valuation

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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.

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.

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

Refer to Note 9 "*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 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 2021 expected credit losses amounted to EUR 15 975 thousand and EUR 13 523 thousand for the Bank and the Group respectively (refer to note 9).

We assessed whether 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.

On a sample basis, we tested the collectively assessed credit loss allowance for loans to customers. We analysed 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 2021.

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

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.

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 4 of the accompanying Annual Report;
- Information on the Bank's Management, as set out on page 5 of the accompanying Annual Report; and
- Statement of Responsibility of the Bank's Management, as set out on page 6 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.

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 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 of the Republic of Latvia and 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". 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 and Information on 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 and other information 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.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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- 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, actions taken to eliminate threats or safeguards applied.

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.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors by the Bank and the Group shareholders' resolution on 10 April 2019. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of 4 years.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
31 March 2022

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