Signet Bank AS
Annual report
for year ended
31 December 2021

SIGNET

PRIVATE
BANK

Content

Signet Bank AS
Antonijas street 3,
Riga, Latvia, LV-1010

Unified registration number: 40003076407

Phone: +371 67 080 000
Fax: +371 67 080 001
E-mail: info@signetbank.com
www.signetbank.com

Management report on the Group and the Bank's operations during 2021

In 2021, the Group continued to successfully develop its business model, focusing on servicing local entrepreneurs and their businesses. Macroeconomic environment was supportive for our business – in 2021 GDP growth in Latvia reached 4.7% while inflation increased moderately by 3.3%. Latvian maintained credit ratings from S&P Global Ratings at A+ level, from Fitch at A- level and from Moody's at A3 level.

In 2021 the Group has managed to substantially increase business volumes, increasing the number of clients, volume of deposits and growing its loans portfolio. Compared to 2020 the Group has achieved the following growth of key indicators:

- Net Interest income increased by 14%;
- Net commission income increased by 53%;
- Total operating income increased by 26%;
- Profit before impairment and provisions increased by 61% and reached 3m EUR;
- Deposits increased by 81%;
- Loans portfolio increased by 37%;
- AUMA was stable at 1.2 bln EUR.

This period was particularly active in providing financing to our clients – the amount of financing arranged through loans and bond issues reached EUR 200 million. The most important driver behind this remarkable result is arranging bond placements for our corporate clients. The bond market in Latvia is developing dynamically, and we are pleased that the Group has become a clear leader in this market segment in Latvia and also an important player in the Baltics.

Arranging financing from the bank's own balance sheet, as well as syndicated transactions with our clients and partners is providing additional volumes of financing for our clients and generating important revenue stream for the Group. We remain committed to supporting local businesses with new financing solutions in the future.

Assisting our clients in investments in capital markets remains extremely important business line for the Group, where we have well developed product range – brokerage, investment advisory, asset management and custody.

In 2021 Latvia continued to restore international reputation of the financial sector. The coordinated efforts of government, lawmakers, Financial Intelligence Unit, FCMC, law enforcement agencies and financial institutions has led to irreversible de-risking of Latvian banking sector, which now commands AML/CTPF standards fully up-to-date with the international best practice. With this background, the Group continues to pay great attention to AML/CTPF compliance, constantly enhancing its internal controls in line with the changing regulatory environment and international best practice. We are investing in IT and human resources to maintain risk management and controls consistent with the chosen business model.

Sustainability has become a critically important aspect of the financial industry. The Group is committed to gradually integrating sustainability considerations into the core of all business activities, as well as to raising awareness among employees, customers, and partners about environmental, social and governance challenges and opportunities. The Group has developed a sustainability governance structure within the organisation, identifying key roles and areas of responsibility to ensure that sustainability efforts address significant issues and that they are implemented across the entire organisation.

The Group maintains a conservative risk profile – the capital adequacy ratio stood at 15.73% at the end of 2021 (2020: 18.42%), with a liquidity coverage ratio of 217% (2020: 221%).

The COVID-19 pandemic has not had a significant impact on the Group. Over the course of emergency situation declared in Latvia, the Group continued to offer full range of services to the clients. To ensure the safety of our employees and clients, large part of the Group's employees worked remotely in 2021, but otherwise the Group's activities were not affected.

In addition to organic growth, in 2021 the Group facilitated growth with acquisition of AS Expobank. This transaction was signed in June 2021 and completed in beginning of 2022, with strategic rationale to grow loan portfolio of the Group, enhance infrastructure and product range, increase equity capital of the Group and achieve economies of scale. We plan to complete merger between Signet Bank AS and AS Expobank by the end of 2022. We see further opportunities for consolidation on the Latvian banking sector, which is still fairly fragmented with 9 smallest banks representing just 17% of the banking sector's total assets.

The Group is a socially responsible entity, and it is important for us to provide support for cultural and artistic events of importance for society. In 2021 we supported the International Scientific Conference of the Art Academy of Latvia "Ideas and materials: in the context of the hybridity of cultures in the Baltics and other regions"; this cooperation will contribute to increasing the relevance and importance of scientific research. The Group also supported the internationally recognized, wonderful virtuoso accordionist Ksenia Sidorova in creating her new studio album "Piazzolla Reflections", and this year we opened with the presentation of Andris Vītoliņš solo exhibition "We Need a Chance To Be Reborn" in Vilnius.

War in Ukraine, which was initiated by Russia in February 2022, has not had significant effect on our business. Since 2018 we refocused our business model to local and EU markets, therefore share of Russian clients in our overall clients mix is extremely small. Our exposure to Russian risks is also small (see Note 39 for more details). We condemn Russian aggression and stand with people of Ukraine in their fight for freedom.

We see many opportunities as the banking sector of Latvia continues to undergo structural changes. At the Group, we see a clear opportunity to grow our corporate banking and investment banking businesses. Having access to our clients' substantial capital, we are able not only to arrange loans on our balance sheet, but also to syndicate sizeable debt financing transactions with our clients in the form of both loans and bond issues.

Management would like to thank our clients for their continuous trust, our shareholders for their support and strategic guidance, and our employees for their hard work in these exciting times. We are confident that the Group is well positioned to continue its successful development in the coming years.

On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

28 March 2022

The Council and Management of the Bank

Supervisory Council of the Bank

There were no changes in the Supervisory Council of the Bank during the reporting period.
The Supervisory Council was elected on December 14, 2020 and on February 16, 2021 registration of the composition of the Supervisory Council in the Commercial Register of the Enterprise Register was carried out:

Position	Name, surname
Chairman of the Supervisory Council	Michael A.L. Balboni
Deputy Chairman of the Supervisory Council	Irīna Pīgozne
Member of the Supervisory Council	Thomas Roland Evert Neckmar
Member of the Supervisory Council	Sergejs Medvedevs

Composition of the Bank's Supervisory Council before changes:

Position	Name, surname
Chairman of the Supervisory Council	Serge Umansky
Deputy Chairman of the Supervisory Council	Irīna Pīgozne
Member of the Supervisory Council	Thomas Roland Evert Neckmar
Member of the Supervisory Council	Sergejs Medvedevs
Member of the Supervisory Council	Pavel Kurosh

Management Board of the Bank

Position	Name, surname
Chairman of the Management Board	Roberts Idelsons
Member of the Management Board	Tatjana Drobina
Member of the Management Board	Sergejs Zaicevs
Member of the Management Board	Jānis Solovjakovs

There were no changes in the Management Board of the Bank during the reporting period.

Statement of Management Responsibility

The management of Signet Bank AS (the Bank) is responsible for the preparation of the financial statements of the Bank and its subsidiaries (the Group) that reflect the Bank and the Group's financial position at the end of the reporting period in a clear and actual manner, as well as for the financial results and the movement of monetary assets and liabilities during the reporting period.

The Bank's management confirms that throughout the preparation of pages 7 to 97 of the financial statements of the Bank and the Group for 2021 the corresponding bookkeeping methods have been used consistently, and that the decisions and evaluations of the Bank's management during the preparation of the financial statements have been in all respects sufficient, well-considered and balanced.

The aforementioned financial statements are prepared on a going concern basis in conformity with International Financial Reporting Standards as adopted by the European Union. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

The Bank's management is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets, and the prevention and detection of fraud or any other irregularities in the Group.

The Bank's management is also responsible for operating the Group and the Bank in compliance with the Law on Credit Institutions of the Republic of Latvia, Regulations of the Bank of Latvia and the Financial and Capital Market Commission of the Republic of Latvia, and other laws of the Republic of Latvia as well as European Union Regulations applicable to credit institutions.

On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

28 March 2022

Group`s Consolidated and Bank's Separate Statement of Income for the year ended 31 December 2021

'000 EUR	Note	2021 Group	2020 Group	2021 Bank	2020 Bank
Interest income	8	7 611	6 873	5 748	5 671
Interest expense	8	(1 424)	(1 430)	(1 321)	(1 445)
Net interest income		**6 187**	**5 443**	**4 427**	**4 226**
Fee and commission income	9	10 484	6 032	10 196	5 814
Fee and commission expense	10	(2 936)	(1 102)	(2 926)	(1 102)
Net fee and commission income		**7 548**	**4 930**	**7 270**	**4 712**
Net profit / loss on discontinuing recognition of financial assets and financial liabilities at fair value through profit or loss		89	63	89	63
Net profit / loss from financial assets and financial liabilities measured at fair value through profit or loss		274	448	274	448
Net foreign exchange profit / loss		289	623	254	664
Net other income		317	147	166	61
Total operating income		**14 704**	**11 654**	**12 480**	**10 174**
General administrative expenses	11	(11 163)	(9 462)	(9 525)	(8 400)
Share of loss of equity-accounted investee, net of tax		(21)	(3)	-	-
Profit before impairment and provisions		**3 520**	**2 189**	**2 955**	**1 774**
Impairment gain on investment in subsidiaries	20	94	-	676	-
Impairment gain / (loss) on commitments and contingencies		4	(4)	4	(4)
Impairment loss	12	(608)	(345)	(418)	(347)
Provision for litigations and legal disputes	37	(3 499)	(434)	(3 499)	(434)
Profit before income tax		**(489)**	**1 406**	**(282)**	**989**
Income tax expense	13	(41)	(11)	(34)	(8)
Profit for the period		**(530)**	**1 395**	**(316)**	**981**
Profit Attributable to non-controlling interest		17	7	-	-
Profit Attributable to Equity holders of the Bank		(547)	1 388	(316)	981

The accompanying notes on pages 15 to 97 are an integral part of the Group consolidated and Bank separate financial statements.

The Group consolidated and Bank`s separate financial statements as set out on pages 7 to 97 were approved by management of the Bank on 28 March 2022.

On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

Group`s Consolidated and Bank's Separate Statement of Comprehensive Income for the year ended 31 December 2021

'000 EUR	Note	2021 Group	2020 Group	2021 Bank	2020 Bank
Profit for the period		**(530)**	**1 395**	**(316)**	**981**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Changes in revaluation reserve of debt securities at fair value through other comprehensive income		150	(96)	154	(87)
Change to income statement as a result of sale of financial assets at fair value through other comprehensive income (debt securities)		(130)	(50)	(131)	(53)
Other comprehensive income/(expense) for the period		**20**	**(146)**	**23**	**(140)**
Total comprehensive income for the period		**(510)**	**1 249**	**(293)**	**841**
Profit Attributable to non-controlling interest		17	7	-	-
Profit Attributable to Equity holders of the Bank		(527)	1 242	(293)	841

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On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

Group's Consolidated and Bank's Separate Statement of Financial Position as at 31 December 2021

'000 EUR	Note	2021 Group	2020 Group	2021 Bank	2020 Bank
Assets					
Cash and due from central banks	14	107 102	12 196	107 102	12 196
Demand deposits with credit institutions	16	11 399	8 418	11 396	8 415
Financial instruments carried at fair value through profit or loss	15	6 419	5 235	6 419	5 235
Debt securities measured at fair value through other comprehensive income	18	13 715	15 949	13 715	15 743
Financial assets measured at amortized cost		208 061	150 496	202 570	149 900
Loans and advances due from non-banks	17	*114 540*	*83 407*	*109 049*	*82 811*
Debt securities	19	*83 456*	*63 828*	*83 456*	*63 828*
Term deposits with credit institutions	16	*10 065*	*3 261*	*10 065*	*3 261*
Investment in subsidiaries	20	-	-	2 454	1 831
Investment in associates	21	1 831	1 758	1 988	1 894
Property and equipment	22	2 188	2 432	2 122	2 414
Intangible assets	23	582	523	541	468
Non-current assets held for sale	24	4 006	3 996	3 970	3 970
Other assets	25	2 974	2 360	2 454	1 956
Total Assets		**358 277**	**203 363**	**354 731**	**204 022**

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On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

Group's Consolidated and Bank's Separate Statement of Financial Position as at 31 December 2021

'000 EUR	Note	2021 Group	2020 Group	2021 Bank	2020 Bank
Liabilities and shareholders' equity					
Liabilities to central bank		3 900	-	3 900	-
Demand deposits to credit institutions		2	-	2	-
Financial liabilities at fair value through profit or loss	15	288	244	288	244
Financial liabilities measured at amortized cost		325 320	180 103	323 032	181 916
Deposits	27	315 426	173 832	317 907	175 645
Subordinated liabilities	28	4 838	5 667	4 838	5 667
Liabilities to financial institutions and non-banks	26	5 056	604	287	604
Provisions	29	3 505	438	3 505	438
Other liabilities	30	7 449	4 258	6 843	3 970
Total Liabilities		**340 464**	**185 043**	**337 570**	**186 568**
Share capital	31	16 545	16 545	16 545	16 545
Share premium		28	28	28	28
Other reserves		312	312	312	312
Fair value reserve		(21)	(41)	(21)	(44)
Accumulated profit		660	1 207	297	613
Total Equity Attributable to Equity Holders of the Bank		**17 524**	**18 051**	**17 161**	**17 454**
Non-controlling Interest		289	269	-	-
Total Shareholders' Equity		**17 813**	**18 320**	**17 161**	**17 454**
Total Liabilities and Shareholders' Equity		**358 277**	**203 363**	**354 731**	**204 022**
Assets under management and administration	33	**861 783**	**866 953**	**792 897**	**808 608**

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On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

Group's Consolidated and Bank's Separate Statement of Cash Flows for the year ended 31 December 2021

'000 EUR	Note	2021 Group	2020 Group	2021 Bank	2020 Bank
Cash flows from operating activities					
Profit / (loses) before income tax		(489)	1 406	(282)	989
Corporate income tax paid		41	11	34	8
Amortisation and depreciation	22, 23	563	580	542	559
Impairment loss	12	608	345	418	347
Net interest income		(6 187)	(5 443)	(4 427)	(4 226)
Dividends received		(8)	(6)	(8)	(6)
Increase of provisions	29	3 067	430	3 067	430
Decrease in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**(2 405)**	**(2 677)**	**(656)**	**(1 899)**
(Increase)/decrease in financial assets at fair value through profit or loss		(1 140)	(4 443)	(1 140)	(4 443)
(Increase)/decrease in balances due from financial institutions		184	16 528	(4 620)	16 641
(Increase) in loans and advances due from customers		(31 400)	(18 282)	(26 433)	(17 901)
Increase in non-current assets held for sale		(10)	(3 826)	-	(3 777)
(Increase) in other assets		(603)	(203)	(487)	(105)
Increase in deposits and balances due to financial institutions		141 525	19 673	142 219	20 042
Increase/(decrease) in other liabilities		3 498	(923)	3 191	(1 041)
Increase in cash and cash equivalents from changes in assets and liabilities, as a result of ordinary operations		**109 649**	**5 847**	**112 074**	**7 517**
Interest received		7 332	6 745	5 589	5 550
Dividends received		8	6	8	6
Interest paid		(1 307)	(1 129)	(1 230)	(1 200)
Net cash flow from operating activities		**115 682**	**11 469**	**116 441**	**11 873**
Cash flow from investing activities					
Purchase of property and equipment	22, 23	(404)	(702)	(349)	(700)
Investments in financial instruments designated at fair value through profit or loss		(4 106)	(13 120)	(4 312)	(13 120)
Proceeds in financial instruments designated at fair value through profit or loss		6 490	17 415	6 493	17 419
Investments in financial assets measured at amortized cost		(9 608)	(9 608)	(9 608)	(76 628)
Proceeds in financial assets measured at amortized cost		(10 197)	(31 779)	(10 199)	35 241
Acquisition of subsidiary		-	-	(281)	(300)
Investments in associates		(73)	137	-	134
Investments in subsidiary		-	-	(675)	-
Net cash flow from investing activities		**(17 898)**	**(37 657)**	**(18 931)**	**(37 954)**

Group's Consolidated and Bank's Separate Statement of Cash Flows for the year ended 31 December 2021

'000 EUR	Note	2021 Group	2020 Group	2021 Bank	2020 Bank
Cash flow from financing activities					
Non-controlling interest in subsidiary		3	-	-	-
(Decrease) in Subordinated liabilities		(1 125)	(6 347)	(886)	(6 347)
Repayment of lease liabilities		(141)	(115)	(138)	(111)
Net cash flow from financing activities		**(1 263)**	**(6 462)**	**(1 024)**	**(6 458)**
Net in cash and cash equivalents		**96 521**	**(32 650)**	**96 486**	**(32 539)**
Cash and cash equivalents at the beginning of the year		20 614	52 415	20 611	52 342
Currency translation of cash and cash equivalents at the year		1 366	849	1 401	808
Cash and cash equivalents at the end of the year	14	**118 501**	**20 614**	**118 498**	**20 611**

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On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

Group's Consolidated Statement of Changes in Shareholders' equity for the year ended 31 December 2021

'000 EUR	Note	Share capital	Share premium	Fair value reserve	Other reserves	Accumulated profit / (losses)	Non-controlling Interest	Total
Balance at 1 January 2020		**32 171**	**28**	**105**	**312**	**(15 807)**	**262**	**17 071**
Reduction of nominal value of shares		(15 626)	-	-	-	15 626	-	-
Balance after reduction of share capital		**16 545**	**28**	**105**	**312**	**(181)**	**262**	**17 071**
Comprehensive income								
Profit for the year		-	-	-	-	1 388	7	1 395
Other comprehensive expense		-	-	(146)	-	-	-	(146)
Total comprehensive income		**-**	**-**	**(146)**	**-**	**1 388**	**7**	**1 249**
Balance at 31 December 2020	31	**16 545**	**28**	**(41)**	**312**	**1 207**	**269**	**18 320**
Comprehensive income								
Profit/ (loss) for the year		-	-	-	-	(547)	17	(530)
Other comprehensive income		-	-	20	-	-	-	20
Total comprehensive income / (expense)		**-**	**-**	**20**	**-**	**(547)**	**17**	**(510)**
Acquisition of a non - controlling subsidiary		**-**	**-**	**-**	**-**	**-**	**3**	**3**
Balance at 31 December 2021	31	**16 545**	**28**	**(21)**	**312**	**660**	**289**	**17 813**

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On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

Bank's Separate Statement of Changes in Shareholders' Equity for the year ended 31 December 2021

'000 EUR	Note	Share capital	Share premium	Fair value reserve	Other reserves	Accumulated profit / (losses)	Total
Balance at 1 January 2020		**32 171**	**28**	**96**	**312**	**(15 994)**	**16 613**
Reduction of nominal value of shares		(15 626)	-	-	-	15 626	-
Balance after reduction of share capital		**16 545**	**28**	**96**	**312**	**(368)**	**16 613**
Comprehensive income							
Profit for the year		-	-	-	-	981	981
Other comprehensive income		-	-	(140)	-	-	(140)
Total comprehensive income)		**-**	**-**	**(140)**	**-**	**981**	**841**
Balance at 31 December 2020	31	**16 545**	**28**	**(44)**	**312**	**613**	**17 454**
Comprehensive income							
Profit for the year		-	-	-	-	(316)	(316)
Other comprehensive expense		-	-	23	-	-	**23**
Total comprehensive income / (expense)		**-**	**-**	**23**	**-**	**(316)**	**(293)**
Balance at 31 December 2021	31	**16 545**	**28**	**(21)**	**312**	**297**	**17 161**

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On behalf of the management:

Roberts Idelsons
Chairman of the Board

Tatjana Drobina
Member of the Board

Group's Consolidated and Bank's Separate Notes to the Financial Statements

1. Background

Principal activities

The Bank was founded in 1992 as Latvijas Biznesa banka AS. Currently, the largest shareholders of the Bank are three financially strong international investors, consisting of three financially strong investors – Signet Acquisitions III, LLC, AS RIT GROUP un SIA "Reglink". In addition to financial stability, it provides a framework for rational and thoughtful strategic decision-making at the shareholder level, based on the mutually supportive, broad and diverse experience of each shareholder.

Signet Bank AS is a private bank that provides entrepreneurs and their companies with high-quality financial solutions at the highest level of professionalism and reliability. The main products offered to clients are: servicing of daily banking transactions of individuals and legal entities, investment banking, capital management, including portfolio management, participation in financial club-type deals, investment advice, private and corporate loans, premium payment cards, deposits. The Bank's target customers are residents of Latvia, the European Union and OECD countries. The Bank aims to become the most convenient and reliable provider of banking services and sustainable financial solutions in the Nordics.

In 2020, the Bank completed the transformation of its business model with the main focus on servicing and financing local entrepreneurs and their businesses. At the end of 2021, as a result of this transformation, most of the Bank's business (88% of deposits and 80% of revenues) (at the end of 2020: 72% of deposits and 65% of revenues): came from residents of the European Union, the European Economic Union, Economic Cooperation and Development EU, while 67% (2020: 52%) of deposits and 66% (2020: 53%) of revenues came from residents of Latvia. The Bank will continue to prioritize increasing business volumes in the markets of Latvia and other EU countries, both in terms of attracting customers and lending.

2021 and 2020 was very challenging and unusual year for all of the world. Essentially all countries were under shorter or longer periods of lockdown due to a pandemic as governments provided supportive measures to people and businesses. In order to provide support for those borrowers who were facing short-term difficulties due to Covid-19, the Group joined the industry-wide moratorium. In response to safety measures, the Group made changes in business processes, shifting most of them to remote work. As mass vaccination is under the way, the situation should improve notably, however, uncertainty of further developments remains. The Group assessed potential effect from Covid-19, during regular planning procedures in December 2021. In the opinion of the Group's management, Covid-19 pandemic will not impact the Group's and Bank's operations significantly and the Group will continue to operate successfully.

The Group's capital adequacy and liquidity[1] ratios were 15.73% and 73.19% respectively as at 31 December 2021 (2020: 18.42% and 63.63% respectively). In 2021 the Group's Return on Equity (ROE)[2] and Return on Assets (ROA)[3] were -2.89% and -0.20% respectively (7.79% and 0.68% in 2020).

The Bank operates in accordance with the laws and regulations of the Republic of Latvia and the licence issued by the Capital Market Commission of the Republic of Latvia ("FCMC"), that allows the Bank to render all the financial services specified in the Law on Credit Institutions. The activities of the Group are supervised by the FCMC. The registered address of the Bank's head office is 3 Antonijas street, Riga LV-1010, Latvia.

[1] Liquidity ratio is calculated by dividing short-term liquid assets by current liabilities due in 30 days
[2] ROE is calculated as annualised net profit/loss for the relevant period divided by the average of total equity at the beginning and the end of the period.
[3] ROA is calculated as annualised net profit/loss for the relevant period divided by the average of total assets at the beginning and the end of the period.

Subsidiaries of the Group is as follows:

Name	Country of incorporation	Principal Activities	Address	Reasons for inclusion in the group	Ownership %	
					2021	2020
Signet Asset Management Latvia IPS	Latvia	Financial services	3-1 Antonijas street, Riga LV-1010, Latvia	Subsidiary	100	100
AS Primero Holding	Latvia	Financial services	3-1 Antonijas street, Riga LV-1010, Latvia	Subsidiary	51	51
AS "Primero Finance"	Latvia	Financial services	3 Antonijas street, Riga LV-1010, Latvia	Subsidiary of a subsidiary	51 *	51 *
UAB Primero Finance	Lithuania	Financial services	Perkūnkiemio Str. 6-1, Vilnius, LT-12130, Lithuania	Subsidiary of a subsidiary	51 *	51*
Citra Development SIA	Latvia	Real estate rental and management	Antonijas Str. 3-5, Riga, LV-1010, Latvia	Subsidiary	100	100

*Bank's direct shareholding in AS Primero Holding is 51%; AS Primero Holding owns 100% of shares.

2. Commitment to Sustainability

In 2021, the Bank initiated a series of practical tasks to integrate environmental, social and governance considerations into its business operations and products, thus supporting the goals for sustainable development.

The Bank believes that to achieve the global sustainability targets it requires joint efforts and a collective shift in thinking, habits and priorities, the success of which depends, primary, on understanding and acknowledging why this is important, and secondly, on motivation and leadership – and this is where the financial sector can play an important role. In 2021, the Bank has actively participated in industry initiatives to promote sustainable financing, including joining the World Climate Foundation's call for asset managers in the Baltic and Nordic countries to promote the transition to climate neutrality by 2050.

At the end of 2021, Signet Asset Management registered its first investment product supporting climate targets – Sustainability Promoting Balanced Fund. The investments within the fund will be done in both equities and bonds, taking into account the sustainability performance of each company and excluding those sectors that have a significant negative impact on climate change.

In 2022, the Bank will continue to work on implementation of its sustainability strategy, primary focusing on the availability of high-quality data and further integration of sustainability criteria into risk management and investment decisions.

The Bank's sustainability strategy goals:

- provide financial solutions and capital market instruments, fostering investments in projects that support the UN Sustainable Development Goals, as well as the priorities set out in the European Green Deal and the Recovery and Resilience Facility on EU and national level;
- develop infrastructure for data availability to make informed decisions on environmental, social and governance (ESG) topics, monitor the achievement of sustainability goals and ensure compliance with disclosure requirements;
- continuously improve the integration of ESG factors and related considerations into risk management and investment decisions;
- promote responsible and transparent governance culture within the Bank;
- invest in the digitization and technological development of the Bank's services and processes to facilitate the transition to a green and digital economy;

- invest in raising awareness and improving knowledge, skills and expertise in sustainability related risks and opportunities within Bank's employees, customers, partners and society as a whole;
- reduce the environmental impact of the Bank's operations, promoting responsible consumption and use of resources, as well as establishing requirements regarding environmental and social standards that the Bank considers as important in selecting its suppliers and partners.

3. Authorisation of the financial statements

These financial statements have been authorised for issuance by the Management of the Bank on 28 March 2021 and they comprise the financial information of Signet Bank AS (hereinafter – the Bank) and its subsidiaries - Signet Asset Management Latvia IPS, AS Primero Holding, Citra Development SIA, and subsidiaries of a subsidiary - AS "Primero Finance", UAB Primero Finance (together referred to as the "Group"). The shareholders have the right to approve these financial statements, as well as have the right to make changes to these financial statements.

4. Summary of significant accounting policies

The following significant accounting policies have been applied in the preparation of the Group's consolidated and the Bank's separate financial statements.

a) Basis of preparation

The accompanying Group consolidated and Bank separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS"), and regulations of the Financial and Capital Market Commission of the Republic of Latvia in force as at the reporting date and in accordance with a going concern basis. Having reassessed the main risks, the Management considers it appropriate to adopt going concern basis of accounting in preparing these financial statements, there are no material uncertainties with regard to applying going concern basis of accounting.
Some of the updated standards became effective on 1 January 2020, but they do not have a material impact on the Group, therefore the accounting policies were not updated and revised. The other accounting policies have not changed from those used in the preparation of the financial statements for the year ended 31 December 2020.

b) Functional and Presentation Currency

Group's and Bank's functional currency and presentation currency, is the official currency of the Republic of Latvia, Euro ("EUR"). The accompanying financial statements are presented in thousands of Euros (EUR 000's).

c) Changes in significant accounting policies

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2021. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.
Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2.
The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The Group applied the practical expedients provided by the amendments. They do not have a material effect on the Group's financial statements.

COVID-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.
The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received COVID-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- IFRS 17 Insurance Contracts, effective for reporting periods beginning on or after 1 January 2023, with comparative figures required.
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current, effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.

- Reference to the Conceptual Framework – Amendments to IFRS 3, effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16, effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively.
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37, effective for annual reporting periods beginning on or after 1 January 2022.
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter, effective for annual reporting periods beginning on or after 1 January 2022.
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities, effective for annual reporting periods beginning on or after 1 January 2022.
- Definition of Accounting Estimates - Amendments to IAS 8, effective for annual reporting periods beginning on or after 1 January 2023.
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2, applicable for annual periods beginning on or after 1 January 2023.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's financial statements.

d) Basis of consolidation

(i) Subsidiaries and subsidiaries of a subsidiary
Subsidiaries and subsidiaries of a subsidiary are those enterprises 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 that control effectively commences until the date that control effectively ceases. The investments in the subsidiaries are presented in the Bank's financial statements at acquisition cost less impairment allowance. More detailed information on the Group's subsidiary is presented in Note 20 (Investment in Subsidiaries).

(ii) Associates
The Bank's interests in equity accounted investees comprise interests in associates.
Associates are those entities in which the Bank has significant influence, but not control or joint control, over the financial and operating policies. Investments in associates are accounted for in the Group consolidated financial statements using the equity method. They are initially recognised at cost, including transaction costs. Subsequent to initial recognition, consolidated financial statements include the Group's share of the profit or loss and OCI in equity-accounted investees, until the date on which significant influence or joint control ceases.
Investments in associates are carried in the Bank's separate financial statements at cost less impairment, if any. More detailed information on the Group's associates is presented in Note 21 (Investment in associates).

(iii) Transactions eliminated on consolidation
Detailed information of the subsidiaries entity is available in Note 20.

The Bank and its Subsidiarie's financial statements are consolidated in the Group financial statements, merging the respective assets, liabilities, income and expense captions. Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, have been eliminated in the preparation of the consolidated financial statements.

(iv) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on acquisition is recognised immediately in profit or loss. Impairment losses are not reversed.

e) Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of Group companies at the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the European Central Bank spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value in foreign currency are retranslated into the functional currency at the European Central Bank spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognised in other comprehensive income.

f) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks 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 Bank and the Group companies in the management of short-term commitments.

g) Financial instruments

(i) Recognition

The Group recognises financial asset on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

All transactions of purchase and sale of financial assets are recognised in the statement of financial position on the settlement date. In the period between a transaction and the settlement date, the Bank recognises changes of fair value of an asset to be received or transferred according to the same principles that are applied to the accounting of any asset of the respective category.

(ii) Classification

At the time of initial recognition, the Group classifies all financial assets and financial liabilities into one of the business models as follows:

- held in order to collect contractual cash flows (HTC);
- held in order to both collect the contractual cash flows and sell the financial asset (HTCS);
- held for trading (TRD).

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

The Group, having regard to the business model objectives and the contractual cash flow characteristics, accounts financial assets in 3 (three) measurement categories:

- measured at amortised cost (AmC);
- measured at fair value through other comprehensive income (FVOCI);
- measured at fair value through profit or loss (hereinafter referred to as FVTPL).

The Group accounts all financial assets as measured at AmC, except for:

- liabilities held for trading or those initially classified as FVTPL. Such liabilities, including derivative instruments which are liabilities, are afterwards measured at fair value;
- financial liabilities that arise when the transfer of a financial asset does not qualify for derecognition, or a continuing involvement approach applies;
- financial guarantee contracts;
- commitment to issue a loan at an interest rate lower than the market interest rate;
- contingent consideration recognised by the buyer in a business combination that is subject to IFRS 3. Such possible remuneration is subsequently measured at fair value with changes recognised in the statement of profit and loss.

(iii) Measurement

Financial assets and liabilities measured at amortised cost

For a financial asset to be measured at amortised cost it should both be held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are carried at amortised cost using the effective interest rate method, less any allowance for impairment. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's effective interest rate. The effective interest rate is applied to the gross carrying amount of a financial asset except for credit-impaired financial assets. For the purchased or originated credit-impaired financial assets the credit-adjusted effective interest rate is applied from initial recognition. For financial assets which subsequently become credit-impaired the effective interest rate is applied to the revised after impairment carrying amount and where the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired, the effective interest rate is applied to the gross carrying amount.

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 a contractual agreement till drawdown they are accounted for as off-balance sheet commitments.

When the financial asset cannot be recovered, it is written off and charged against allowance for credit losses. The Group makes the decision on writing-off of financial assets. Recoveries of loans previously written-off are credited to the statement of income.

The Group classifies all financial liabilities as subsequently measured at amortised cost using the effective interest rate method, except for derivatives and certain deposit components of the insurance plan liabilities which are measured at fair value through profit or loss. A gain or loss on a financial liability that is measured at amortised cost is recognised in profit or loss when the financial liability is derecognised and through the amortisation process.

Financial assets measured at fair value through other comprehensive income

For a financial asset to be measured at fair value through other comprehensive income it should be held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset should give rise on specified 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 intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates, share prices or other circumstances.

Financial assets measured at fair value through other comprehensive income are subsequently 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 and is recognised in profit or loss; on derecognising the cumulative fair value revaluation gain or loss 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. Impairment gains or losses are recognised in profit or loss.

For equity instruments, neither held for trading or acquired in a business combination, the Group at initial recognition, has to make an irrevocable election to present subsequent changes in the fair value of each instrument in other comprehensive income or profit or loss. This election is made on an instrument-by-instrument basis. Amounts presented in other comprehensive income subsequently are not transferred to profit or loss, but cumulative gain or loss on disposal is transferred directly to retained earnings. Dividends on equity instruments classified at fair value through other comprehensive are recognised in the statement of income. Such equity instruments are not tested for impairment, but carried at fair value.

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

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. For equity instruments that would otherwise be measured at fair value through profit or loss an irrevocable election at initial recognition on instrument-by-instrument basis is made to present subsequent changes in fair value

in other comprehensive income. Also a financial asset or liability, at initial recognition, may be irrevocably designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces "accounting mismatch" that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases or a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the management.
Financial assets and liabilities which are held for trading are measured at fair value through profit or loss. Financial assets and liabilities are held for trading if they are either acquired in a business model which is characterised by generation of a profit from short-term fluctuations in price or dealer's margin, or a pattern of short-term profit taking exists.
Modification of terms in loan contracts

The Group sometimes renegotiates or otherwise modifies the contractual cash flows or other contractual terms of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different from the original ones. To do so, the Group considers modifications such as:

- significant extension of the loan when the borrower is not in financial difficulty;
- significant change in interest rate;
- change of the loan currency;
- whether there are any other changes in the loan contract that substantially affect the risk profile of the loan including changes in the composition of collateral.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a new asset at fair value and calculates new effective interest rate for the asset. The date of renegotiation is considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. The Group also assesses whether the new financial asset is deemed to be credit-impaired at initial recognition, especially when the renegotiation was driven by the debtor being unable to meet the original schedule of payments.
Differences in the carrying amount are recognised on profit or loss as a gain or loss on derecognition.
If the terms are not substantially different, the modification does not result in derecognition, and the Group recalculates the gross carrying amount by discounting the revised cash flows at the original effective interest rate. Resulting gain or loss is recognised in profit or loss.

(iv) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.
The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

h) Repurchase and reverse repurchase agreements

These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group's balance sheet and are subject to the Group's usual accounting policies, with the purchase price received

recorded as a liability owed to the transferee. Assets in the balance sheet are shown separately from other assets when the transferee has the right by contract or custom to sell or repledge the collateral.
Where the Group is the transferee, the assets are not included in the Group's balance sheet, but the purchase price paid by it to the transferor is recorded as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

i) Derivative financial instruments

Derivative financial instruments include OTC interest rate swaps, exchange-traded interest rate futures and interest rate options, currency forwards and swaps, options on precious metals, and stock options and any combinations of these financial instruments. All derivatives are classified as measured at fair value through profit or loss.
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.
Changes in the fair value of derivatives are recognised immediately in the profit or loss.
Derivatives may be embedded in another contractual arrangement (a "host contract"). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in the profit or loss.
Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.
Although the Group/Bank trade with derivative instruments for risk hedging purposes, the Group/Bank do not apply hedge accounting.

j) 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.

k) Property and equipment

(i) Owned assets

Items of property and equipment are stated 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.

(ii) Leased assets

From 1 January 2019, the Group recognized the right to use assets and lease liabilities in accordance with IFRS 16 "Leases".
The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs. Subsequently, the right-of-use asset is measured using a cost model. A right-of-use asset is measured at cost less any accumulated depreciation and impairment. The lease liability is initially

measured at the discounted value of agreed-upon payments over the lease term. A discount rate which discounts future payments to estimated present value is applied. The Group presents right-of-use assets in the same line items in which it presents owned assets of the same nature. Lease liabilities are presented within other liabilities. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets, but to expense lease payments for low-value assets over the lease term instead.

When estimating a lease term, the Group's intentions as well as contractual early termination and extension options available to the lessee and lessor are considered. When a previously recognised lease is modified and the scope of the lease increases, and increase in compensation is commensurate, a new separate lease is recognised; if increase in compensation is not commensurate or the scope of lease decreases, the current right-of-use asset and corresponding lease liability are re-measured. In case of decrease in scope of lease a gain or loss (if any) is recognised in income statement.

The most important kind of lease agreement for the bank as a lessee concerns spaces leased for the purposes of the Bank's core activities. If a lease contract entails the possibility of extension or premature termination, in many cases a period of lease equal to a one-year planning period is applied – unless an agreement already specifies a shorter period of lease. The implicit loan interest rate on the date of initial application was 4.19% determined based on the average subordinated loan interest rate for the Bank.

As a lessee, the Group defines IFRS 16 accounting terms beyond the scope of the Standard as follows:

- a short-term lease is a lease with the term of less than or equal to 12 (twelve) months;
- a low value asset is an asset which is acquired new and has value equal to or less than EUR 5'000.00 (five thousand euros).

Leasehold improvements are capitalized, and their depreciation is calculated on a straight-line basis over the remaining lease term. Leasehold renovation costs in relation to improving quality of the building are capitalized.

Leasehold maintenance and current repair costs are recognized in the profit or loss statement when incurred.

(iii) Depreciation

Depreciation is charged to the profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Leasehold improvements	Over the lease term
Equipment	3 years
Fixtures and fittings	5 years

l) Intangible assets

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Costs associated with maintaining computer software programs are recognised as an expense as

incurred.
Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Intangible assets	5-7 years

m) Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount is to be recovered through a sale transaction rather than continuing use and the management has committed to an active plan that is expected to result in a complete sale within one year from the date of classification.
Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell of the non-current asset. At least at each reporting date, the Group assesses, whether the value of the non-current assets classified as held for sale is impaired. The impairment loss reduces carrying amount of the asset and is included in the statement of income's line 'Other impairment losses'. In the same line of the statement of income a gain from any subsequent increase in fair value less cost to sell of an asset is recognised, but not in excess of the cumulative impairment loss that has been recognised either for non-current asset held for sale or previously for the non-current asset.

n) Impairment of financial assets and expected loss

The Group's impairment requirements are based on an expected loss model. Expected loss calculations do not represent the losses that the Group may suffer in a single scenario such as a stress scenario, but represent a probability weighted loss in a number of reasonably possible scenarios including a normal repayment scenario.
To calculate impairment, the assets are divided into three categories (stages):
- stage 1 includes assets where no significant increase in credit risk since acquisition/initial recognition is identified;
- stage 2 includes assets for which a significant increase in credit risk is identified since acquisition/initial recognition but for which no default of the issuer has been identified;
- stage 3 includes defaulted assets.

The Group calculates provisions for expected credit losses according to the requirements of IFRS 9:
- for stage 1 assets, loan loss allowance equals the 12 month expected credit loss, that is a possible loss if the issuer defaults within the next 12 months;
- for stage 2 and 3 assets loan loss allowance equals the lifetime expected credit losses.

The 'default' is defined in line with the prudential definition of the default: exposure delayed 90 and more days, significant restructuring and other unlikeliness to pay indicators. The 'default' is the criteria for transfer to stage 3.
To determine if the credit risk associated with a financial instrument has increased significantly since initial recognition (or a financial instrument is in default), the Group monitoring a number of indicators, such as:
- whether the payments related to an asset (or other obligations of an obligor) have been past due or there has been a breach of covenants;
- whether there has been information about significant deterioration of the obligor's financial situation;
- whether an obligor has informed the Group about his willingness to alter the debt contract

terms that can be deemed to be a forbearance (granting to the obligor a concession(s) due to the obligor's financial difficulty that would not otherwise be granted) or an event of forbearance itself;
- whether substantial decline of the market price of the obligor's debt instruments has occurred, in case an obligor has issued financial instruments and those are actively traded;
- whether actual or expected changes in business conditions have been observed / forecasted that may have a significant impact on the obligor's creditworthiness assessment;
- whether there has been a decrease of an obligor's external or internal credit rating;
- whether there has been an increase of the loan-to-value ratio (for the Group's issued loans).

Based on the above mentioned criteria, the Group's management make a decision regarding classification of the assets by stages. Usually, if payments related to an asset are past due more than 30 days, the asset is classified as stage 2 asset, and, if payments related to an asset are past due more than 90 days, the asset is classified as stage 3 asset.

The Group use the "low credit risk exemption" permitted by the standard. The Group uses low credit risk exemption as permitted by the IFRS 9 standard when calculating the amount of expected credit losses (ECL) for the Group's claims on counterparties and issuers that have BBB- or higher credit rating from rating companies Standard & Poor's, Moody's or Fitch taking into account that probabilities of default (PD) have historically been low for issuers with such credit rating level (average 1 year PD of 0.18% for issuers with BBB- credit rating and lower for issuers with higher credit rating). Low credit risk exemption means that, if a counterparty has BBB- or higher credit rating, the Group considers that credit risk that is related to the Group's claims on that counterparty has not increased significantly even if there are indications of the counterparty's creditworthiness worsening.

The Group calculates expected loss (EL) on an individual basis for all assets in scope of the standard, except stage 1 credit card overdrafts and trade debtors (with individual exposures below EUR 100 thousand) for which EL is calculated on collective basis.

For stage 1 and 2 assets, the amount of EL is calculated by multiplying the exposure at default on the reporting date (including accrued interest and undisbursed loan or credit line) by loss given default (LGD) rate and by the probability of default: 12 month PD rate for stage 1 assets and lifetime PD rate for stage 2 assets. For stage 3 assets, individual scenarios of recovery cash flows are developed by the Group and approved by the Group's management.

For debt securities, amounts due from other banks and counterparties and other instruments that have a credit rating by S&P, Moody's or Fitch, the Group uses PD's that are based on the rating agencies' historical data.

For debt securities, amounts due from other banks and counterparties and other instruments, except loans to customers, that do not have an external credit rating by S&P, Moody's or Fitch rating agencies, the Group estimates ratings based on the level and intervals of financial indicators used by the credit rating agencies to determine credit rating. The estimated credit ratings and historical PD's by ratings based on the external rating agencies data are used as the basis for PD assessment.

For debt securities held, amounts due from counterparties and other assets the Group bases its LGD estimate on LGDs calculated by rating agencies orinternal analysis of recoveries from defaulted exposures.

For stage 1 and stage 2 loans to customers, the Group estimates PD rates that are based on the number of defaults that the Group has experienced in its loans portfolio during the past 3 years taking into account each borrower's specific creditworthiness assessment.

For loans to customers, loss given default rates are based on the estimated proceeds from the sale of collateral in case of the default. For that purpose, the Group makes assumptions regarding

possible sales term, discount and selling costs based on the collateral type, liquidity, location, etc.
Impairment allowance for loans to customers is calculated as a difference between the net present value of projected future cash flows that are discounted using the loan's original effective interest rate and the net carrying amount. Calculation of net present value of projected future cash flows for loans secured with collateral takes into account cash flows from repossession of collateral less cost of repossession and sale. Losses are recognised in profit or loss.

Calculation of impairment allowance for expected credit losses from off-balance sheet liabilities and contingent liabilities is in line with the principles and methodology applied for balance sheet positions. Additional aspects evaluated for off-balance sheet financial liabilities are conversions and estimates of future use, as well as the Group's ability to react timely, identify exposures and close such limits in case their credit quality deteriorates.

Loss allowance for expected credit losses on loan commitments and financial guarantee contracts is recognised as provisions. Details of the calculation methodology are described in Note 4 (o).

The Group uses a separate approach for calculating expected credit losses for loans issued by the Group's company which operates in consumer lending business. Probabilities of default are calculated based on the company's data on defaults that the company has actually experienced, and loss given default rates are based on the actual income from recoveries for the defaulted and terminated loan agreements.

The Group adjusts PDs used in the EL calculation depending on forecasted relevant macroeconomic circumstances. If a conterparty's or a borrower's creditworthiness depends on economic situation in a country or a region and in that country or a region economic downturn is expected, higher probabilities of default are employed to calculate expected credit losses than in 'normal' circumstances when economic downturn is not expected.

When calculating expected credit losses for loans to clients as of 31.12.2021, the Group used substantially higher default rates for loans to those clients who experienced substantial negative impact on their operations from the Covid-19 pandemic.

The Group regularly reviews and improves the methods it uses for EL calculation including comparison of actually experienced losses to previously expected losses.

o) Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

p) Unrecognised loan commitments

In the normal course of business, the Group enters into unrecognised loan commitments, comprising undrawn loan commitments and provides guarantees and letters of credit.

Financial guarantees are contracts that require the Group 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 is recognised initially at fair value, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.

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

q) Income tax

The tax payable includes the expected payment of the tax from the taxable income for the year, calculated using the tax rates which are in force at the end date of the reporting period, and adjustments to the taxes payable for previous years. Corporate income tax assets and liabilities are measured at the amount expected to be obtained from or paid to tax authorities. The Bank and the Group's have to pay income tax on the profit distribution in Latvia. Thus, the income tax on the profit distribution is recognized at the time of payment, when dividends are declared. Whereas UAB Primero Finance pays income tax on taxable income in Lithuania.

r) Income and expense recognition

Interest income and expense items are recognised on an accrual basis using the effective interest rate.
Loan origination fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method.
Commissions in respect of the acquisition of financial assets that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.
Penalty income is recognised on cash-received basis.

5. Risk management

The Group mainly has exposure to the following risks:
- market risks
- interest rate risk
- currency risk
- price risk
- credit risk
- liquidity risk
- operational risk
- other risks: Money Laundering and Terrorism and Proliferation Financing (further – ML/TPF) risk, compliance and reputation risk, strategic risk.

This note presents information about the Bank's exposure to each of the above risks, as well as about the Group's objectives, policies and processes for measuring and managing risk.

a) Risk management policies and procedures

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. The Group's tolerance of risks is set forth in the Group's respective risk management policies. Risk management policies and procedures are reviewed regularly to reflect changes in regulation, market conditions, products and services offered and emerging risk management best practice.

The Council has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Financial Risk Management Department (further – FRMD) is responsible for identifying, measuring, managing and reporting financial risks. The Head of Compliance and Risk Management Department is responsible for the non-financial risks and compliance issues.

Credit risk, market risk and liquidity risk, both at portfolio and transactional levels are managed and controlled by Credit committee and Assets and liabilities committee (further - ALCO).

b) Market risks

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and fixed income or other financial instruments, which are exposed to general and specific market movements and volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, chaired by the CEO. Market risk limits are approved by ALCO based on recommendations of the FRMD.

The Group manages its market risk by setting open position limits for financial instruments, interest rate risk positions and currency positions which are monitored on a regular basis and reviewed and approved by the ALCO. Additional restrictions are set for financial instrument

portfolios, such as duration limits, concentration limits etc.
In addition, the Group uses various stress tests to model the financial impact of a variety of exceptional market scenarios on individual portfolios and the Group's overall position. Stress tests provide an indication of the potential losses that could arise under adverse or very unfavorable conditions.

c) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments.
The Group is exposed to changes of market interest rates on its financial position and cash flows. Due to changes of market interest rates the Group's profit may increase, decrease, or the Group may suffer losses if there are large unexpected changes of market interest rates.
In the following table below possible impact on the Group's and the Bank's profit and equity is shown from a change of yield of fixed income securities acquired by the Group and the Bank by 100 basis points. This analysis assumes that all other variables, including foreign exchange rates, remain constant. The analysis includes fixed income securities classified as FVTPL or FVOCI. The impact of income taxes is not reflected in this analysis:

'000 EUR	31 December 2021		31 December 2020	
	Group	Bank	Group	Bank
Impact on profit: parallel increase by 100 basis points	(92)	(92)	(81)	(81)
Impact on profit: parallel decrease by 100 basis points	95	95	81	81
Impact on equity: parallel increase by 100 basis points	(291)	(291)	(233)	(232)
Impact on equity: parallel decrease by 100 basis points	298	298	233	232

In addition to the impact on securities prices, possible changes in the interest rates may impact the interest income that the Bank receives on the assets with variable interest rates and pays on the liabilities with variable interest rates thus impacting the Bank's net interest income. Below a possible impact on the Bank's net interest income within a period of the next 12 months is provided:

'000 EUR	31 December 2021	31 December 2020
100 bp parallel increase	751	516
100 bp parallel decrease	(751)	(516)

d) Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the receivables in a foreign currency are either greater or less than the payables in that currency. For further information on the Group's exposure to currency risk at year end refer to Currency analysis table in this Note.
A change in exchange rates as indicated below, as at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The impact of income taxes is not reflected in this analysis:

'000 EUR	31 December 2021		31 December 2020	
	Profit or loss, Group	Profit or loss, Bank	Profit or loss, Group	Profit or loss, Bank
5% appreciation of USD against EUR	4	4	26	2
5% depreciation of USD against EUR	(4)	(4)	(26)	(2)
5% appreciation of GBP against EUR	-	-	(1)	(1)
5% depreciation of GBP against EUR	-	-	1	1
20% appreciation of RUB against EUR	(8)	(8)	(9)	(9)
20% depreciation of RUB against EUR	8	8	9	9

e) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.
An analysis of sensitivity of the Group's net income for the year and equity to changes in securities prices based on positions existing as at 31 December 2021 and 2020 and a simplified scenario of a 5% change in all securities prices is as follows:

'000 EUR	31 December 2021		31 December 2020	
	Group	Bank	Group	Bank
Impact on profit: increase of securities prices by 5%	316	316	108	108
Impact on profit: decrease of securities prices by 5%	(316)	(316)	(108)	(108)
Impact on other comprehensive income: increase of securities prices by 5%	686	686	790	780
Impact on other comprehensive income: decrease of securities prices by 5%	(686)	(686)	(790)	(780)

f) Credit risk

Credit risk means possible losses to the Group (or reduction of profit), if the Group's customer, counterparty, or issuer of financial instruments owned by the Bank fully or partially fails to fulfil its financial obligations towards the Group, as well as losses (or reduction in profit) due to price decrease of the financial instruments owned by the Group due to worsening of creditworthiness of the issuer.

The Group's credit risk management guidelines are defined by the Bank's internal regulatory document „Credit Risk Management Policy", „Credit Policy" and „Country Risk Management Policy" approved by the Council of the Bank, as well as the Bank's internal regulatory document „Country Risk Management Procedure"; credit risk management procedure is determined by the Bank's internal regulatory document „Credit Risk Management Procedure".

According to the Bank's internal regulatory document „Credit Risk Management Policy", the Group separately manages credit risk related to the Group's loans to the customers (except loans against collateral for financial instruments), and credit risk related to interbank claims and the Group's investments in financial instruments (as well as loans against collateral for financial instruments).

The Group's guidelines in relation to customer financing transactions (loans to customers) are set out in the Bank's internal regulatory document „Credit Policy" that stipulates:

- desirable creditworthiness and reputation profile of the customer;
- preferred loan term;
- requirements for loan security and restrictions/ conditions for LTV (loan to value) ratio;
- procedure of lending process;
- credit portfolio management and supervision procedure;
- limits to the total proportion of the loans, proportion of unsecured loans, and proportion of loans secured by real estate in the Bank's assets.

Decision on issue of loans at the Bank is made by the Credit Committee according to regulations on its operations. The Bank's Board accepts decisions of the Credit Committee on crediting transactions with one customer or group of customers that exceed 5% of the Group's equity. The Bank's Council accepts decisions of the Credit Committee of crediting transactions exceeding EUR 1 million, except for those with cash as collateral.

Creditworthiness of each borrower and credit risk of the planned transaction is assessed by FRMD according to the procedure prescribed by the Bank's internal regulatory document „Procedure for Credit Risk Assessment of Crediting Transaction". Legal Department of the Bank assesses legal aspects of each planned transaction and provides its opinion on legal aspects of the transaction. Security Department of the Bank performs inspection of the customer, persons associated with the customer, information and documents submitted by the customer, by using information sources and resources available to the Bank including the inspection of customer's reputation, existence of negative information on customer and associated persons, and the department provides an opinion on the customer.

In addition to the abovementioned, in order to ensure a credit risk level acceptable to the Group at the portfolio level, ALCO sets limits for the concentration of loan portfolio by countries/ regions, industries, and other factors.

The Group's credit risk that stems from keeping of funds in correspondent accounts in other banks, as well as transactions made by the Bank's Treasury Division, Investment Division and Brokerage Division (interbank loans, loans against collateral for financial instruments, financial instruments transactions, and other transactions), is restricted by the Group with a help of limits for maximum amount of claim against each counterparty. Limits are set by ALCO that operates according to the regulations on its operation. Monitoring of the set limits is performed every day by FRMD and

Accounting and Reporting Department of the Bank, and management of Financial Market Division of the Bank is informed about detected limit violations, as well as the situation regarding compliance with the set limits is reviewed every week by ALCO.

Besides management of credit risk at an individual exposure level, the Group/Bank also performs management of credit risk at a portfolio level. Stress testing of the Group's credit risk is performed in which total possible credit risk losses of the Group in a number of scenarios are calculated assuming that unfavorable or very unfavorable economic circumstances set in. Planning of the Group's balance sheet/assets structure and overall exposure to credit risk is performed. Limits on the Group's various transaction types and concentration of claims are set and control of observance of these limits is performed.

Every quarter FRMD prepares a credit risk report reflecting detailed information regarding credit risk undertaken by the Group in relation to all transactions/ transaction types concluded by the Group. Report is reviewed by ALCO.

Group / Bank regularly performs asset quality assessment in accordance with the requirements of IFRS 9 (See Note 4 (c) (i) IFRS 9 Financial Instruments".

Past due loan is defined as the loan for which interest, commissions or principal payments are overdue.

Impaired loan is defined as the loan for which one or more events with a negative effect on the expected cash flow of the loan have occurred - loss events. Signs that may indicate that a loan may be impaired are the following:

- material financial difficulties of the borrower;
- violation of the terms of the loan agreement (including a failure to make a timely payment according to the loan agreement);
- a relief granted to the borrower due to economic or legal reasons related to the borrower's financial difficulties that would otherwise not have been granted;
- a fair chance that the borrower will initiate the bankruptcy procedure or a reorganization;
- prerequisites of the loan project failing to materialize;
- a failure to fulfill obligations by a person that impacts the borrowers' ability to make timely payments to the Bank;
- a failure to utilize the borrowed funds according to the loan purpose;
- a drop in the value of the loan collateral;
- other events that increase the credit risk.

In 2021 Covid-19 pandemic left a substantial negative impact on operations of some of the Bank's borrowers. As a result, for some of these borrowers/loans the Bank deferred principal payments for limited periods of time. However, these borrowers continued to pay interest according to the previously set interest rates, and the Bank assumes that these borrowers will be able to restore their business operations after the end of the pandemic. Therefore, the Bank did not classify these loans as 'impaired'. At the same time, the Bank included these loans in IFRS 9 Stage 2 – loans with a significant increase in, and applied considerably higher default rates for these loan in comparison to other loans when calculating provisions for expected credit losses. In addition, for credit risk stress testing the Group applied considerably more cautious assumptions for borrowers/loans that have been substantially negatively impacted by the Covid-19 pandemic.

Credit quality analysis for the Group:

’000 EUR	Business	Reverse repo and loans secured by financial instruments	Consumer	Mortgage	Other deposits with financial institutions	Other	Total
31.12.2021							
Total gross loans	**44 262**	**5 612**	**31 983**	**6 241**	**20 967**	**6 752**	**115 817**
Neither past due nor impaired loans	44 262	5 612	29 650	6 241	20 967	6 267	112 999
Past due and impaired loans							
past due up to 29 days	-	-	1 656	-	-	-	**1 656**
past due from 30 days up to 59 days	-	-	290	-	-	-	**290**
past due from 60 days up to 90 days	-	-	100	-	-	-	**100**
past due more than 90 days	-	-	287	-	-	485	**772**
Total impairment allowance	**(157)**	**-**	**(858)**	**(15)**	**-**	**(247)**	**(1 277)**
Total individually impairment allowance - neither past due nor impaired loans	(157)	-	(327)	(15)	-	(110)	**(609)**
Total collective impairment allowance - neither past due nor impaired loans	-	-	(1)	-	-	-	**(1)**
Individually impairment allowance - loans are past due							
past due up to 29 days	-	-	(137)	-	-	-	**(137)**
past due from 30 days up to 59 days	-	-	(78)	-	-	-	**(78)**
past due from 60 days up to 90 days	-	-	(50)	-	-	-	**(50)**
past due more than 90 days	-	-	(265)	-	-	(137)	**(402)**
Total net loans	**44 105**	**5 612**	**31 125**	**6 226**	**20 967**	**6 505**	**114 540**
Neither past due nor impaired loans	44 105	5 612	29 322	6 226	20 967	6 157	**112 389**
Past due and impaired loans							
past due up to 29 days	-	-	1 519	-	-	-	**1 519**
past due from 30 days up to 59 days	-	-	212	-	-	-	**212**
past due from 60 days up to 90 days	-	-	50	-	-	-	**50**
past due more than 90 days	-	-	22	-	-	348	**370**
31.12.2020							
Total gross loans	**41 568**	**7 241**	**15 492**	**6 046**	**10 383**	**3 406**	**84 136**
Neither past due nor impaired loans	41 568	7 241	14 494	6 046	10 383	2 921	**82 653**
Past due and impaired loans							
past due up to 29 days	-	-	681	-	-	-	**681**
past due from 30 days up to 59 days	-	-	82	-	-	-	**82**
past due from 60 days up to 90 days	-	-	30	-	-	-	**30**
past due more than 90 days	-	-	205	-	-	485	**690**
Total impairment allowance	**(136)**	**(2)**	**(416)**	**(18)**	**-**	**(157)**	**(729)**
Total individually impairment allowance - neither past due nor impaired loans	(136)	(2)	(150)	(18)	-	(20)	**(326)**
Total collective impairment allowance - neither past due nor impaired loans	-	-	(2)	-	-	-	**(2)**
Individually impairment allowance - loans are past due							
past due up to 29 days	-	-	(43)	-	-	-	(43)
past due from 30 days up to 59 days	-	-	(20)	-	-	-	(20)
past due from 60 days up to 90 days	-	-	(17)	-	-	-	(17)
past due more than 90 days	-	-	(184)	-	-	(137)	(321)
Total net loans	**41 432**	**7 239**	**15 076**	**6 028**	**10 383**	**3 249**	**83 407**
Neither past due nor impaired loans	41 432	7 239	14 342	6 028	10 383	2 901	**82 325**
Past due and impaired loans							
past due up to 29 days	-	-	638	-	-	-	**638**
past due from 30 days up to 59 days	-	-	62	-	-	-	**62**
past due from 60 days up to 90 days	-	-	13	-	-	-	**13**
past due more than 90 days	-	-	21	-	-	348	**369**

Credit quality analysis for the Bank:

'000 EUR	Business	Reverse repo and loans secured by financial instruments	Consumer	Mortgage	Other deposits with financial institutions	Other	Total
31.12.2021							
Total gross loans	**58 993**	**5 612**	**11 611**	**6 241**	**20 967**	**6 752**	**110 176**
Neither past due nor impaired loans	58 968	5 612	11 527	6 241	20 967	6 267	109 582
Past due and impaired loans							
past due up to 29 days	25	-	-	-	-	-	**25**
more than 90 days	-	-	84	-	-	485	**569**
Total impairment allowance	**(738)**	**-**	**(127)**	**(15)**	**-**	**(247)**	**(1 127)**
Total individually impairment allowance - neither past due nor impaired loans	(738)	-	(42)	(15)	-	(110)	**(905)**
Total collective impairment allowance - neither past due nor impaired loans	-	-	(1)		-	-	**(1)**
Total individually impairment allowance - past due and impaired loans							
more than 90 days	-	-	(84)	-	-	(137)	(221)
Total net loans	**58 255**	**5 612**	**11 484**	**6 226**	**20 967**	**6 505**	**109 049**
Neither past due nor impaired loans	58 230	5 612	11 484	6 226	20 967	6 157	**108 676**
Past due and impaired loans, more than 90 days							
past due up to 29 days	25	-	-	-	-	-	**25**
more than 90 days	-	-	-	-	-	348	**348**
31.12.2020							
Total gross loans	**51 318**	**7 241**	**5 191**	**6 046**	**10 383**	**3 406**	**83 585**
Neither past due nor impaired loans	51 318	7 241	5 092	6 046	10 383	2 921	83 001
Past due and impaired loans							
past due from 30 days up to 59 days	-	-	20	-	-	-	20
more than 90 days	-	-	79	-	-	485	564
Total impairment allowance	(515)	(2)	(82)	(18)	-	(157)	(774)
Total individually impairment allowance - neither past due nor impaired loans	(515)	(2)	(1)	(18)	-	(20)	**(556)**
Total collective impairment allowance - neither past due nor impaired loans	-	-	(2)	-	-	-	**(2)**
Total individually impairment allowance - past due and impaired loans							
more than 90 days	-	-	(79)	-	-	(137)	**(216)**
Total net loans	**50 803**	**7 239**	**5 109**	**6 028**	**10 383**	**3 249**	**82 811**
Neither past due nor impaired loans	50 803	7 239	5 089	6 028	10 383	2 901	82 443
Past due and impaired loans, more than 90 days							
past due from 30 days up to 59 days	-	-	20	-	-	-	20
more than 90 days	-	-	-	-	-	348	348

The Group assessed the impact of modification of cash flows on restructured loans and concluded that it is immaterial. As at 31 December 2021, the gross amount of loans which were granted the status 'forborne' totalled EUR 4 078 thousand (2020: EUR 4 739 thousand). These changes were made on the basis of the agreements between the Group or the Bank and customers amending respective loan conditions, as otherwise the loans might be past due. A loan is considered to be forborned from the date of the above mutual agreement to the date when at least two years have passed without delays of contractual payments by more than 30 days and none of the loss events has taken place.

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 17 ”Loans and advances due from customers”.

Classification of the Group's financial assets in measurement categories (3 stages) as of December 31, 2021:

’000 EUR	Stage 1	Stage 2	Stage 3	Total
Financial assets				
Cash and due from central banks	107 102	-	-	107 102
Demand deposits with credit institutions	11 399	-	-	11 399
Debt securities measured at fair value through other comprehensive income	13 715	-	-	13 715
Financial assets measured at amortized cost	198 205	9 511	1 667	209 383
Other financial assets	746	-	-	746
Total gross financial assets	**331 167**	**9511**	**1 667**	**342 345**
Total impairment allowance	(562)	(134)	(626)	(1 322)
Total net financial assets	**330 605**	**9 377**	**1 041**	**341 023**

Classification of the Group's financial assets in measurement categories (3 stages) as of December 31, 2020:

’000 EUR	Stage 1	Stage 2	Stage 3	Total
Financial assets				
Cash and due from central banks	12 196	-	-	12 196
Demand deposits with credit institutions	8 418	-	-	8 418
Debt securities measured at fair value through other comprehensive income	15 538	269	142	15 949
Financial assets measured at amortized cost	144 053	6 019	1 238	151 310
Other financial assets	814	-	-	814
Total gross financial assets	**181 019**	**6 288**	**1 380**	**188 687**
Total impairment allowance	(378)	(69)	(367)	(814)
Total net financial assets	**180 641**	**6 219**	**1 013**	**187 873**

Classification of the Bank's financial assets in measurement categories (3 stages) as of December 31, 2021:

’000 EUR	Stage 1	Stage 2	Stage 3	Total
Financial assets				
Cash and due from central banks	107 102	-	-	107 102
Demand deposits with credit institutions	11 396	-	-	11 396
Debt securities measured at fair value through other comprehensive income	13 715	-	-	13 715
Financial assets measured at amortized cost	193 628	8 928	1 185	203 741
Other financial assets	746	-	-	746
Total gross financial assets	**326 587**	**8 928**	**1 185**	**336 700**
Total impairment allowance	(822)	(34)	(315)	(1 171)
Total net financial assets	**325 765**	**8 894**	**870**	**335 529**

Classification of the Bank's financial assets in measurement categories (3 stages) as of December 31, 2020:

’000 EUR	Stage 1	Stage 2	Stage 3	Total
Financial assets				
Cash and due from central banks	12 196	-	-	12 196
Demand deposits with credit institutions	8 415	-	-	8 415
Debt securities measured at fair value through other comprehensive income	15 332	269	142	15 743
Financial assets measured at amortized cost	143 974	5 749	1 035	150 758
Other financial assets	814	-	-	814
Total gross financial assets	**180 731**	**6 018**	**1 177**	**187 926**
Total impairment allowance	(607)	(36)	(216)	(859)
Total net financial assets	**180 124**	**5 982**	**961**	**187 067**

Changes in financial assets measured at amortized cost of the Group’s financial assets by stages for the year ended 31 December 2021:

’000 EUR	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount 1 January 2021	**144 053**	**6 019**	**1 238**	**151 310**
New assets originated or increased on the existing contracts	70 306	335	580	71 221
Assets repaid (redeemed)	(13 094)	(323)	(383)	(13 800)
Effect on Gross carrying value at the end of the period due to changes in accruals	1 238	(575)	-	663
Transfers to Stage 1	1 677	(1 655)	(22)	-
Transfers to Stage 2	(5 719)	5 731	(12)	-
Transfers to Stage 3	(256)	(21)	277	-
Written off	-	-	(11)	(11)
Gross carrying amount 31 December 2021	**198 205**	**9 511**	**1 667**	**209 383**

Changes in financial assets measured at amortized cost of the Group’s financial assets by stages for the year ended 31 December 2020:

’000 EUR	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount 1 January 2020	**103 823**	**71**	**4 764**	**108 658**
New assets originated or increased on the existing contracts	72 021	4 057	151	76 229
Assets repaid (redeemed)	(29 671)	(21)	(3 885)	**(33 577)**
Effect on Gross carrying value at the end of the period due to changes in accruals	-	10	(10)	-
Transfers to Stage 1	48	(38)	(10)	-
Transfers to Stage 2	(1 959)	1 959	-	-
Transfers to Stage 3	(209)	(19)	228	-
Gross carrying amount 31 December 2020	**144 053**	**6 019**	**1 238**	**151 310**

Changes in financial assets measured at amortized cost of the Bank’s financial assets by stages for the year ended 31 December 2021:

’000 EUR	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount 1 January 2021	**143 974**	**5 749**	**1 035**	**150 758**
New assets originated or increased on the existing contracts	61 991	-	150	**62 141**
Assets repaid (redeemed)	(9 655)	(166)	-	**(9 821)**
Effect on Gross carrying value at the end of the period due to changes in accruals	1 238	(575)	-	**663**
Transfers to Stage 1	1 506	(1 506)	-	-
Transfers to Stage 2	(5 426)	5 426	-	-
Gross carrying amount 31 December 2021	**193 628**	**8 928**	**1 185**	**203 741**

Changes in financial assets measured at amortized cost of the Bank's financial assets by stages for the year ended 31 December 2020:

'000 EUR	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount 1 January 2020	**103 829**	**-**	**4 734**	**108 563**
New assets originated or increased on the existing contracts	70 607	3 898	-	**74 505**
Assets repaid (redeemed)	(28 532)	-	(3 778)	**(32 310)**
Effect on Gross carrying value at the end of the period due to changes in accruals	-	10	(10)	-
Transfers to Stage 2	(1 841)	1 841	-	-
Transfers to Stage 3	(89)	-	89	-
Gross carrying amount 31 December 2020	**143 974**	**5 749**	**1 035**	**150 758**

Changes in loan loss allowance of the Group's financial assets by stages for the year ended 31 December 2021:

'000 EUR	Stage 1	Stage 2	Stage 3	Total
ECLs as at 1 January 2021	**378**	**69**	**367**	**814**
New assets originated or increased on the existing contracts	383	81	260	**724**
Assets repaid (redeemed)	(163)	(36)	(84)	**(283)**
Impact on period end ECL due to transfers between stages or changes in models	(31)	27	88	**84**
Transfers to Stage 1	22	(14)	(8)	-
Transfers to Stage 2	(6)	11	(5)	-
Transfers to Stage 3	(5)	(2)	7	-
At 31 December 2021	**578**	**136**	**625**	**1 339**

Changes in loan loss allowance of the Group's financial assets by stages for the year ended 31 December 2020:

'000 EUR	Stage 1	Stage 2	Stage 3	Total
ECLs as at 1 January 2020	**190**	**6**	**388**	**584**
New assets originated or increased on the existing contracts	283	20	105	**408**
Assets repaid (redeemed)	(41)	(1)	(190)	**(232)**
Impact on period end ECL due to transfers between stages or changes in models	11	18	109	**138**
Recoveries	(34)	-	(50)	**(84)**
Transfers to Stage 1	5	(3)	(2)	-
Transfers to Stage 2	(31)	31	-	-
Transfers to Stage 3	(5)	(2)	7	-
At 31 December 2020	**378**	**69**	**367**	**814**

Changes in loan loss allowance of the Bank's financial assets by stages for the year ended 31 December 2021:

'000 EUR	Stage 1	Stage 2	Stage 3	Total
ECLs as at 1 January 2021	**607**	**36**	**216**	**859**
New assets originated or increased on the existing contracts	368	31	100	**499**
Assets repaid (redeemed)	(136)	(32)	-	**(168)**
At 31 December 2021	**839**	**35**	**316**	**1 190**

Changes in loan loss allowance of the Bank's financial assets by stages for the year ended 31 December 2020:

'000 EUR	Stage 1	Stage 2	Stage 3	Total
ECLs as at 1 January 2020	**216**	**-**	**368**	**584**
New assets originated or increased on the existing contracts	496	-	-	**496**
Assets repaid (redeemed)	(37)	-	(181)	**(218)**
Impact on period end ECL due to transfers between stages or changes in models	-	6	75	**81**
Recoveries	(34)	-	(50)	**(84)**
Transfers to Stage 2	(30)	30	-	**-**
Transfers to Stage 3	(4)	-	4	**-**
At 31 December 2020	**607**	**36**	**216**	**859**

g) Liquidity risk

Liquidity risk means possible losses to the Group or decrease in profit from the sale of the assets or attraction of resources at unfavourable interest rates in order for the Group to meet its financial liabilities towards depositors, counterparties and other creditors.

The Group's guidelines for liquidity risk management are defined in the Bank's internal regulatory document „Liquidity Risk Management Policy" approved by the Bank's Council and liquidity risk management procedure is defined in the Bank's internal regulatory document „Liquidity Risk Management Procedure".

The purpose of liquidity risk ratios is to indicate the liquidity risk level undertaken by the Group from various angles and promptly indicate the increase in liquidity risk level. Liquidity risk ratios are calculated and monitored every day, and the Bank's internal regulatory document „Liquidity Risk Management Procedure" sets out actions to be taken when ratios have reached certain levels.

The Group's liquidity risk stress testing is conducted every quarter, and the surplus or deficit of liquid assets in stress scenarios is determined. Liquidity risk stress test results are assessed by ALCO.

In order to limit the liquidity risk, limits are set on the Bank's liquidity net positions, as well as on investments in low liquidity assets. The control of liquidity net positions is conducted once a month, but the control of the limit of loans to customers is carried out every week.

Group performs liquidity planning within the framework of budget planning. Liquidity ratio, LCR (liquidity coverage ratio), and NSFR (net stable funding ratio) are planned.

The Group also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Financial and Capital Markets Commission and the requirement of Regulation 575/2013. The Bank was in compliance with these ratios during the twelve-month period ended 31 December 2021 and 31 December 2020.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

Analysis of the Group's financial liabilities' contractual undiscounted cash flows as at 31 December 2021:

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Liabilities to central bank	-	-	-	-	3 900	-	**3 900**	**3 900**
Liabilities to financial institutions	2	-	-	-	-	-	**2**	**2**
Deposits	280 673	9 889	14 186	329	10 588	-	**315 665**	**315 426**
Subordinated liabilities	37	45	86	115	5 801	-	**6 084**	**4 838**
Liabilities to financial institutions and non-banks	287	-	-	-	4 769	-	**5 056**	**5 056**
Other financial liabilities	15	21	31	63	732	-	862	862
Contingent liabilities for guarantees	752	-	-	41	750	-	**1 543**	**1 543**
Unrecognised loan commitments	1 154	-	-	-	9 863	-	**11 017**	**11 017**
Total Non-derivative liabilities	282 920	9 955	14 303	548	36 403	-	344 129	342 644
Derivative liabilities								
Inflow	(11 473)	(1 976)	(1 272)	(641)	-	-	**(15 362)**	**(15 269)**
Outflow	11 916	1 955	1 266	635	-	-	**15 772**	**15 484**
Total Derivative liabilities	**443**	**(21)**	**(6)**	**(6)**	**-**	**-**	**410**	**215**
Total	**283 363**	**9 934**	**14 297**	**542**	**36 403**	**-**	**344 539**	**342 859**

Analysis of the Group's financial liabilities' contractual undiscounted cash flows as at 31 December 2020:

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Liabilities to financial institutions	604	-	-	-	-	-	604	604
Deposits	152 573	5 827	3 311	1 774	11 339	-	174 824	173 832
Subordinated liabilities	32	1 703	74	100	5 389	-	7 298	5 667
Other financial liabilities	230	40	42	82	653	187	1 234	1 234
Contingent liabilities for guarantees	218	234	-	1 146	1 550	-	3 148	3 148
Unrecognised loan commitments	720	-	160	3 217	370	-	4 467	4 467
Total Non-derivative liabilities	**154 377**	**7 804**	**3 587**	**6 319**	**19 301**	**187**	**191 575**	**188 952**
Derivative liabilities								
Inflow	(10 338)	(4 233)	(522)	(913)	(304)	-	(16 310)	(15 792)
Outflow	9 937	4 175	513	885	231	-	15 741	15 497
Total Derivative liabilities	**(401)**	**(58)**	**(9)**	**(28)**	**(73)**	**-**	**(569)**	**(295)**
Total	**153 976**	**7 746**	**3 578**	**6 291**	**19 228**	**187**	**191 006**	**188 657**

Analysis of the Bank's financial liabilities' contractual undiscounted cash flows as at 31 December 2021:

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Liabilities to central bank	-	-	-	-	3 900	-	**3 900**	**3 900**
Liabilities to financial institutions	2	-	-	-	-	-	**2**	**2**
Deposits	280 816	9 890	14 187	1 184	11 532	549	**318 158**	**317 907**
Subordinated liabilities	37	45	86	115	5 801	-	**6 084**	**4 838**
Liabilities to financial institutions and non-banks	287	-	-	-	-	-	**287**	**287**
Other financial liabilities	10	21	31	63	724	-	849	849
Contingent liabilities for guarantees	752	-	-	41	750	-	**1 543**	**1 543**
Unrecognised loan commitments	1 154	-	-	-	9 863	-	**11 017**	**11 017**
Total Non-derivative liabilities	**283 058**	**9 956**	**14 304**	**1 403**	**32 570**	**549**	**341 840**	**340 343**
Derivative liabilities								
Inflow	(11 473)	(1 976)	(1 272)	(641)	-	-	**(15 362)**	**(15 269)**
Outflow	11 916	1 955	1 266	635	-	-	**15 772**	**15 484**
Total Derivative liabilities	**443**	**(21)**	**(6)**	**(6)**	**-**	**-**	**410**	**215**
Total	**283 501**	**9 935**	**14 298**	**1 397**	**32 570**	**549**	**342 250**	**340 558**

Analysis of the Bank's financial liabilities' contractual undiscounted cash flows as at 31 December 2020:

'000 EUR	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Liabilities to financial institutions	604	-	-	-	-	-	604	604
Deposits	153 151	5 830	3 668	2 161	11 848	-	176 658	175 645
Subordinated liabilities	32	1 703	74	100	5 389	-	7 298	5 667
Other financial liabilities	230	40	40	80	640	187	1 217	1 217
Contingent liabilities for guarantees	218	234	-	1 146	1 550	-	3 148	3 148
Unrecognised loan commitments	720	-	160	3 217	370	-	4 467	4 467
Total Non-derivative liabilities	**154 955**	**7 807**	**3 942**	**6 704**	**19 797**	**187**	**193 392**	**190 748**
Derivative liabilities								
Inflow	(10 338)	(4 233)	(522)	(913)	(304)	-	(16 310)	(15 792)
Outflow	9 937	4 175	513	885	231	-	15 741	15 497
Total Derivative liabilities	**(401)**	**(58)**	**(9)**	**(28)**	**(73)**	**-**	**(569)**	**(295)**
Total	**154 554**	**7 749**	**3933**	**6 676**	**19 724**	**187**	**192 823**	**190 453**

The Group are keeping different financial assets to provide liquidity. If necessary, the Group and the Bank will be able to realize liquid assets in the short term in order to meet the demand side. The Group's Analysis of contractual maturities of financial assets and liabilities and equity as at 31 December 2021 is presented below:

Group '000 EUR	1 month	1-3 months	3-6 months	6-12 months	More than 1 year	No maturity	Total
Financial assets							
Cash and due from central banks	107 102	-	-	-	-	-	107 102
Demand deposits with credit institutions	11 399	-	-	-	-	-	11 399
Financial instruments designated at fair value through profit or loss	37	26	19	393	5 944	-	6 419
Debt securities measured at fair value through other comprehensive income	12 703	-	-	252	760	-	13 715
Financial assets measured at amortized cost	103 707	8 129	9 042	8 123	61 750	17 310*	208 061
Other financial assets	746	-	-	-	-	-	746
Total financial assets	**235 694**	**8 155**	**9 061**	**8 768**	**68 454**	**17 310**	**347 442**
Financial liabilities							
Financial liabilities at fair value through profit or loss	260	15	5	8	-	-	288
Liabilities to central bank	-	-	-	-	3 900	-	3 900
Liabilities to financial institutions	2	-	-	-	-	-	2
Deposits	279 907	7 464	15 914	1 698	10 443	-	315 426
Subordinated liabilities	-	-	-	-	4 838	-	4 838
Liabilities to financial institutions and non-banks	287	-	-	-	4 769	-	**5 056**
Other financial liabilities	15	21	31	63	732	-	862
Contingent liabilities for guarantees	752	-	-	41	750	-	1 543
Unrecognised loan commitments	1 154	-	-	-	9 863	-	11 017
Total financial liabilities	**282 377**	**7 500**	**15 950**	**1 810**	**35 295**	**-**	**342 932**
Total Equity	-	-	-	-	-	17 523	17 523
Total Liabilities and Equity	**282 377**	**7 500**	**15 950**	**1 810**	**35 295**	**17 523**	**360 455**
Net liquidity position as at 31 December 2021	**(46 683)**	**655**	**(6 889)**	**6 958**	**33 159**	**(213)**	**-**
Net liquidity position as at 31 December 2020	(28 355)	1 089	(3 840)	(192)	30 166	(12 135)	-

* Security deposits

The Bank's Analysis of contractual maturities of financial assets and liabilities and equity as at 31 December 2021 is presented below:

Bank '000 EUR	1 month	1-3 months	3-6 months	6-12 months	More than 1 year	No maturity	Total
Financial assets							
Cash and due from central banks	107 102	-	-	-	-	-	107 102
Demand deposits with credit institutions	11 396	-	-	-	-	-	11 396
Financial instruments designated at fair value through profit or loss	37	26	19	393	5 944	-	6 419
Debt securities measured at fair value through other comprehensive income	12 703	-	-	252	760	-	13 715
Financial assets measured at amortized cost	117 854	8 095	8 937	7 668	42 706	17 310 *	202 570
Other financial assets	746	-	-	-	-	-	746
Total financial assets	**249 838**	**8 121**	**8 956**	**8 313**	**49 410**	**17 310**	**341 948**
Financial liabilities							
Financial liabilities at fair value through profit or loss	260	15	5	8	-	-	288
Liabilities to central bank	-	-	-	-	3 900	-	3 900
Liabilities to financial institutions	2	-	-	-	-	-	2
Deposits	279 907	7 464	15 914	2 548	12 074	-	317 907
Subordinated liabilities	-	-	-	-	4 838	-	4 838
Liabilities to financial institutions and non-banks	287	-	-	-	-	-	**287**
Other financial liabilities	10	21	31	63	724	-	849
Contingent liabilities for guarantees	752	-	-	41	750	-	1 543
Unrecognised loan commitments	1 154	-	-	-	9 863	-	11 017
Total financial liabilities	**282 372**	**7 500**	**15 950**	**2 660**	**32 149**	**-**	**340 631**
Total Equity	-	-	-	-	-	17 161	17 161
Total Liabilities and Equity	**282 372**	**7 500**	**15 950**	**2 660**	**32 149**	**17 161**	**357 792**
Net liquidity position as at 31 December 2021	**(32 534)**	**621**	**(6 994)**	**5 653**	**17 261**	**149**	**-**
Net liquidity position as at 31 December 2020	(29 392)	1 059	(4 292)	(924)	29 816	(11 269)	-

* Security deposits

The interest rate analysis chart for the Group's financial assets and financial liabilities, taking into their sensitivity, as at 31 December 2021 is presented in the table below:

'000 EUR	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing financial instruments	Total
Financial assets								
Cash and due from central banks	106 621	-	-	-	-	-	481	107 102
Demand deposits with credit institutions	-	-	-	-	-	-	11 399	11 399
Financial instruments designated at fair value through profit or loss	37	26	19	393	1 889	1 217	2 838	6 419
Debt securities measured at fair value through other comprehensive income	12 703	-	-	252	377	383	-	13 715
Financial assets measured at amortized cost	80 535	8 135	9 072	8 193	48 386	13 778	39 962	208 061
Other financial assets	746	-	-	-	-	-	-	746
Long positions of interest rates risk sensitive off-balance items*	11 436	1 950	1 254	629	-	-	-	15 269
Total assets and long off-balance-sheet positions sensitive to changes in interest rates	**212 078**	**10 111**	**10 345**	**9 467**	**50 652**	**15 378**	**54 680**	**362 711**
Financial liabilities								
Financial liabilities at fair value through profit or loss	260	15	5	8	-	-	-	288
Liabilities to central bank	-	-	-	-	-	-	3 900	3 900
Liabilities to financial institutions	-	-	-	-	-	-	2	2
Deposits	1 270	7 449	15 914	1 698	10 422	-	278 673	315 426
Subordinated liabilities	-	-	-	-	4 170	650	18	4 838
Liabilities to financial institutions and non-banks	-	-	-	-	-	-	5 056	5 056
Other financial liabilities	-	-	-	-	-	-	862	862
Short positions of interest rates risk sensitive off-balance items*	11 655	1 940	1 262	627	-	-	-	15 484
Total liabilities and short off-balance-sheet positions sensitive to changes in interest rates	**13 185**	**9 404**	**17 181**	**2 333**	**14 592**	**650**	**288 511**	**345 856**
Net position as at 31 December 2021	**198 893**	**707**	**(6 836)**	**7 134**	**36 060**	**14 728**	**(233 831)**	**16 855**
Net position as at 31 December 2020	93 920	1 332	(3 610)	4 274	29 887	-	(113 981)	11 822

*Foreign currency forward agreements and Foreign currency contracts

The amounts in the tables above represent interest rate gap position by carrying amounts of the financial assets and liabilities as at the reporting date and do not include future interest payments. The interest rate analysis chart for the Bank's financial assets and financial liabilities, taking into their sensitivity, as at 31 December 2021 is presented in the table below:

’000 EUR	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing financial instruments	Total
Financial assets								
Cash and due from central banks	106 621	-	-	-	-	-	481	107 102
Demand deposits with credit institutions	-	-	-	-	-	-	11 396	11 396
Financial instruments designated at fair value through profit or loss	37	26	19	393	1 889	1 217	2 838	6 419
Debt securities measured at fair value through other comprehensive income	12 703	-	-	252	377	383	-	13 715
Financial assets measured at amortized cost	80 523	8 096	8 948	7 679	29 047	28 433	39 844	202 570
Other financial assets	746	-	-	-	-	-	-	746
Long positions of interest rates risk sensitive off-balance items*	11 436	1 950	1 254	629	-	-	-	15 269
Total assets and long off-balance-sheet positions sensitive to changes in interest rates	**212 066**	**10 072**	**10 221**	**8 953**	**31 313**	**30 033**	**54 559**	**357 217**
Financial liabilities								
Financial liabilities at fair value through profit or loss	260	15	5	8	-	-	-	288
Liabilities to central bank	-	-	-	-	-	-	3 900	3 900
Liabilities to financial institutions	-	-	-	-	-	-	2	2
Deposits	1 270	7 449	15 914	2 548	10 922	-	279 804	317 907
Subordinated liabilities	-	-	-	-	4 170	650	18	4 838
Liabilities to financial institutions and non-banks	-	-	-	-	-	-	287	287
Other financial liabilities	-	-	-	-	-	-	849	849
Short positions of interest rates risk sensitive off-balance items*	11 655	1 940	1 262	627	-	-	-	15 484
Total liabilities and short off-balance-sheet positions sensitive to changes in interest rates	**13 185**	**9 404**	**17 181**	**3 183**	**15 092**	**650**	**284 860**	**343 555**
Net position as at 31 December 2021	**198 881**	**668**	**(6 960)**	**5 770**	**16 221**	**29 383**	**(230 301)**	**13 662**
Net position as at 31 December 2020	93 709	1 304	(4 064)	3 535	29 371	-	(114 634)	9 221

*Foreign currency forward agreements and Foreign currency contracts

The amounts in the tables above represent interest rate gap position by carrying amounts of the financial assets and liabilities as at the reporting date and do not include future interest payments.

Currency analysis in the table is the currency structure of the Group's financial assets and financial liabilities as at 31 December 2021:

’000 EUR	EUR	USD	Other currency	Total
Financial assets				
Cash and due from central banks	106 967	127	8	107 102
Demand deposits with credit institutions	3 104	5 261	3 034	11 399
Financial instruments designated at fair value through profit or loss	6 419	-	-	6 419
Debt securities measured at fair value through other comprehensive income	1 013	12 702	-	13 715
Financial assets measured at amortized cost	127 521	80 102	438	208 061
Other assets	635	111	-	746
Total financial assets	**245 659**	**98 303**	**3 480**	**347 442**
Off-balance (currency SWAP nominal value)	9 441	4 941	887	15 269
Financial liabilities				
Financial liabilities at fair value through profit or loss	288	-	-	288
Liabilities to central bank	3 900	-	-	3 900
Liabilities to financial institutions	-	-	2	2
Deposits	220 566	90 590	4 270	315 426
Subordinated liabilities	2 051	2 787	-	4 838
Liabilities to financial institutions and non-banks	4 769	286	1	5 056
Other financial liabilities	862	-	-	862
Total financial liabilities	**232 436**	**93 663**	**4 273**	**330 372**
Total Equity and reserves	17 813	-	-	17 813
Total Liabilities and Equity	**250 249**	**93 663**	**4 273**	**348 185**
Off-balance (currency SWAP nominal value)	5 800	9 575	109	15 484
Net currency balance position as at 31 December 2021	**(4 590)**	**4 640**	**(793)**	**(746)**
Net currency position as at 31 December 2021 (balance & off-balance)	**(949)**	**6**	**(15)**	**(958)**
Net currency balance position as at 31 December 2020	(14 404)	7 351	260	(6 793)
Net currency position as at 31 December 2020 (balance & off-balance)	(7 199)	401	300	(6 498)

The following table shows the Bank's currency structure of financial assets and financial liabilities at 31 December 2021:

'000 EUR	EUR	USD	Other currency	Total
Financial assets				
Cash and due from central banks	106 967	127	8	107 102
Demand deposits with credit institutions	3 101	5 261	3 034	11 396
Financial instruments designated at fair value through profit or loss	6 419	-	-	6 419
Debt securities measured at fair value through other comprehensive income	1 013	12 702	-	13 715
Financial assets measured at amortized cost	122 030	80 102	438	202 570
Other assets	635	111	-	746
Total financial assets	**240 165**	**98 303**	**3 480**	**341 948**
Off-balance (currency SWAP nominal value)	9 441	4 941	887	15 269
Financial liabilities				
Financial liabilities at fair value through profit or loss	288	-	-	288
Liabilities to central bank	3 900	-	-	3 900
Liabilities to financial institutions	-	-	2	2
Deposits	223 047	90 590	4 270	317 907
Subordinated liabilities	2 051	2 787	-	4 838
Liabilities to financial institutions and non-banks	-	286	1	287
Other financial liabilities	849	-	-	849
Total financial liabilities	**230 135**	**93 663**	**4 273**	**328 071**
Total Equity and reserves	17 161	-	-	17 161
Total Liabilities and Equity	**247 296**	**93 663**	**4 273**	**345 232**
Off-balance (currency SWAP nominal value)	5 800	9 575	109	15 484
Net currency balance position as at 31 December 2021	**(7 131)**	**4 640**	**(793)**	**(3 284)**
Net currency position as at 31 December 2021 (balance & off-balance)	**(3 490)**	**6**	**(15)**	**(3 499)**
Net currency balance position as at 31 December 2020	(15 677)	6 889	260	(8 528)
Net currency position as at 31 December 2020 (balance & off-balance)	(8 472)	(61)	300	(8 233)

h) Operational Risk

Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, which do not comply with the requirements of the external and internal legal regulations, the Bank's employees' and system activities, defects of internal processes, third parties' activities or from other external events as well, including legal risk, but excluding strategic and reputation risk. The aim of the management of the operational risk is to keep the operational risk on the economic reasonable minimum level, to stimulate stability of the Bank's activities and commercial profit in the long term.

The management of the operational risk goes through all the Bank's organizational structure and is realized in each unit of the Bank, that is why the management of the risk is based on overall comprehension of each employee of the Bank on processes he conducts and the risks inherent in these processes (high risk awareness), and on sound risk culture as well. The Bank does not accept operational risks, which exceed the Bank's risk appetite or if the impact of such risks cannot be evaluated in money terms and these risks at the same time are uncontrollable – it is impossible to prevent them or to insure against their consequences irrespective of economic benefit, which could arise from acceptance of such operational risks. In order to mitigate operational risk, the Bank uses the expert assessment method and self-assessment; risk assessment prior launch of new products/process; implementation of quantitative indicators of operational risk; usage of database of risk events; stress – testing and scenario analysis.

i) Money Laundering and Terrorism and Proliferation Financing (further – ML/TPF) Risk

ML/TPF risk is the risk that the Group can be involved into money laundering or terrorism or proliferation financing. Internal control system operates in the Bank, observing requirements of the binding regulatory enactments and taking into account the best international practice, in order to prevent the use of financial services of the Bank for the ML/TPF, dedicating the respective resources for that purpose and training employees. The Bank has internal rules to identify each client and to apply due diligence procedures in accordance with a degree of the risk of the client. Depending on the degree of the ML/TPF risk, the Bank has procedures to investigate the nature of personal or economic activity of the client, origin of funds in accounts held with the Bank and nature of transactions. The Bank employees servicing the clients have a deep level of knowledge and experience in anti - money laundering and combating terrorism and proliferation financing (further - AML/CTPF) issues and constitute the first line of defense. As the second line of defense the special client supervision structural unit is established in the Bank that is intended to enforce ensure due diligence of the clients of the Bank prior to establishing business relations, supervision of transactions during business relations as well as to oversee exactly proper and timely performance of duties of the Bank stipulated in the law in relations with the competent state bodies.
The third line of defense is independent internal audit function. The Bank has zero tolerance level to persons from the international sanction lists or persons which are involved in supporting proliferation. The Bank provides on-line payment monitoring to ensure compliance to the sanction lists. There is special employee appointed as a responsible person for sanction risk management. The Bank has the modest quantity of clients and it has deep knowledge of each of them which allows minimizing ML/TPF risk.

j) Compliance and Reputation Risk

Compliance and reputation risk is the risk that the Group, by not being in compliance with legislation, may suffer losses or legal obligations or penalties may be imposed against the Bank or the Bank's reputation may suffer. The Bank has developed and implemented the „Compliance Policy" with the aim, of subject to compliance with the requirements of the legislation, to strengthen confidence in the Bank; to protect the Bank's reputation, to lower the cost of capital; to reduce litigation and sanctions enforcement risks. To manage the compliance risk the Bank:

- has established a Compliance committee that has a central role in compliance risk management. The Compliance committee of the Bank evaluates and assesses identified compliance risks, decides on appropriate risks mitigation actions to be taken, monitors efficiency of compliance risks management.
- keeps track of changes of compliance legislation and implements appropriate changes to internal regulatory documents of the Bank;
- actively participates in the Finance Latvia Association held discussions/workshops on issues that affect the challenges in AML/CTPF area;
- evaluates the Bank's internal regulatory documents and the lack of practical application;
- analyses and compares the performance data to ensure their compliance with the certain requirements proactively;
- actively keeps all employees informed on the recent developments in AML/CTPF area;
- analyses the Bank client's complaints.

k) Strategy Risk

Strategy risk is the risk that the changes in the business environment and the Group's failure to respond to these changes timely, or false/unsubstantiated activities of the Bank's long-term strategy, or the Bank's inability to provide the necessary resources for the implementation of the strategy could adversely affect the Bank's income/expense (and the amount of equity capital). The Bank has developed operational development strategies, the implementation of which is regularly monitored and updated as necessary. The Bank plans its work with a variety of scenarios, including the negative scenarios that reflect the possible impact of adverse external conditions on the Bank's results.

Planning activities within the framework of development, the Bank carries out analysis of the external environment, competitiveness of the Bank, its position in the financial market, Bank's internal business environment, including macroeconomic circumstances, with the purpose to determine the likelihood that an event in a business environment, in which the Bank carries out its activities and/or intends to take action in the future, will have a negative impact on the Bank's ability to achieve its strategic objectives (to implement the strategy) and/or threaten the Bank's future operations. Evaluating and planning the Bank's asset and liability structure is based on results of analysis of selected indicators of development activities and the business environment.

6. Capital management

The Financial and Capital Market Commission ("FCMC") sets and monitors capital requirements for the Bank and the Group.

The Bank and the Group defines as capital those items defined by statutory regulation as capital.

The Bank's and the Group's capital position are calculated in accordance with the requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 . As at 31 December 2021, the individual minimum Capital adequacy ratio level for the Bank is set at 13.60% (2020: 13.60%). The Bank was in compliance with the FCMC determined individual capital ratio as at 31 December 2021 and 2020.

The Group's risk based capital adequacy ratio as at 31 December 2021 was 15.73% (2020: 18.42%).

The Bank's risk based capital adequacy ratio as at 31 December 2021 was 15.96% (2020: 17.99%).

As at 31 December 2021, the Tier 1 Capital adequacy ratio level for the Bank was 13.45% (2020: 14.84%).

The Group monitors its capital adequacy levels calculated in accordance with the requirements of the regulations, commonly known as Basel III agreement and its implementing act in Europe, commonly known as CRD IV package.

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

'000 EUR	2021 Group	2020 Group	2021 Bank	2020 Bank
Tier 1 capital				
Share capital	16 545	16 545	16 545	16 545
Additional paid-in capital	28	28	28	28
Reserves	291	271	291	268
Accumulated profit / (losses)	660	1 207	297	613
Reductions of tier 1 capital	(604)	(546)	(566)	(492)
Total tier 1 capital	**16 920**	**17 505**	**16 595**	**16 962**
Tier 2 capital				
Subordinated liabilities (unamortised portion)	3 033	3 525	3 033	3 525
Total tier 2 capital	3 033	**3 525**	3 033	**3 525**
Deductions from Tier 1 and Tier 2 capital prescribed by legislation*	(345)	(330)	(345)	(330)
Total capital	**19 608**	**20 700**	**19 283**	**20 157**
Capital requirements				
Credit risk requirements	8 225	7 536	8 133	7 657
Market risk requirements	11	66	11	29
Operational risk requirements	1 733	1 389	1 524	1 279
Total capital requirements	**9 969**	**8 991**	**9 668**	**8 965**
Total risk exposure amount	**124 610**	**112 385**	**120 850**	**112 066**
Capital adequacy ratio	**15.73%**	**18.42%**	**15.96%**	**17.99%**
Tier 1 Capital adequacy ratio	**13.30%**	**15.28%**	**13.45%**	**14.84%**

*Additional deductions from own funds to reflect possible losses related to the credit portfolio according to the Article 3 of Common Equity Tier1 Capital (CRR).

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of assets 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 is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements during the years ended 31 December 2021 and 31 December 2020.

7. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs as adopted by the European Union requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Key sources of estimation uncertainty:

(i) Expected credit losses
For investments in financial instruments classified as amortized cost or measured at fair value through other comprehensive income, the Group regularly assesses whether there has been a significant increase in credit risk since the acquisition and when a significant increase in credit risk has occurred, for these financial instruments the Group calculates the expected loss that it may incur during the remaining term of these financial instruments until maturity as opposed to expected losses in the 12-month period for financial instruments for which no significant credit risk increase has been identified.
For calculation of provisions for expected credit losses the Group uses significant assumptions and judgements. When calculating provisions for expected credit losses for its investments in debt securities and amounts due from other banks and counterparties, the Group uses average default rates for debt issuers with corresponding credit rating during the period of previous 10 years based on the data by credit rating agencies as well as historic data on average losses in case of default according to the data by the same credit rating agencies. However, the number of defaults and losses experienced by the Group in future periods may differ from the estimated indicators. Also, when calculating provisions for expected credit losses for issued loans, the Group bases its expectations on its own experienced defaults over the period of past 5 years. However, also taking into account that the number of defaulted loans has been small, there is a possibility that the number of defaults in the next periods may not correspond to the forecasted numbers. In addition, when calculating provisions for expected credit losses for issued loans, the Group makes assumptions about sale value of collateral assets, and, even though the Group applies discount to calculate possible values of collateral assets, it is possible that in some cases sale values of collateral assets may be lower than the assumed values.
The procedure for determining the significant increase in credit risk and the procedure for calculating the expected loss is described in Note 4, which describes the accounting policy.

(ii) Measurement of fair values
A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.
The Group has an established control framework with respect to the measurement of fair values.
Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Bank assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS as adopted by EU. This includes:

- Verifying that broker or pricing service is approved by the Group 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.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- 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 recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair value of non-financial assets is determined taking into account market participants' view of highest and best use of these assets, even if it is different from current use. The highest and best use has to be physically possible, legally permissible and financially feasible.

Further information about the assumptions and judgments made in measuring fair values is included in Note 37 Fair value of financial instruments.

(iii) Classification of investment in associate

Upon acquisition of an entity's shares it is being assessed whether control or significant influence has been acquired, or whether investment is a financial instrument accounted under IFRS 9. In assessment of control and level of influence the Bank considers direct and indirect interest in equity, as well as other circumstances that allow the Bank to influence operations of the investee. In 2018 the Bank applied the described procedures when judging about classification of shares acquired as a result of a loan restructuring, as described in Note 20.

(iv) Valuation of real estate development projects

In assessment of real estate development projects the Bank has to make assumptions and judgements in relation to future outcomes that can significantly affect results of the project in subsequent periods. The Bank prefers to use external data from independent sources, uses local and international real estate market experts' opinion, as well as estimates, forecasts and financial data of real estate market participants. Having considered nature of development project, the Bank defines key parameters that can affect the outcome of the project and assesses key sources of uncertainty. The Bank validates key parameters using external sources of information as much as possible. In addition, in order to estimate the effect of uncertainty the Bank performs sensitivity testing against changes in parameters. In 2021 and 2020 the Bank applied the procedures described when it was assessing fair value of assets of associate entity it acquired, as described in Note 20.

(v) Impairment of Non-financial Assets

It is assessed at each reporting date whether events or changes in circumstances indicate that there is an indication that a non-financial asset may be impaired. This assessment is carried out more often, if there are events or changes in circumstances that indicate that a non-financial asset may

be impaired. If any such indication exists, the bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.
For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated.
A previously recognised impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.
This increase constitutes the reversal of impairment losses.
The Bank and Group apply the procedures described when assessing the value of investment in associates, as their main assets are non-financial.

(vi) Estimate of provision amounts

Provisions are recognised in amount that is the best estimate as of the reporting date. Management of the Group and Bank estimates provisions required to cover obligations. In preparation of the estimate management uses available information, evidence and experience, as well as engages independent experts if necessary.

8. Net interest income

'000 EUR	2021 Group	2020 Group	2021 Bank	2020 Bank
Interest income calculated using the effective interest method				
Interest income on financial assets at amortized cost				
Loans and advances due from customers	7 012	5 924	5 165	4 763
Debt securities	227	327	227	327
Balances due from financial institutions	1	81	1	65
Other assets	17	7	17	7
Interest income on debt securities at fair value through profit or loss in other comprehensive income	340	533	324	508
Interest income on financial assets mandatorily at fair value through profit or loss	14	1	14	1
Total interest income	**7 611**	**6 873**	**5 748**	**5 671**
Interest expense				
Interest expense recognised on liabilities measured at amortised cost				
Subordinated liabilities	(296)	(549)	(296)	(549)
Current accounts and deposits due to customers	(479)	(447)	(491)	(463)
Balances due to financial institutions	(405)	(247)	(291)	(247)
Payments to the deposit guarantee fund and other expenses	(194)	(138)	(194)	(138)
Lease commitments	(50)	(49)	(49)	(48)
Total interest expense	**(1 424)**	**(1 430)**	**(1 321)**	**(1 445)**
Net interest income	**6 187**	**5 443**	**4 427**	**4 226**

In the current economic environment the overall effective interest rate on some high quality liquid assets has turned negative. The Group and the Bank are mainly affected by negative interest rates applied on certain balances due from central banks. As the interest resulting from a negative effective interest rate on financial assets reflects an outflow of economic benefits, this is presented as interest expense.
Interest income on loans and advances due from customers classified in stage 2 and stage 3 during the year ended 31 December 2021 amounted to EUR 437 thousand (2020: EUR 475 thousand).

9. Fee and commission income

'000 EUR	2021 Group	2020 Group	2021 Bank	2020 Bank
Brokerage operations	3 963	1 546	3 960	1 539
Structured products	2 923	506	2 923	506
Servicing current accounts	1 647	1 856	1 648	1 865
Asset management and fiduciary services	1 560	1 711	1 274	1 491
Credit card maintenance	209	216	209	216
Other	182	197	182	197
Total	**10 484**	**6 032**	**10 196**	**5 814**

10. Fee and commission expense

'000 EUR	2021 Group	2020 Group	2021 Bank	2020 Bank
Asset management and brokerage services	1 724	522	1 719	523
Agency fees	1 056	449	1 056	449
Settlements	152	116	147	115
Other	4	15	4	15
Total	**2 936**	**1 102**	**2 926**	**1 102**

11. General administrative expenses

'000 EUR	2021 Group	2020 Group	2021 Bank	2020 Bank
Employee compensation and payroll taxes	6 592	5 239	5 814	4 777
Professional services	804	443	827	417
Depreciation and amortization	563	580	542	559
Other employee expenses	470	431	87	129
Advertising and marketing	465	259	145	128
Litigations and legal disputes	448	-	448	-
Non-refundable value added tax	336	240	318	235
Communications and information services	321	320	318	318
Payment cards expenses	318	274	318	274
IT services costs	294	264	291	264
Rent and utilities payments	62	47	62	47
Repairs and maintenance	47	38	47	38
Donations	45	-	45	-
Fines imposed by FCMC	-	585	-	585
Other	398	742	263	629
Total	**11 163**	**9 462**	**9 525**	**8 400**

In 2021 negative for the Bank court decision on litigation with a private person entered into force and it was enforced withdrawing cash from the Bank account in total amount 882 t EUR. Part of the amount was recognized in 2020 as provisions and the rest of the sum (448 t EUR) was recognized in 2021.

11. General administrative expenses (continued)

According to the decision adopted on 14 July 2020 by the Board of the Financial and Capital Market Commission (FCMC), the Bank was subject to a fine of EUR 907 thousand for shortcomings in compliance with the AML/CTPF regulatory requirements. Based on the Signet Bank's application to appeal, the FCMC held a second hearing, assessed the situation and the measures taken to eliminate violations. Considering the findings of the assessment and the fact that the Bank is open to cooperation and has already eliminated most of the deficiencies, the FCMC concluded an administrative agreement with the Bank on 23 February 2021, significantly reducing the initially imposed fine to EUR 585 thousand.

Audit and other fees paid to the independent auditor company which has audited these financial statements are presented within administrative expenses under the heading "Professional services". Other audits and consultations included audit related services to fullfil regulatory requirements on custodian responsibilities,deposit guarantee fund contribution reporting and other.

'000 EUR	2021 Group	2020 Group	2021 Bank	2020 Bank
Sworn auditor statutory audit	69	57	45	43
Sworn auditor for non - audit services	23	5	23	5
Total	**92**	**62**	**68**	**48**

The Bank's rental fees for low value inventory rental in the amount of EUR 13 thousand are included under the item 'IT services costs' (2020: EUR 9 thousand) and in the amount of EUR 2 thousand - under the item 'Other' (2020: EUR 2 thousand).

In 2021 the Group employed an average of 150 (2020: 111) persons, whereas the Bank employed an average of 104 (2020: 93).

Number of employees of the Group and the Bank at the year end:

	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Management	12	10	4	4
Heads of divisions and departments	25	25	21	21
Other personnel	113	94	89	74
Total at the end of the year	**150**	**129**	**114**	**99**

12. Impairment loss

Total net asset impairment allowance included in statement of income:

'000 EUR	2021 Group	2020 Group	2021 Bank	2020 Bank
Loans and advances due from customers	(546)	(199)	(354)	(238)
Other financial assets and other assets	(15)	(116)	(15)	(76)
Debt securities	(47)	(31)	(49)	(34)
Balances due from financial institutions	-	1	-	1
Total impairment allowance and provisions charged to income statement, net	**(608)**	**(345)**	**(418)**	**(347)**

12. Impairment loss (continued)

Changes in the Group financial and other asset impairment allowance for the year ended 31 December 2021:

'000 EUR	Increases in origination and acquisition	Decreases in derecognition and repayments	Total net impairment charge
Stage 1			
Debt securities	145	(98)	47
Loans and advances due from customers	364	(310)	54
Other financial and non-financial assets	15	-	15
Total stage 1 impairment	**524**	**(408)**	**116**
Stage 2			
Loans and advances due from customers	31	(32)	(1)
Total stage 2 impairment	**31**	**(32)**	**(1)**
Stage 3			
Loans and advances due from customers	493	-	493
Total stage 3 impairment	**493**	**-**	**493**
Total allowances for credit losses recognised in profit or loss, net	**1 048**	**(440)**	**608**

Changes in the Group financial and other asset impairment allowance for the year ended 31 December 2020:

'000 EUR	Increases in origination and acquisition	Decreases in derecognition and repayments	Total net impairment charge
Stage 1			
Balances due from financial institutions	-	(1)	(1)
Debt securities	97	(61)	36
Loans and advances due from customers	494	(394)	100
Other financial and non-financial assets	174	(58)	116
Total stage 1 impairment	**765**	**(514)**	**251**
Stage 2			
Loans and advances due from customers	63	(30)	33
Debt securities	-	(1)	(1)
Total stage 2 impairment	**63**	**(31)**	**32**
Stage 3			
Loans and advances due from customers	248	(182)	66
Debt securities	67	(71)	(4)
Total stage 3 impairment	**315**	**(253)**	**62**
Total allowances for credit losses recognised in profit or loss, net	**1 143**	**(798)**	**345**

12. Impairment loss (continued)

Changes in the Bank financial and other asset impairment allowance for the year ended 31 December 2021:

'000 EUR	Increases in origination and acquisition	Decreases in derecognition and repayments	Total net impairment charge
Stage 1			
Debt securities	145	(97)	48
Loans and advances due from customers	364	(108)	256
Other financial and non-financial assets	15	-	15
Total stage 1 impairment	**524**	**(205)**	**319**
Stage 2			
Loans and advances due from customers	31	(32)	(1)
Total stage 2 impairment	**31**	**(32)**	**(1)**
Stage 3			
Loans and advances due from customers	100	-	100
Total stage 3 impairment	**100**	**-**	**100**
Total allowances for credit losses recognised in profit or loss, net	**655**	**(237)**	**418**

Changes in the Bank financial and other asset impairment allowance for the year ended 31 December 2020:

'000 EUR	Increases in origination and acquisition	Decreases in derecognition and repayments	Total net impairment charge
Stage 1			
Balances due from financial institutions	-	(1)	(1)
Debt securities	97	(58)	39
Loans and advances due from customers	413	(73)	340
Other financial and non-financial assets	134	(58)	76
Total stage 1 impairment	**644**	**(190)**	**454**
Stage 2			
Debt securities	-	(1)	(1)
Loans and advances due from customers	36	(30)	6
Total stage 2 impairment	**36**	**(31)**	**5**
Stage 3			
Debt securities	74	(182)	(108)
Loans and advances due from customers	67	(71)	(4)
Total stage 3 impairment	**141**	**(253)**	**(112)**
Total allowances for credit losses recognised in profit or loss, net	**821**	**(474)**	**347**

13. Income tax

Income tax recognised in the profit or loss:

'000 EUR	2021 Group	2020 Group	2021 Bank	2020 Bank
Income tax recognised in profit or loss	**(41)**	**(11)**	**(34)**	**(8)**

The corporate income tax is payable only for certain expenses which for tax calculation purposes are considered to be the distribution of profit (for example, non-operating expenses and representation expenses that exceed a specific threshold).

14. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are composed of the following items:

'000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Cash	481	473	481	473
Balances due from central banks	106 621	11 723	106 621	11 723
Subtotal	**107 102**	**12 196**	**107 102**	**12 196**
Demand deposit due from financial institutions	11 399	8 418	11 396	8 415
Total	**118 501**	**20 614**	**118 498**	**20 611**

Deposits with the Bank of Latvia represent the balance outstanding on correspondent account in EUR. Credit institutions should comply with the compulsory reserve requirement calculated on the basis of attracted funding. The Bank's compulsory reserve must be exceeded by a credit institution's average monthly euro balance on its correspondent account with the Bank of Latvia. The Bank is compliant with the requirement to hold the minimum reserves in amount of EUR 2 618 thousand (2020: EUR 1 579 thousand) with the Bank of Latvia.

15. Financial assets and liabilities at fair value through profit or loss

’000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Assets				
Debt securities				
Corporate debt securities *	1 353	510	1 353	510
Financial institutions debt securities *	2 134	1 650	2 134	1 650
Total debt securities	**3 487**	**2 160**	**3 487**	**2 160**
Equity instruments				
Financial institutions shares*	2 838	-	2 838	-
Corporate shares*	-	2 557	-	2 557
Total equity instruments	**2 838**	**2 557**	**2 838**	**2 557**
Derivative financial instruments				
Foreign currency contracts	92	514	92	514
Foreign currency forward agreements	2	4	2	4
Total derivative financial instruments	**94**	**518**	**94**	**518**
Total assets at fair value	**6 419**	**5 235**	**6 419**	**5 235**
Notional amount				
Derivative financial instruments				
Foreign currency forward agreements	15 209	15 139	15 209	15 139
Foreign currency contracts	60	653	60	653
Total derivative financial instruments at national amount	**15 269**	**15 792**	**15 269**	**15 792**
Liabilities				
Derivative financial instruments, Foreign currency contracts	288	244	288	244
Total liabilities at fair value	**288**	**244**	**288**	**244**
Notional amount				
Derivative financial instruments				
Foreign currency forward agreements	15 424	14 844	15 424	14 844
Foreign currency contracts	60	653	60	653
Total derivative financial instruments at national amount	**15 484**	**15 497**	**15 484**	**15 497**

*held for trading

Included in financial assets and financial liabilities at fair value through profit or loss at 31 December 2021 are EUR 6.4 million (2020: EUR 5.2 million) and EUR 0.2 million (2020: EUR 0.2 million) respectively which are held for trading.

16. Balances due from financial institutions

’000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Not impaired or past due				
Nostro accounts				
Latvian commercial banks	-	15	-	14
OECD banks[1]	11 333	8 034	11 330	8 032
Non-OECD banks	66	369	66	369
Credit ratings[2]				
Rated A- and above	10 277	-	10 277	-
Rated from BBB- to BBB+	-	1	-	-
Not rated	66	8 417	66	8 415
Total nostro accounts	**11 399**	**8 418**	**11 396**	**8 415**
Loans and deposits[3]				
OECD banks[3]	10 065	3 261	10 065	3 261
Credit ratings[2]				
Rated A- and above	4 416	-	4 416	-
Not rated	5 649	3 261	5 649	3 261
Total loans and deposits not impaired	**10 065**	**3 261**	**10 065**	**3 261**
Total balances due from financial institutions	**21 464**	**11 679**	**21 461**	**11 676**

1. Nostro accounts held with OECD banks include balances with 5 counterparties (31 December 2020: 5) two of which exceed 50% (31 December 2020: 93%) of the total account balance. The respective one counterparties credit rating was A+, other do not have credit ratings (31 December 2020: no ratings) as at 31 December 2021.
2. Balances due from financial institutions are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor’s, Fitch Ratings.
3.Loans and deposits held with OECD banks include balances with 2 financial institutions (31 December 2020: 1) none of which individually exceeds 26% (31 December 2020: 28%) of the total balance. As at 31 December 2021 the respective one counterparties credit rating was A-, other do not have credit ratings (31 December 2020: do not have credit ratings) The financial institution, whose credit rating is not available, is registered and operates in the EU.

As at 31 December 2021 and 2020 the Group's and Bank's balances due from financial institutions had no impairments.

Concentration of placements with banks and other financial institutions

As at 31 December 2021 and 2020 the Group and the Bank had a number of due from balances with banks and financial institutions that individually exceeded 10% of the total balances due from financial institutions. As of 31 December 2021 and 2020 none of these balances individually exceeded 48 % and 51 % respectively. The gross value of due from balances with banks and financial institutions that individually exceeded 10% of the total balances due from financial institutions as of 31 December 2021 was EUR 20 342 thousand (31 December 2020: EUR 10 563 thousand) and it included three banks (31 December 2020: 3) with the credit ratings 1 - A-, 1- A+, 1 – no ratings (31 December 2020: no ratings).

17. Loans and advances due from non-banks

Breakdown of loans issued by the Group and the Bank by customer type:

'000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Corporate entities	43 030	36 416	43 030	36 416
Private individuals and Associations and foundations serving individuals and households	43 624	34 418	23 252	24 116
Financial auxiliaries and other financial intermediaries	29 163	13 302	43 894	23 053
Total loans and advances due from non-banks	**115 817**	**84 136**	**110 176**	**83 585**
Total impairment allowance	**(1 277)**	**(729)**	**(1 127)**	**(774)**
Loans and advances due from non-banks customers, net	**114 540**	**83 407**	**109 049**	**82 811**

Five loans in the total amount of 4 658 thousand EUR had active restructured status as at 31 December 2021 (2020: four loan, 4 739 thousand EUR).
In the tables below estimated Group's fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ⩾ 100%):

'000 EUR	31 Dec 2021 Group				31 Dec 2020 Group			
	LTV < 100%		LTV ⩾ 100% and unsecured		LTV < 100%		LTV ⩾ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Business loans	44 259	137 760	4	-	40 761	116 154	809	443
Reverse repo and loans secured by financial instruments	5 612	9 581	-	-	7 241	15 682	-	-
Consumer loans	11 393	22 281	20 588	-	4 979	11 071	10 512	-
Mortgage loans	6 241	13 508	-	-	6 046	11 218	-	-
Other deposits with financial institutions	-	-	20 967	13 244	-	-	10 383	-
Other	5 640	11 155	1 113	-	2 439	10 156	966	-
Loans and advances due from non-banks	**73 145**	**194 285**	**42 672**	**13 244**	**61 466**	**164 281**	**22 670**	443
Impairment allowance	(228)	-	(1 049)	-	(154)	-	(575)	-
Loans and advances due from customers, net	**72 917**	**194 285**	**41 623**	**13 244**	**61 312**	**164 281**	**22 095**	443

17. Loans and advances due from non-banks (continued)

In the tables below estimated Bank's fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ≥ 100%):

'000 EUR	31 Dec 2021 Bank				31 Dec 2020 Bank			
	LTV < 100%		LTV ≥ 100% and unsecured		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Business loans	58 989	152 737	4	-	50 461	126 533	859	443
Reverse repo and loans secured by financial instruments	5 612	9 581	-	-	7 241	15 682	-	-
Consumer loans	11 393	22 281	217	-	4 979	11 071	211	-
Mortgage loans	6 241	13 508	-	-	6 046	11 218	-	-
Other deposits with financial institutions	-	-	20 967	13 244	-	-	10 383	-
Other	5 640	11 155	1 113	-	2 439	10 156	966	-
Loans and advances due from customers	**87 875**	**209 262**	**22 301**	**13 244**	**71 166**	**174 660**	**12 419**	**443**
Impairment allowance	(808)	-	(319)	-	(154)	-	(620)	-
Loans and advances due from customers, net	**87 067**	**209 262**	**21 982**	**13 244**	**71 012**	**174 660**	**11 799**	**443**

17. Loans and advances due from non-banks (continued)

The following table shows the types of credit collateral and its geography for the Group as at 31 December 2021:

'000 EUR		Estimated fair value of collateral by type of collateral				Estimated fair value of the collateral
		Real estate	Financial instruments	Money and deposits	Another type of collateral	
Loans and advances due from non-banks						
Business loans	44 105	**82 733**	**14 851**	**1 204**	**38 972**	**137 760**
OECD countries		3 735	3 935	-	-	7 670
Russia		6 508	2 031	2	526	9 067
Latvia		58 409	8 885	1 202	38 446	106 942
*Other countries**		14 081	-	-	-	14 081
Reverse repo and loans secured by financial instruments	5 612	**-**	**9 581**	**-**	**-**	**9 581**
Russia		-	1 446	-	-	1 446
Latvia		-	6 827	-	-	6 827
*Other countries**		-	1 308	-	-	1 308
Consumer loans	31 125	**15 631**	**754**	**218**	**5 678**	**22 281**
Latvia		4 506	-	62	1 126	5 694
Russia		10 705	754	149	4 552	16 160
OECD countries		420		7	-	427
Mortgage loans	6 226	**10 284**	**2 742**	**199**	**283**	**13 508**
Latvia		6 976	809	152	283	8 220
Russia		3 308	1 933	47	-	5 288
Other deposits with financial institutions	20 967	-	-	**13 244**	-	**13 244**
OECD countries		-	-	13 244	-	13 244
Other	6 505	**4 713**	**2 516**	**86**	**3 840**	**11 155**
Latvia		2 438	733	52	3 840	7 063
OECD countries		2 275	1 783	34	-	4 092

*single primary country cannot be identified, location/registration country of collateral is different (EU countries, Russia, etc.)

17. Loans and advances due from non-banks (continued)

The following table shows the types of credit collateral and its geography for the Bank as at 31 December 2021:

’000 EUR		Estimated fair value of collateral by type of collateral				Estimated fair value of the collateral
		Real estate	Financial instruments	Money and deposits	Another type of collateral	
Loans and advances due from non-banks						
Business loans	58 255	**82 733**	**14 851**	**1 430**	**53 723**	**152 737**
OECD countries		3 735	3 935	-	-	7 670
Russia		6 508	2 031	2	526	9 067
Latvia		58 409	8 885	1 428	53 197	121 919
*Other countries**		14 081	-	-	-	14 081
Reverse repo and loans secured by financial instruments	5 612	**-**	**9 581**	**-**	**-**	**9 581**
Russia		-	1 446	-	-	1 446
Latvia		-	6 827	-	-	6 827
*Other countries**		-	1 308	-	-	1 308
Consumer loans	11 484	**15 631**	**754**	**218**	**5 678**	**22 281**
Latvia		4 506	-	62	1 126	5 694
Russia		10 705	754	149	4 552	16 160
OECD countries		420	-	7	-	427
Mortgage loans	6 226	**10 284**	**2 742**	**199**	**283**	**13 508**
Latvia		6 976	809	152	283	8 220
Russia		3 308	1 933	47	-	5 288
Other deposits with financial institutions	20 967	-	-	**13 244**	-	**13 244**
OECD countries		-	-	13 244	-	13 244
Other	6 505	**4 713**	**2 516**	**86**	**3 840**	**11 155**
Latvia		2 438	733	52	3 840	7 063
OECD countries		2 275	1 783	34	-	4 092

*single primary country cannot be identified, location/registration country of collateral is different (EU countries, Russia, etc.)

17. Loans and advances due from non-banks (continued)

The following table shows the types of credit collateral and its geography for the Group as at 31 December 2020:

'000 EUR		Estimated fair value of collateral by type of collateral				Estimated fair value of the collateral
		Real estate	Financial instruments	Money and deposits	Another type of collateral	
Loans and advances due from customers						
Business loans	41 432	**80 905**	**4 266**	**1 898**	**29 527**	**116 596**
OECD countries		3 421	-	-	634	4 055
Russia		13 590	2 394	330	1 916	18 230
Latvia		53 566	1 872	1 568	26 977	83 983
*Other countries**		10 328	-	-	-	10 328
Reverse repo and loans secured by financial instruments	7 239	**-**	**5 060**	**-**	**10 623**	**15 683**
Russia		-	1 022	-	3 526	4 548
Latvia		-	3 059	-	7 097	10 156
*Other countries**		-	979	-	-	979
Consumer loans	15 076	**9 801**	**116**	**24**	**1 130**	**11 071**
Latvia		279	-	24	758	1 061
Russia		9 428	116	-	-	9 544
*Other countries**		94	-	-	372	466
Mortgage loans	6 028	**9 047**	**100**	**79**	**1 992**	**11 218**
Latvia		6 363	100	50	1 992	8 505
Russia		2 684	-	29	-	2 713
Other deposits with financial institutions	10 383	-	-	-	-	-
Other	3 249	**2 430**	**-**	**34**	**7 692**	**10 156**
Latvia		2 430	-	34	3 065	5 529
*Other countries**		-	-	-	4 627	4 627

*single primary country cannot be identified, location/registration country of collateral is different (EU countries, Russia, etc.)

17. Loans and advances due from non-banks (continued)

The following table shows the types of credit collateral and its geography for the Bank as at 31 December 2020:

'000 EUR		Estimated fair value of collateral by type of collateral				Estimated fair value of the collateral
		Real estate	**Financial instruments**	**Money and deposits**	**Another type of collateral**	
Loans and advances due from customers						
Business loans	50 803	**80 905**	**4 266**	**2 034**	**39 770**	**126 975**
OECD countries		3 421	-	-	634	4 055
Russia		13 590	2 394	330	1 916	18 230
Latvia		53 566	1 872	1 704	37 220	94 362
*Other countries**		10 328	-	-	-	10 328
Reverse repo and loans secured by financial instruments	7 239	**-**	**5 060**	**-**	**10 623**	**15 683**
Russia		-	1 022	-	3 526	4 548
Latvia		-	3 059	-	7 097	10 156
*Other countries**		-	979	-	-	979
Consumer loans	5 109	**9 801**	**116**	**24**	**1 130**	**11 071**
Latvia		279	-	24	758	1 061
Russia		9 428	116	-	-	9 544
*Other countries**		94	-	-	372	466
Mortgage loans	6 028	**9 047**	**100**	**79**	**1 992**	**11 218**
Latvia		6 363	100	50	1 992	8 505
Russia		2 684	-	29	-	2 713
Other deposits with financial institutions	10 383	-	-	-	-	-
Other	3 249	**2 430**	**-**	**34**	**7 692**	**10 156**
Latvia		2 430	-	34	3 065	5 529
*Other countries**		-	-	-	4 627	4 627

*single primary country cannot be identified, location/registration country of collateral is different (EU countries, Russia, etc.)

17. Loans and advances due from non-banks (continued)

Geographical analysis of the loan portfolio to the Group and the Bank. Geographic split of borrowers' credit risk is based on the country of origin of their projected cash flows used for loan repayment.

’000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Loans and advances due from customers				
Latvia	65 459	47 109	59 817	46 558
OECD countries	26 499	10 343	26 500	10 343
Russia	16 384	18 362	16 384	18 362
Other countries*	7 475	8 322	7 475	8 322
Total loans and advances due from non-banks	**115 817**	**84 136**	**110 176**	**83 585**
Total impairment allowance	**(1 277)**	**(729)**	(1 127)	**(774)**
Loans and advances due from non-banks, net	**114 540**	**83 407**	**109 049**	**82 811**

* single primary country cannot be identified, Borrowers’ Income is generated in different countries (EU countries, etc.). Furthermore borrower has income that is generated internationally (FI investment portfolio, sale of movable property etc.)

Significant credit exposures

As of December 31, 2021 the Bank had one (2020: was not) borrower whose total credit obligations to the Bank exceeded 10% of the amount of loans issued by the Bank, which amounted to EUR 14 150 thousand. As of 31 December 2021, the Group and Bank had no customers, whose balances exceeded 10% of loans to customers (2020: the same).
According to regulatory requirements, the Group is not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As at 31 December 2021 and 2020 the Group was in compliance with this requirement.

18. Debt securities measured at fair value through other comprehensive income

Debt securities of the Group and the Bank measured at fair value through other comprehensive income, by type of issuer:

'000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Debt securities				
Government and municipal bonds				
European Union	-	824	-	824
Other countries	12 702	9 716	12 702	9 716
Total government and municipal bonds	**12 702**	**10 540**	**12 702**	**10 540**
Financial authorities and institutions bonds				
Latvia	-	537	-	537
European Union	200	2 283	200	2 283
Total Financial authorities and institutions bonds	**200**	**2 820**	**200**	**2 820**
Corporate bonds				
European Union and EEA	813	2 357	813	2 357
Latvia	-	206	-	-
Other countries	-	26	-	26
Total corporate bonds	**813**	**2 589**	**813**	**2 383**
Total debt securities measured at fair value through other comprehensive income	**13 715**	**15 949**	**13 715**	**15 743**

Geographical allocation is based on countries of principal entities.

Debt securities of the Group and the Bank measured at fair value through other comprehensive income quality analysis:

'000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Debt securities [1]				
Government and municipal bonds				
Rated from AAA- to A-	12 702	10 540	12 702	10 540
Total government and municipal bonds	**12 702**	**10 540**	**12 702**	**10 540**
Financial institutions bonds				
Rated from B- to B	-	275	-	275
BBB+	200	-	200	
Not rated [2]	-	2 545	-	2 545
Total Financial institutions bonds	**200**	**2 820**	**200**	**2 820**
Corporate bonds				
Not rated	813[3]	2 589[4]	813[3]	2 383[4]
Total corporate bonds	**813**	**2 589**	**813**	**2 383**
Total debt securities measured at fair value through other comprehensive income	**13 715**	**15 949**	**13 715**	**15 743**

1. Financial assets measured at fair value through other comprehensive income are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.
2. Group's and Bank's all Financial instruments issued by issuers were included in Stage 1 according to IFRS 9 requirements.
3. Group's and Bank's all Financial instruments issued by 4 issuers were included in Stage 1 according to IFRS 9 requirements
4. Group's and Bank's Financial instruments issued by 4/3 issuers with a total value EUR 2 178/ 1 972 thousand were included in Stage 1 according to IFRS 9 requirements, financial instruments issued by 2 issuer with a total value EUR 269 thousand were included in Stage 2 and financial instruments issued by 2 issuer with a total value EUR 142 thousand were included in Stage 3.

19. Debt securities measured at amortized cost

Debt securities of the Group and the Bank measured at amortized cost, by type of issuer:

'000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Debt securities				
Government and municipal bonds				
European Union	39 470	54 056	39 470	54 056
Latvia	13 304	-	13 304	-
Other countries	21 094	-	21 094	-
Total government and municipal bonds, gross	**73 868**	**54 056**	**73 868**	**54 056**
Impairment allowance	(44)	(83)	(44)	(83)
Total government and municipal bonds, net	**73 824**	**53 973**	**73 824**	**53 973**
Financial institutions bonds				
European Union and EEA	7 861	7 832	7 861	7 832
Total financial institutions bonds	**7 861**	**7 832**	**7 861**	**7 832**
Corporate bonds				
European Union and EEA	1 772	2 024	1 772	2 024
Total corporate bonds	**1 772**	**2 024**	**1 772**	**2 024**
Impairment allowance	(1)	(1)	(1)	(1)
Total corporate bonds, net	**1 771**	**2 023**	**1 771**	**2 023**
Total debt securities measured at amortized cost, net	**83 456**	**63 828**	**83 456**	**63 828**

Geographical allocation is based on countries of principal entities.

Debt securities of the Group and the Bank measured at amortized cost quality analysis:

'000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Debt securities				
Government and municipal bonds[1]				
Rated from AAA- to AAA+	26 422	3 675	26 422	3 675
Rated from AA- to AA+	4 786	4 426	4 786	4 426
Rated A- and above	41 544	44 766	41 544	44 766
Rated from BBB- to BBB+	1 072	1 106	1 072	1 106
Total government and municipal bonds, net	**73 824**	**53 973**	**73 824**	**53 973**
Financial institutions bonds				
Rated from AAA- to AAA+	7 761	4 383	7 761	4 383
Rated from AA- to AA+	-	3 349	-	3 349
Rated from BBB- to BBB+	100	100	100	100
Total financial institutions and corporate bonds	**7 861**	**7 832**	**7 861**	**7 832**
Corporate bonds				
Rated from AA- to AA+	1 771	1 634	1 771	1 634
Rated from BBB- to BBB+	-	389	-	389
Total corporate bonds	**1 771**	**2 023**	**1 771**	**2 023**
Total debt securities measured at amortized cost, net	**83 456**	**63 828**	**83 456**	**63 828**

[1.] Debt securities are classified by average credit rating from three international rating agencies: Moody's Investors Service, Standard & Poor's, Fitch Ratings.

20. Investment in subsidiaries

Bank's investment in subsidiary Signet Asset Management Latvia IPS:

'000 EUR	31 Dec 2021	31 Dec 2020
Investments in Signet Asset Management Latvia IPS	1 874	1 874
Impairment of investment	-	(582)
Investment in the subsidiary, net	**1 874**	**1 292**

	Signet Asset Management Latvia IPAS
Main activity	Financial services
Country of incorporation	Latvia
Address	3 Antonijas street, Riga LV-1010, Latvia
Ownership interest	
31 December 2021	100 %
31 December 2020	100 %

Financial position of the subsidiary:

'000 EUR	As at 31 Dec 2021	As at 31 Dec 2020
Non-current assets	**501**	**706**
Current assets	**1 328**	**923**
Current liabilities	**(31)**	**(23)**
Net assets	**1 798**	**1 606**
Group share in net assets	**100 %**	**100 %**
	2021	**2020**
Income	341	220
Expenses	(146)	(137)
Income tax	-	-
Profit	**195**	**83**
Group share in profit	**100%**	**100%**

In 2013 the Bank invested EUR 1 874 thousand in a subsidiary Signet Asset Management Latvia IPS which as at 31 December 2021 had the net asset value of EUR 1 798 thousand which mainly consists of cash and term deposits of EUR 1 351 thousand.
During the year ended 31 December 2021 and 2020 the Group did not receive dividends from investment in subsidiary.
In order to assess a possible impairment loss of the investment the Bank assessed the recoverable amount of the investment by applying the value in use approach; no additional impairment was required as a result of the assessment. The assessment was based on discounted dividend model. The profit after tax was assumed to be a proxy for free cash flows available for dividend distribution to the shareholders. The discount rate was calculated based on cost of equity that was determined in amount of 10.26% (2020: 10.95%). The Bank applied terminal growth rate of 2%. The model expects that in 2022 the subsidiary will be negative change of income -3% (- EUR 9 thousand), and moderate growth in the coming years (in average + EUR 33 thousand, that is + 8%).
The Bank still considers that Signet Asset Management Latvia IPS is a significant business line having sustainable development and growth prospects for the future.
On the 28th of April 2020 Asset Management Latvia IPS registered their first UCITS compliant open-ended mutual fund "Signet Bond Fund" with two share classes (Class A - USD shares, ISIN: LV0000401008 and Class H - EUR shares, ISIN: LV0000401016). The investment objective is to provide an opportunity for investors to earn an income from a diversified portfolio of fixed income securities.

20. Investment in subsidiaries (continued)

The Bank together with AS “Eleving Stella” set up a company AS "Primero Holding". The newly established company was registered on May 5, 2022 with share capital of EUR 550 thousand. According to the articles of incorporation the Bank owns 51% of the company AS "Primero Holding”, but AS “Eleving Stella” - 49%.
Bank’s investment in subsidiary:

’000 EUR	31 Dec 2021
Investments in AS "Primero Holding"	281

	AS "Primero Holding"
Main activity	Financial services
Country of incorporation	Latvia
Address	3-1 Antonijas street, Riga LV-1010, Latvia
Ownership interest	
31 December 2021	51 %

Financial position of the AS "Primero Holding":

’000 EUR	As at 31 Dec 2021
Non-current assets	**547**
Current assets	**-**
Non-current liabilities	**-**
Current liabilities	**(5)**
Net assets	**542**
Bank share 51% in net assets	**276**
’000 EUR	**2021**
Income	12
Expenses	(8)
Profit	**4**
Bank share 51% in profit	**2**

During the year ended 31 December 2021 Group did not receive dividends from investment in subsidiary.

20. Investment in subsidiaries (continued)

Implementing its adjusted strategy in 2019, the Bank started more acrively provide lending services to Latvian clients, including businessmen registered in Latvia.
In order to develop and diversify the loan portfolio, the Bank acquired shares and granted a loan to AS "Primero Finance" (formerly Loango AS) on September 26, 2019, which provides financial leasing and leaseback services in Latvia.
By making a contribution to the share capital of EUR 239 thousand, the Bank acquired a 51% stake in the company, which allows the Bank to ensure control of the company's activities and use of the loan granted, and thus manage better the Bank's own credit risk in relation to the loan issued. With intention to develop the business line in the all Baltic states, AS "Primero Holding" was founded, with the Bank participation in the Company share capital 51%. At the date of establishment all shares of AS "Primero Finance" belonging to the bank was sold to AS "Primero Holding", retaining the Bank participation in AS "Primero Finance" 51%.
Bank's investment in subsidiary of a subsidiary:

’000 EUR	31 Dec 2021	31 Dec 2020
Investments in AS "Primero Finance"	277	239

	AS "Primero Finance"
Main activity	Financial services
Country of incorporation	Latvia
Address	3 Antonijas street, Riga LV-1010, Latvia
Ownership interest	
31 December 2021	51 %
31 December 2020	51 %

Financial position of the AS "Primero Finance":

’000 EUR	As at 31 Dec 2021	As at 31 Dec 2020
Non-current assets	**14 803**	**7 257**
Current assets	**5 846**	**3 308**
Non-current liabilities	**(19 409)**	**(9 713)**
Current liabilities	**(622)**	**(290)**
Net assets	**618**	**562**
Bank share 51% in net assets	**315**	**287**
	2021	**2020**
Income	3 190	1 694
Expenses	(3 127)	(1 663)
Income tax expense	(7)	(3)
Profit	**56**	**28**
Bank share 51% in profit	**29**	**14**

During the year ended 31 December 2021 and 31 December 2020 the Group did not receive dividends from investment in subsidiary.

20. Investment in subsidiaries (continued)

On 7 August 2020, the Bank's subsidiary AS Primero Finance established the Lithuanian subsidiary UAB Primero Finance, with the aim of developing financial and reverse leasing services in Lithuania. AS "Primero Finance" was sold all owned shares of UAB Primero Finance to AS "Primero Holding". The Bank's retaining participation in UAB Primero Finance 51%. As of December 31, 2020, the core business had not yet started.
Bank's investment in subsidiary of a subsidiary UAB Primero Finance:

'000 EUR	31 Dec 2021	31 Dec 2020
Investments in UAB Primero Finance	1	3

	UAB Primero Finance
Main activity	Financial services
Country of incorporation	Lithuania
Address	Perkūnkiemio g. 6-1, Vilnius, Lithuania
Ownership interest	
31 December 2021	51 %
31 December 2020	100 %

Financial position of the UAB Primero Finance:

	2021	2020
Expenses	(25)	(13)
Loss	**(25)**	**(13)**
Bank's share 51%/100% in loss	**(13)**	**(13)**

20. Investment in subsidiaries (continued)

On 24 July 2020, the Bank established a subsidiary Citra Development SIA, with the aim of developing a real estate project in Riga, which is planned to be implemented together with the Bank's customers.

Bank’s investment in Citra Development SIA:

’000 EUR	31 Dec 2021	31 Dec 2020
Investments in Citra Development SIA	300	300

	Citra Development SIA
Main activity	Real estate rental and management
Country of incorporation	Latvia
Address	3-5 Antonijas street, Riga LV-1010, Latvia
Ownership interest	
31 December 2020	100 %

Financial position of the Citra Development SIA":

’000 EUR	As at 31 Dec 2021	As at 31 Dec 2020
Non-current assets	49	-
Current assets	243	298
Current liabilities	(3)	-
Net assets	**289**	**298**
Bank share 100% in net assets	**289**	**298**
	2021	**2020**
Expenses	(4)	(2)
Profit	**(4)**	**(2)**
Bank share 100% in profit	**(4)**	**(2)**

21. Investment in associates

In 2016, the Bank invested in investment company's SIA “LS Medical Property” share capital EUR 544 thousand with the participation of 32%. In the previous periods investment was increased by a total of EUR 336 thousand up to EUR 880 thousand, retaining the ownership of 32%. As the Bank does not have the control over SIA “LS Medical Property” the investment is not consolidated in the Group’s consolidated financial statements.
Bank’s investment in associate:

’000 EUR	31 Dec 2021	31 Dec 2020
Investments SIA ”LS Medical Property”	880	880
Part of the Bank’s loss	(207)	(184)
Investment in the associate, net	**673**	**696**

	SIA ”LS Medical Property”
Main activity	Development of property for hospital operation purposes
Country of incorporation	Latvia
Address	3 Antonijas street, Riga LV-1010, Latvia
Ownership interest	
31 December 2021	32 %
31 December 2020	32 %

Financial position of the SIA “LS Medical Property”:

’000 EUR	As at 31 Dec 2021	As at 31 Dec 2020
Non-current assets	2 094	2 094
Current assets	6	76
Net assets	**2 100**	**2 170**
Bank’s share 32% in net assets	**672**	**720**
	2021	**2020**
Expenses	(70)	(79)
Loss	**(70)**	**(79)**
Bank’s share 32% in loss	**(22)**	**(25)**

21. Investment in associates (continued)

In December 2018 the Bank and its customers obtained 33.34% of share capital in SIA "Citra Kaļķu" as a result of a loan agreement restructuring, which gives the Bank a significant impact. As of December 31, 2021 the Bank's direct investment was 11.68% (2020: 11.68%). In addition, the Bank exercises the significant impact through its representative in the management board of SIA "Citra Kaļķu". The Bank considers its investment in SIA "Citra Kaļķu" as an investment in an associate. The Bank does not have a decisive control to consider it as a subsidiary, so it is not consolidated.
At the time of acquisition of shareholdings, the Bank also took over claims against SIA Citra Kaļķu in the amount of EUR 471 thousand, which were recognized as part of the loan portfolio. The main asset of SIA Citra Kaļķu is a land plot in the centre of Riga, which the Bank, together with potential investors, plans to use for the construction of a high-quality hotel. To generate the value of the project, the Bank agreed with another member of SIA Citra Kaļķu to purchase their share, paying a security deposit of EUR 250 thousand for it in 2020 and advance payment of 356 th EUR in 2021 recognizing it as prepayment (see Note 25). For the purposes of valuation, the Bank combines all investments made into a single group.
Bank's investment in associate:

'000 EUR	31 Dec 2021	31 Dec 2020
Investments SIA "Citra Kaļķu"	1 447	1 447
Increase in investments	-	-
Part of the previous year's profit	48	26
Part of the Bank's profit for the year	1	22
Impairment of investment	(339)	(433)
Investment in the associate, net	**1 157**	**1 062**

	SIA "Citra Kaļķu"
Main activity	Real estate transactions, development, leasing and rental of real estate
Country of incorporation	Latvia
Address	Aspāzijas bulvāris 32-1A, Riga LV-1050, Latvia
Ownership interest	
31 December 2021	11.68 %
31 December 2020	11.68 %

Financial position of the SIA "Citra Kaļķu":

'000 EUR	As at 31 Dec 2021	As at 31 Dec 2020
Non-current assets	10 947	10 947
Current assets	2	37
Non-current liabilities	(1 086)	(1 079)
Current liabilities	-	-
Net assets	**9 863**	**9 905**
Bank's share 11.68% in net assets	**1 152**	**1 157**
	2021	**2020**
Income	25	205
Expenses	(15)	(13)
Profit	**10**	**192**
Bank's share 11.68% in profit, since acquisition	**1**	**22**

Upon acquisition of SIA "Citra Kaļķu" (hereinafter – SIA), the Bank adjusted fair value of the investee's assets, based on their highest and best use that was determined to be the construction of a premium hotel on the SIA's land plot.

21. Investment in associates (continued)

The Bank conducted a test as at 31 December 2021 to verify that the fair value of the SIA's assets had not gone down. The test did not establish any decrease in the fair value of the company's assets. As the basis for the valuation, the Bank relied on an appraisal drafted in 2018 by a certified real estate appraiser, and a forecast by the business partner – a professional hotel operator (hereinafter referred to as the Project Business Partner) – based on the performance of existing hotels, as well as appraisals and information from other external experts.
As at 31.12.2021, the Bank updated the financial model of the development project, which contains the following key parameters and sources for validation of the parameters:

- occupancy rate, which is based on validated information from the Project Business Partner on the occupancy indicators of hotels in similar locations; the occupancy rate is lower in the first few years and gradually increases in subsequent years;
- hotel room rates, which were validated using offers published in open internet sources and hotel reservation systems for hotels operating in Riga city centre for different times of the year, as well as forecasts by the Project Business Partner;
- income from the hotel restaurant, which was validated using experience and calculations by the Bank's Project Cooperation Partner, opinions and research results of external experts, as well as Bank's experience from other projects related to financing of hotels;
- hotel construction term, which was validated using publicly available information about construction of a comparative hotel, as well as forecasts by the Project Business Partner;
- construction costs, which were validated using experience and calculations by the Project Business Partner;
- capitalisation rate, which was validated using experience and calculations by the Bank Project Cooperation Partner, opinions and research findings from external experts, as well as Bank's experience from other projects related to financing of hotels.

To make sure that the hotel project can be implemented on the land plot owned by SIA, the Riga Development Plan and the rules for the use and development of the territory of the historical centre of Riga and its protected area were used. Using the above assumptions, the net present value of the project is determined in the amount of EUR 16 863 thousand (2020: EUR 18 642 thousand), which exceeds the value of the investment made, the Bank's share is EUR 1 970 thousand (2020: EUR 2177 thousand). The change in value is due to a change in the individual assumptions of the model, taking into account the agreement reached with the hotel operator and the shortening of the term of sale.
Key parameters and results of sensitivity analysis for the hotel development project are presented below, based on the value depreciation test performed as at 31.12.2021. Sensitivity analysis was prepared to calculate changes in net present value of the project in cases when key hotel parameter will be worse than forecasted.

Parameter	Parameter value	Net present value EUR'000, from unfavourable changes in the parameter by 5%	Net present value EUR'000, from unfavourable changes in the parameter by 10%
Occupancy rate	82% - 89%	14 618	12 374
Hotel room rate	81 EUR on average	14 618	12 374
Income from restaurant	Up to 27% (revenue share vs. number income)	16 465	16 068
Hotel sales price	EUR 74 522 thousand	14 704	12 546
Construction costs	EUR 31 861 thousand	16 141	15 420
Capitalisation rate	6.5%	14 807	12 939

22. Property and equipment

Group '000 EUR	Leasehold improvements	Right-of-use assets (IFRS 16)	Other	Total
Cost				
At 1 January 2021	**2 330**	**1 229**	**1 713**	**5 272**
Additions	-	-	162	162
Write-offs	-	(26)	(3)	(29)
At 31 December 2021	2 330	1 203	1 872	5 405
Depreciation				
At 1 January 2021	1 284	262	1 294	2 840
Depreciation charge	143	130	107	380
Write-offs			(3)	(3)
At 31 December 2021	**1 427**	**392**	**1 398**	**3 217**
Carrying value				
At 31 December 2021	**903**	**811**	**474**	**2 188**
Cost				
At 1 January 2020	2 330	1 227	1 761	5 318
Additions	-	-	206	206
Write-offs	-	2	(254)	(252)
At 31 December 2020	**2 330**	**1 229**	**1 713**	**5 272**
Depreciation				
At 1 January 2020	1 142	129	1 260	2 531
Depreciation charge	142	133	122	397
Write-offs	-	-	(88)	(88)
At 31 December 2020	**1 284**	**262**	**1 294**	**2 840**
Carrying value				
At 31 December 2020	**1 046**	**967**	**419**	**2 432**
Carrying value				
At 1 January 2019	1 188	1 098	501	2 787

22. Property and equipment (continued)

Banka '000 EUR	Leasehold improvements	Right-of-use assets (IFRS 16)	Other	Total
Cost				
At 1 January 2021	**2 330**	**1 207**	**1 677**	**5 214**
Additions	-	-	108	108
Write-offs	-	(26)	(3)	(29)
At 31 December 2021	**2 330**	**1 181**	**1 782**	**5 293**
Depreciation				
At 1 January 2021	1 284	258	1 258	2 800
Depreciation charge	143	126	105	374
Write-offs	-	-	(3)	(3)
At 31 December 2021	**1 427**	**384**	**1 360**	**3 171**
Carrying value				
At 31 December 2021	**903**	**797**	**422**	**2 122**
Cost				
At 1 January 2020	2 330	1 205	1 725	5 260
Additions	-	-	206	206
Write-offs	-	2	(254)	(252)
At 31 December 2020	**2 330**	**1 207**	**1 677**	**5 214**
Depreciation				
At 1 January 2020	1 142	129	1 226	2 497
Depreciation charge	142	129	120	391
Write-offs	-	-	(88)	(88)
At 31 December 2020	**1 284**	**258**	**1 258**	**2 800**
Carrying value				
At 31 December 2020	**1 046**	**949**	**419**	**2 414**
Carrying value				
At 31 December 2019	1 188	1 076	499	2 763

23. Intangible assets

'000 EUR	Group Total	Bank Total
Cost		
At 1 January 2021	1 525	1 451
Additions	242	241
At 31 December 2021	**1 767**	**1 692**
Amortisation		
At 1 January 2021	1 002	983
Amortisation charge	183	168
At 31 December 2021	**1 185**	**1 151**
Carrying value		
At 31 December 2021	**582**	**541**
Cost		
At 1 January 2020	1 029	957
Additions	496	494
At 31 December 2020	**1 525**	**1 451**
Amortisation		
At 1 January 2020	819	815
Amortisation charge	183	168
At 31 December 2020	**1 002**	**983**
Carrying value		
At 31 December 2020	**523**	**468**
Carrying value		
At 31 December 2019	210	142

Intangible assets of the Group and the Bank consist of software's licenses and computer programmes.

24. Non-current assets held for sale

'000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Non-current assets held for sale				
Real estate	3 970	3 970	3 970	3 970
Movable property	36	26	-	-
Total **Non-current assets held for sale**	**4 006**	**3 996**	**3 970**	**3 970**

Non-current assets held for sale are accounted at the lower of the carrying amount and fair value less costs to sell. Non-current assets held for sale consist of real estate that was repossessed as loan collateral, as well as of movable property.
The Bank aims at selling the real estate. Before the war in Ukraine commenced, there was a buyers' interest for real estate located in Russia, for a price that approximated the valuation report. The Bank's strategy is to sell the assets as soon as possible; however, it could be hard to do before the end of the active phase of the war in Ukraine. There has been a preliminary agreement reached over the sale of real estate located in Latvia; the deal will be closed in 2022.

25. Other assets

'000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Other financial assets				
Settlement of payment cards[1]	746	484	746	484
Settlement of securities	-	330	-	330
Other financial assets	**746**	**814**	**746**	**814**
Impairment allowance	-	(1)	-	(1)
Other non-financial assets				
Prepayments	1 652	556	1 139	492
Accrued income	214	217	210	214
Settlement of tax	68	46	65	46
Other	311	728	311	391
Other non-financial assets	**2 245**	**1 547**	**1 725**	**1 143**
Impairment allowance	(17)	-	(17)	-
Total other assets	**2 974**	**2 360**	**2 454**	**1 956**

[1] Impairment allowance for credit cards in total amount of EUR 1 thousand (2020: EUR 2 thousand)is presented under expected credit loss allowance

26. Liabilities to financial institutions and non-banks

'000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Liabilities to financial institution registered in the European Union	287	604	287	604
Liablities to non-banks	4 769	-	-	-
Total liabilities to financial institutions and non-banks	**5 056**	**604**	**287**	**604**

27. Deposits

Client deposits split by their profile

'000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Current accounts and demand deposits	**263 248**	**148 370**	**264 379**	**148 945**
Private individuals	72 637	57 398	72 637	57 398
Corporates	190 611	90 972	191 742	91 547
Term deposits	**52 178**	**25 462**	**53 528**	**26 700**
Private individuals	37 192	23 419	37 192	23 419
Corporates	14 986	2 043	16 336	3 281
Total current accounts and demand deposits	**315 426**	**173 832**	**317 907**	**175 645**

Geographical analysis of the deposits

'000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Current accounts and demand deposits	**263 248**	**148 370**	**264 379**	**148 945**
Latvia	188 056	74 328	189 187	74 903
OECD countries	28 823	20 805	28 823	20 805
Russia	11 605	9 757	11 605	9 757
Other countries	34 764	43 480	34 764	43 480
Term deposits	**52 178**	**25 462**	**53 528**	**26 700**
Latvia	15 550	3 496	16 900	4 734
OECD countries	33 765	15 502	33 765	15 502
Russia	749	1 651	749	1 651
Other countries	2 114	4 813	2 114	4 813
Total deposits	**315 426**	**173 832**	**317 907**	**175 645**

Concentrations of current accounts and customer deposits

As of 31 December 2021 and 31 December 2020, the Group and Bank had no customers, whose balance exceeded 10% of total customer accounts.

28. Subordinated liabilities

’000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Subordinated borrowings				
Private individuals	4 838	5 667	4 838	5 667
Total Subordinated borrowings	**4 838**	**5 667**	**4 838**	**5 667**

Subordinated borrowings have a fixed term of at least five years at their origination, and are repayable before maturity only on winding up of the Bank. In the event of the winding-up of the Bank these borrowings will be subordinated to the claims of depositors and all other creditors of the Bank.

Reconciliation of movements of subordinated borrowings to cash flows arising from financing activities

’000 EUR	2021 Group	2020 Group	2021 Bank	2020 Bank
Balance of subordinated borrowings at 1 January	**5 667**	**11 465**	**5 667**	**11 465**
Redemption of subordinated borrowings	(1 630)	(5 832)	(1 630)	(5 832)
Increase in subordinated borrowings	350	100	350	100
Changes from financing cash flows				
Other changes Liability-related				
Interest expense	296	549	296	549
Interest paid	(53)	(248)	(53)	(248)
Interest paid in advance decrease / (increase)	208	(367)	208	(367)
Total liability-related other changes	**451**	**(66)**	**451**	**(66)**
Balance of subordinated borrowings at 31 December	**4 838**	**5 667**	**4 838**	**5 667**

Concentrations of subordinated borrowings

As of 31 December 2021 and 2020, the Group and Bank had one (31.12.2020.: two) subordinated borrowing agreements, whose balance exceeded 10% of the total subordinated borrowings and which are indicated in the table below.

Customer	Currency	Issue size ‘000	Interest rate	Original agreement date	Maturity date	Carrying amount ‘000 EUR	
						31.12.2021	31.12.2020
Private individual - resident	USD	2 000	6.67 %	27.02.2015	23.06.2025	1 590	1 359
Private individual - non-resident	USD	1 100	5.00 %	01.04.2016	01.04.2021	-	885
Private individual – resident	USD	1 000	6.67 %	24.11.2014	02.02.2027	795	679
Private individual - non-resident	USD	900	5.00 %	23.03.2016	23.03.2021	-	725

29. Provisions

'000 EUR	2021 Group	2020 Group	2021 Bank	2020 Bank
Provisions				
Provision for litigations and legal disputes	6	4	6	4
Provision for commitments and contingencies	3 499	434	3 499 *	434
Total provisions	**3 505**	**438**	**3 505**	**438**

* Payment to Deposit Insurance Agency of the Russian Federation. Additional information is provided in Note 38 and 39.

30. Other liabilities

'000 EUR	2021 Group	2020 Group	2021 Bank	2020 Bank
Other financial liabilities				
Lease liabilities	862	1 004	849	987
Settlement of securities	-	230	-	230
Total other financial liabilities	**862**	**1 234**	**849**	**1 217**
Other non-financial liabilities				
Suspense liabilities and money in transit	3 740	587	3 740	587
Accrued expenses	1 485	1 528	1 402	1 443
Provision for employee vacations	459	395	411	350
Deferred income	356	213	356	213
Other	547	301	85	160
Total other non-financial liabilities	**6 587**	**3 024**	**5 994**	**2 753**
Total other liabilities	**7 449**	**4 258**	**6 843**	**3 970**

31. Share capital

Issued capital and share premium

’000 EUR	31 Dec 2021		31 Dec 2020	
	Number of shares	EUR	Number of shares	EUR
Authorised share capital as of 1 January	459 582	16 544 952	459 582	32 170 740
Issued and fully paid share capital as of 1 January	459 582	16 544 952	459 582	32 170 740
Reduction of share capital	-	-	-	(15 625 788)
Authorised share capital as of 31 December	459 582	16 544 952	459 582	16 544 952
Issued and fully paid share capital as of 31 December	**459 582**	**16 544 952**	**459 582**	**16 544 952**

The Bank’s share capital consists of ordinary shares with voting rights and a par value of 36 EUR (2020: 70 EUR).

On June 11, 2020, a decrease in the nominal value of Signet Bank shares was registered in the Register of Enterprises, in accordance with the decision of the General meeting of shareholders of March 31, 2020. This decision did not affect the amount of the Bank’s own funds and regulatory indicators. The decision to reduce the nominal value of shares was taken to optimise the structure of the Bank’s capital after the 2017 enterprise income tax reform.

The shareholders of the Bank as of 31 December 2021 and 31 December 2020 were as follows:

Shareholder	31 Dec 2021			31 Dec 2020		
	Number of shares	Paid share capital (EUR)	Share capital ownership %	Number of shares	Paid share capital (EUR)	Share capital ownership %
Signet Acquisition III, LLC	114 896	4 136 256	25.00 %	114 896	4 136 256	25.00 %
AS RIT GROUP	89 646	3 227 256	19.50 %	-	-	-
SIA “Reglink”	73 205	2 635 380	15.93 %	-	-	-
Soloman Rutenberg	45 514	1 638 504	9.90 %	45 514	1 638 504	9.90 %
Natalija Petkevicha	45 300	1 630 800	9.86 %	45 300	1 630 800	9.86 %
Leonid Kaplan	38 085	1 371 060	8.29 %	38 085	1 371 060	8.29 %
SIA “Slink”	29 282	1 054 152	6.37 %	-	-	-
ID Family Foundation SIA [2]	22 571	812 556	4.91 %	22 571	812 556	4.91 %
Rahmiel Deich	1 083	38 988	0.24 %	1 083	38 988	0.24 %
SIA “Hansalink”	-	-	-	102 487	3 689 532	22.30 %
SIA “Fin.lv” [1]	-	-	-	40 360	1 452 960	8.78 %
Igor Rapoport [1]	-	-	-	27 622	994 392	6.01 %
Tatjana Rapoporta [1]	-	-	-	21 664	779 904	4.71 %
Total	**459 582**	**16 544 952**	**100 %**	**459 582**	**16 544 952**	**100 %**

[1] Joint control with a shareholding of 19.51%.
[2] UBO are Roberts Idelsons and Jelena Idelsone.

31. Share capital (continued)

Other reserves

Bank's other reserves of EUR 312 thousands (2020: EUR 312 thousand) represent contributions made by shareholders in previous years. Other reserves represent residual interest of shareholders and can be distributed.

Fair value reserve

Fair value reserve comprises the cumulative net change in the fair value of equity instruments measured at FVOCI and the cumulative net change in the fair value of debt instruments measured at FVOCI until the assets are derecognized or reclassified. The amount is increased by the amount of loss allowance of debt instruments measured at FVOCI.

Non controlling interest

The Group recognizes non controlling interest in its subsidiaries based on non controlling interest part in Net identifiable assets of subsidiaries. All costs related to acquisition are recognized as administrative expenses as they are occurred. Non controlling interest is disclosed in the Group equity separately from the Bank shareholders equity. Profit or loss is attributed to the Bank as parent company and to non controlling interest.

32. Lease liabiliaties

The lease liabilities are for the Group's and the Bank's premises lease agreements. The term of the Bank's Lease agreement is until May 1, 2028, with the possibility of renewing the lease after its expiration date. Lease payments are fixed. Lease agreements do not include additional obligations. The following table shows an analysis of the terms of the lease liabilities maturing after the reporting date.

'000 EUR	Group	Bank
Lease liabiliates January 1, 2021	**1 003**	**986**
Lease payments of a lease liability	(192)	(187)
Interest parts of lease payments	51	50
Lease liabiliates December 31, 2021	**862**	**849**
incl. current expenditure on lease liabilities	127	123
incl. long-term expenses for lease liabilities	735	726
Lease liabiliates January 1, 2020	**1 118**	**1 097**
Lease payments of a lease liability	(164)	(159)
Interest parts of lease payments	49	48
Lease liabiliates December 31, 2020	**1 003**	**986**
incl. current expenditure on lease liabilities	121	117
incl. long-term expenses for lease liabilities	882	869

33. Assets under management

Asset management services

The Group through its Subsidiary Signet Asset Management IPS provides asset management services to individuals and companies. The Group receives management fee for providing these services. The assets under management of the Subsidiary are not included in neither the consolidated nor separate statement of financial position.
As of 31 December 2021 the Group had EUR 386.45 million (2020: EUR 616.17 million) assets under management of which the Bank held EUR 317.56 million (2020: EUR 557.83 million) and the Subsidiary held EUR 68.89 million (2020: EUR 58.34 million).

Custody activities

The Group and the Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are neither assets of the Group, nor the Bank and are not recognized in the consolidated and separate statements of financial position. As of 31 December 2021 the total amount in custody on behalf of customers was EUR 475.34 million (2020: EUR 250.78 million).

34. Related party transactions

Transactions with members of the Group's Key Management Personnel

Total remuneration included in employee compensation (refer to Note 11):

'000 EUR	2021 Group	2020 Group	2021 Bank	2020 Bank
Remuneration of Supervisory Council members	138	35	138	35
Remuneration to Management Board members	802	847	802	847
Total remuneration	**940**	**882**	**940**	**882**

The outstanding balances as of 31 December 2021 and 31 December 2020 with members of the Key Management Personnel are as follows:

'000 EUR	31 Dec 2021 '000 EUR	31 Dec 2020 '000 EUR
Statement of financial position		
Assets		
Other assets	5	5
Liabilities		
Current accounts	179	143

34. Related party transactions (continued)

Transactions with related parties of the Bank

The outstanding balances as of 31 December 2021 and as of 31 December 2020 and related profit or loss amounts of transactions for the year ended 31 December 2021 and 31 December 2020 with other related parties are as follows:

'000 EUR	2021					2020				
	Subsi-diary company	Associate companies	Share-holders*	Other	Total	Subsi-diary company	Asso-ciate com-pany	Share-Holders *	Other	Total
Statement of financial position										
Assets										
Loans	14 150	521	-	-	**14 671**	9 750	471	1	2 495	**12 717**
Liabilities										
Deposits	2 482	8	95	3 762	**6 347**	2 813	112	152	1 617	**4 694**
Income/ (expenses)										
Ccommission income/ (expenses)	4	6	3	-	**13**	4	1	1	(1)	**5**
Interest income	827	-	1	-	**828**	411	-	-	143	**554**
Other income / (expenses)	(83)	1	-	6	**(76)**	3	-	-	-	**3**

* with a shareholding of over 10%

The subsidiary has no other related party transactions than those with the Bank. Therefore, transactions with related parties of the Group are not disclosed separately.

35. Financial assets pledged

'000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Short term deposits with credit institutions	1	406	1	406
Other deposits with financial institutions	17 310	6 185	17 310	6 185
Financial assets measured at amortized cost *	**3 932**	-	**3 932**	-
Total financial assets pledged	**21 243**	**6 591**	**21 243**	**6 591**
Total liabilities secured by pledged financial assets *	**3 900**	-	**3 900**	-

- Pledged due to central bank

All pledged amounts consist of several placements to secure various Bank's and Group's transactions in the ordinary course of business.

36. Commitments and guarantees

As part of lending operations 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 of the performance of customers to third parties. The contractual amounts of commitments are set out in the following table by category.

'000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Contracted amount				
Loan commitments	8 151 [1]	1 587	8 151 [1]	1 587
Contingent liabilities on guarantees	2 198	3 147 [2]	2 198	3 147 [2]
Unutilised credit line	2 150	2 160	2 150	2 160
Undrawn overdraft facilities [3]	716	720	716	720
Total commitments and guarantees	**13 215**	**7 614**	**13 215**	**7 614**

[1] Provisions of EUR 6 thousand have been made for one liability.
[3] Provisions of eur 4 thousand have been established for two issued guarantees .
[3] Impairment allowance for unused credit limits in total amount of EUR 1 thousand (2020:2) is presented under loan loss allowance

37. Fair value of financial instruments

Financial instruments measured at fair value

The table below analyses the Group's and the Bank's financial instruments 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.

Group/ Bank 2021, '000 EUR	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments carried at fair value through profit or loss	3 819	94	2 506	6 419
Debt securities measured at fair value through other comprehensive income	13 085	-	630	13 715
	16 904	**94**	**3 136**	**20 134**
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	288	-	288

Group 2020, '000 EUR	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments carried at fair value through profit or loss	4 527	518	190	5 235
Debt securities measured at fair value through other comprehensive income	11 084	-	4 865	15 949
	15 611	**518**	**5 055**	**21 184**
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	244	-	244

Bank 2020, '000 EUR	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments carried at fair value through profit or loss	4 527	518	190	5 235
Debt securities measured at fair value through other comprehensive income	11 084	-	4 659	15 743
	15 611	**518**	**4 849**	**20 978**
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	244	-	244

37. Fair value of financial instruments (continued)

The following table shows reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy. The reason of the reclassification of the level in the fair value hierarchy was changes in their level of liquidity.

Group '000 EUR	Financial instruments carried at fair value through profit or loss	Debt securities measured at fair value through other comprehensive income	Total
2021			
Balance at 1 Jan 2021	**190**	**4 865**	**5 055**
Total gains and losses:			
in profit or loss	81	53	**134**
in OCI	-	(22)	**(22)**
Purchases	6 194	1 175	**7 369**
Settlements	(3 959)	(5 441)	**(9 400)**
Balance at 31 Dec 2021	**2 506**	**630**	**3 136**
2020			
Balance at 1 Jan 2020	**-**	**1 337**	**1 337**
Total gains and losses:			
in profit or loss	(15)	190	175
in OCI	-	(21)	(21)
Purchases	164	3 395	3 559
Settlements	41	(36)	5
Balance at 31 Dec 2020	**190**	**4 865**	**5 055**

Bank '000 EUR	Financial instruments carried at fair value through profit or loss	Debt securities measured at fair value through other comprehensive income	Total
2021			
Balance at 1 Jan 2021	**190**	**4 660**	**4 850**
Total gains and losses:			
in profit or loss	81	37	**118**
in OCI	-	(23)	**(23)**
Purchases	6 194	1 175	**7 369**
Settlements	(3 959	(5 219)	**(9 178)**
Balance at 31 Dec 2021	**2 506**	**630**	**3 136**
2020			
Balance at 1 Jan 2020	**-**	**1 132**	**1 132**
Total gains and losses:			
in profit or loss	(15)	192	177
in OCI	-	(20)	(20)
Purchases	164	3 395	3 559
Settlements	41	(39)	2
Balance at 31 Dec 2020	**190**	**4 660**	**4 850**

37. Fair value of financial instruments (continued)

Total gains or losses for the year in the above table are presented in the statement of comprehensive income as follows:

’000 EUR	31 Dec 2021 Group	31 Dec 2020 Group	31 Dec 2021 Bank	31 Dec 2020 Bank
Total gains and losses included in profit or loss:	**53**	**190**	**37**	**192**
Net realised gain for financial instruments from Level 3	55	240	38	240
Impairment loss for financial instruments from Level 3	(2)	(50)	(1)	(48)
Total losses recognised in other comprehensive income	**(22)**	**(21)**	**(23)**	**(20)**
Financial instruments – net change in fair value	(22)	(21)	(23)	(20)

As of 31 December 2021 the Group and Bank’s fair value hierarchy Level 3 portfolio is represented by seven issuers operating in distributive services, real estate, technology & finance.
As of 31 December 2020 the Group and Bank’s fair value hierarchy Level 3 portfolio is represented by eight issuers operating in clothing manufacturing, real estate, technology & finance.
Precise discount rate 6.00% - 11.00% (2020: 7.00% - 12.00%) is an unobservable variable due to low liquidity of these instruments.
As of 31 December 2021 change of discount rate by 300 bps will have the following effect on The Group’s and Bank’s value of Level 3 portfolio fair value:

‘000 EUR	Effect on profit or loss	
Level 3 portfolio as of 31.12.2021	**Change of discount rate by – 300 bps**	**Change of discount rate by +300 bps**
3 136	(94)	94

As of 31 December 2020 change of discount rate by 300 bps will have the following effect on The Group’s value of Level 3 portfolio fair value:

‘000 EUR	Effect on profit or loss	
Level 3 portfolio as of 31.12.2020	**Change of discount rate by – 300 bps**	**Change of discount rate by +300 bps**
5 055	(152)	152

As of 31 December 2020 change of discount rate by 300 bps will have the following effect on The Bank’s value of Level 3 portfolio fair value:

‘000 EUR	Effect on profit or loss	
Level 3 portfolio as of 31.12.2020	**Change of discount rate by – 300 bps**	**Change of discount rate by +300 bps**
4 850	(146)	146

37. Fair value of financial instruments (continued)

Financial instruments not measured at fair value

The table below analyses the fair values of financial instruments not measured at fair value of the Group, by the level in the fair value hierarchy into which each fair value measurement is categorised:

31 December 2021, '000 EUR	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and due from central bank[1]	-	-	-	107 102	107 102
Balances due from financial institutions[2]	-	-	-	11 399	11 399
Financial assets measured at amortized cost	83 456	-	113 733	197 189	208 061
Other financial assets[3]	-	-	-	746	746
Financial liabilities					
Liabilities to central bank	-	-	-	3 900	3 900
Liabilities to financial institutions	-	-	-	2	2
Deposits	-	-	315 422	315 422	315 426
Subordinated liabilities	-	-	5 242	5 242	4 838
Liabilities to financial institutions and non-banks	-	-	5 014	5 014	5 056
Other financial liabilities [4]	-	-	-	862	862

31 December 2020, '000 EUR	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and due from central bank[1]	-	-	-	12 196	12 196
Balances due from financial institutions[2]	-	-	-	8 418	8 418
Financial assets measured at amortized cost	63 828	-	83 524	147 352	150 496
Other financial assets[3]	-	-	-	814	814
Financial liabilities					
Deposits	-	-	173 442	173 442	173 832
Subordinated liabilities	-	-	6 275	6 275	5 667
Liabilities to financial institutions	-	-	604	604	604
Other financial liabilities [4]	-	-	-	1 234	1 234

1. Cash and due from central banks are various currency cash and deposits with the Bank of Latvia whose carrying amount represents the fair value.
2. Most of the balances due from financial institutions are either deposits on demand or short term deposits; therefore, their carrying amount approximates the fair value.
3. Other financial assets consist of receivables from settlement of securities and of payment card; thus the carrying amount is equal to their fair value
4. Other financial liabilities consist of receivables from settlement of securities and the lease liabilities; thus the carrying amount is equal to their fair value.

37. Fair value of financial instruments (continued)

Financial instruments not measured at fair value

The table below analyses the fair values of financial instruments not measured at fair value of the Bank, by the level in the fair value hierarchy into which each fair value measurement is categorised:

31 December 2021, '000 EUR	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and due from central bank[1]	-	-	-	107 102	107 102
Balances due from financial institutions[2]	-	-	-	11 396	11 396
Financial assets measured at amortized cost	83 456	-	108 747	192 203	202 570
Other financial assets[3]				746	746
Financial liabilities					
Liabilities to central bank	-	-	-	3 900	3 900
Liabilities to financial institutions	-	-	-	2	2
Deposits	-	-	317 904	317 904	317 907
Subordinated liabilities	-	-	5 242	5 242	4 838
Liabilities to financial institutions and non-banks	-	-	287	287	287
Other financial liabilities [4]	-	-	-	849	849
31 December 2020, '000 EUR	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial assets					
Cash and due from central bank[1]	-	-	-	12 196	12 196
Balances due from financial institutions[2]	-	-	-	8 415	8 415
Financial assets measured at amortized cost	63 828	-	82 881	146 709	149 900
Other financial assets[3]	-	-	-	814	814
Financial liabilities					
Deposits	-	-	174 955	174 955	175 645
Subordinated liabilities	-	-	6 275	6 275	5 667
Liabilities to financial institutions	-	-	604	604	604
Other financial liabilities [4]	-	-	-	1 217	1 217

1. Cash and due from central banks are various currency cash and deposits with the Bank of Latvia whose carrying amount represents the fair value.
2. Most of the balances due from financial institutions are either deposits on demand or short term deposits; therefore, their carrying amount approximates the fair value.
3. Other financial assets consist of receivables from settlement of securities ans of payment card; thus the carrying amount is equal to their fair value
4. Other financial liabilities consist of receivables from settlement of securities and the lease liabilities; thus the carrying amount is equal to their fair value.

The following table shows the valuation techniques use in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs
Financial assets at fair value through profit or loss	Discounted cash flows, quoted prices for similar instruments	Discount rates, quoted prices for similar instruments in active markets
Financial assets at fair value through profit or loss (Level 3)	Discounted cash flows	Discount rates
Available for sale instruments	Discounted cash flows	Discount rates

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Balances due from financial institutions	Discounted cash flows	Discount rates
Loans and advances due from customers	Discounted cash flows	Discount rates
Deposits and balances due to customers	Discounted cash flows	Discount rates
Subordinated liabilities	Discounted cash flows	Discount rates

38. Litigations

The Bank is involved in two litigations for the total amount of 7.8 million EUR – the claim of ex-client of the Bank relating to allegedly unjustified transfer for the amount of EUR 196’000 from the account and the claim of the client of the Bank for compensation of damages in amount of 7.6 million EUR caused to client by unsuccessful investment. Claims are ungrounded and the Bank does not expect adverse judgments in these litigations. In one of litigations (for payment of damages in amount of EUR 196’000) the court of first instance has dismissed the claim. In the second of litigations factual background of the matter is the obstacle for satisfaction of the claim. The claimant by virtue of the agreement between the claimant and the Bank has expressly undertaken the risk that has caused damages to the client.

In addition to aforementioned litigations the Bank is involved in proceedings at the court of the Republic of Latvia where the application of a Russian commercial bank in bankruptcy represented by the Deposit Insurance Agency of the Russian Federation, which is affiliated to the Central Bank of the Russian Federation, for recognition and enforcement of the judgment of the Russian court, which in the opinion of the Bank is ungrounded and illegal, for collection of 1.9 billion RUB is being reviewed. On 16 February 2022 the Bank entered into the settlement agreement with the Russian commercial bank in this dispute and paid the sum provided for in the agreement in exchange for waiver of all claims against the Bank. As on the date of the report Latvian court has not yet reviewed the application of the Russian commercial bank and final amount payable by the Bank within the settlement agreement depends on the decision of Latvian court of first instance. However, the Bank believes that it will not be obliged to pay to the Russian commercial bank any additional amounts because the Bank does not expect that the court will pass an adverse judgement when reviewing the application of the Russian commercial bank. Approval of the application contradicts with main principles of Latvian legislation, which is an ultimate obstacle for approval of such applications. Moreover, taking into account the criminal invasion of Russia into Ukraine provision of legal assistance (through recognition of a judgement of a court of one country in the other country) to the country – aggressor is not acceptable and violates international treaties and legal acts.

Due to considerations described above evidencing that litigations most likely will not cause damages to the Bank and outflow of economic benefits from the Bank provisions related to these litigations have not been created.

39. Events subsequent to the reporting date

Considering the risks of Covid-19 spread and a more targeted control of the infection, the emergency situation in Latvia was declared and it was in force up to 28 February 2022. Group's management believes that the Covid-19 pandemic will not have a significant impact on the Group's and the Bank's operations after the end of the reporting year.

On 16 February 2022 the Bank entered into the settlement agreement with PJSC "M2M Private Bank" (Russia), under which the Bank has paid to the claimant RUB 300 000 000,00 (three hundred million Russian roubles) in exchange for waiver of all claims of PJSC "M2M Private Bank" towards the Bank related to decisions of Russian court on collection of debt from the Bank and recognition of financial pledge agreement null and void.

In 2022, many significant sanctions have been imposed by the European Union and various countries on Russia and Belarus, certain Russian and Belarusian companies, companies in other jurisdictions, officials, businessmen and other physical persons in connection with the ongoing war in Ukraine, which began on 24 February, 2022. The imposed sanctions and restrictions and military actions have led to economic uncertainty in Latvia and worldwide.

According to internal policies, the Bank performed an overview of sanction lists and concluded that it does not have any sanctioned counterparties as of 31 December 2021 and as of the date of approval of these financial statements.

At the date of the financial statements, the Bank holds seven loans for which risk is related to Russia with a total gross carrying value 10.7 MEUR, as well as repossessed commercial real estate objects in Moscow with gross carrying value 3.8 MEUR. The Bank performed stress test to assess potential losses in case of loans defaults and / or decrease in real estate prices. It has been assumed that the RUB / EUR exchange rate will grow up to 140 RUB/EUR versus current around 115 RUB/EUR and historical maximum 132.9581 RUB/EUR. Furthermore for loans additional discount of 20% has been applied to their current collateral market values. In the result of the stress test it has been concluded that potential losses from loan portfolio should not exceed 0.2 MEUR. Relatively low amount of losses is explained by the reason that five of seven loans have collateral outside Russia, as well as the low LTV level: even after significant RUB devaluation LTV of only one loan exceeds 70%.

The Bank believes the probability of loan defaults is low as each borrower / guarantor / beneficiary owner has income / assets also outside Russia. Potential losses from reposed assets in case of RUB/EUR exchange rate growth stress test scenario could reach around 0.9 m EUR.

The results do not consider expected growth in real estate prices in RUB as it took place in 2014 after rapid RUB/EUR devaluation and increase of the Central Bank of Russia's key rate. In case the stress test scenario is in place, the capital adequacy ratios of the Bank and the Group still will be high above their minimum requirements.

The Group's assumption is based on available information at the time of signing the financial statements, and the impact of future events on the Group's future operations may differ from the Group's assessment.

39. Events subsequent to the reporting date (continued)

The Bank acquired new subsidiary AS Expobank. On January 26, 2022 the Bank acquired 100% ownership in AS Expobank. The transaction rationale was business expansion as well as acquisition of additional infrastructure for further development of the Group. Upon acquisition, the Group recognized negative goodwill in the amount of EUR 3 937 thousand in the statement of comprehensive income. The Fair value of the acquired assets and liabilities is disclosed in the table below.

AS Expobank	26.01.2022., '000 EUR
Assets	
Cash and due from central banks	36 792
Demand deposits with credit institutions	10 744
Financial instruments measured at fair value through other comprehensive income	7 331
Financial assets measured at amortized cost	20 763
Property and equipment	349
Intangible assets	572
Other assets	903
Total Assets	**77 454**
Liabilities and shareholders' equity	
Financial liabilities measured at amortized cost	43 647
Provisions	203
Other liabilities	869
Total Liabilities	**44 719**
Total Shareholders' Equity	**32 735**
Total Liabilities and Shareholders' Equity	**77 454**

Tel: +371 66777800
www.bdo.lv

Kalku iela 15-3B
Riga, LV-1050
Latvija

Independent Auditors' Report

To the shareholders of "Signet Bank" AS

Report on the Audit of the Separate and Consolidated Financial Statements

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the separate financial statements of "Signet Bank" AS ("the Bank") and consolidated financial statements of the Bank and its subsidiaries ("the Group") set out on pages 7 to 97 of the accompanying separate and consolidated Annual Report, which comprise:

- the separate and consolidated statement of financial position as at 31 December 2021;
- the separate and consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the separate and consolidated statement of changes in equity and reserves for the year then ended;
- the separate and consolidated statement of cash flows for the year then ended;
- notes to the separate and consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Bank and the Group as at 31 December 2021, and of its separate and consolidated financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia 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 Separate and Consolidated Financial Statements section of our report*.

We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the separate and consolidated financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) and Law on Audit Services of the Republic of Latvia.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Impairment of loans to customers (the Bank and the Group)

Key audit matter	In the consolidated financial statements, gross value of loans to customers comprised EUR 115 817 thousand as at 31 December 2021 (31 December 2020: EUR 84 136 thousand) and impairment allowances comprised EUR 1 277 thousand as at 31 December 2021 (31 December 2020: EUR 729 thousand). In the separate financial statements, gross value of loans to customers comprised EUR 110 176 thousand as at 31 December 2021 (31 December 2020: EUR 83 585 thousand) and impairment allowances comprised EUR 1 127 thousand as at 31 December 2021 (31 December 2020: EUR 774 thousand). More details are provided in the note 17 of the separate and consolidated financial statements and information about the measurement policies is provided in the note 4. Individual impairment allowances recognized by the Group relate to individually monitored corporate exposures, where the Bank is assessing expected credit loss (ECL) on an individual basis. The assessment is therefore based on the analysis of financial performance of each individual borrower and estimation of the fair value of the related collateral. The Group also performs a collective assessment of impairment allowance for loans and leases issued by the subsidiary AS “Primero Finance”. The management applies significant judgements to define impairment allowance for loans to customers. Identification of a significant increase in credit risk and credit impairment loans, assessment of probability of default and loss given default ratios requires the management to exercise subjective judgments and develop complex financial models and therefore, we considered this as a key audit matter.
Our audit response	We assessed whether the accounting policies in relation to the impairment of loans to customers are in compliance with IFRS requirements. We assessed Bank’s and Group’s expected credit loss assessment methodology for compliance with the IFRS. We tested internal controls applied within processes related to the loan approval and issuance as well as controls over delayed payments and debt collection.

We made a sample and audited the Bank's loans covering 84.4% of outstanding loans to customers as at 31 December 2021 (including all loans classified by the Bank as credit-impaired). As part of the audit procedures, we assessed customers' financial position, historic debt service, current creditworthiness and the management's exit plans and activities, as well as available sources for loan repayment. Majority of the loans issued by the Bank are loans secured by collateral, therefore in most cases the key source of recovery for non-performing loans is sale of collateral. We performed detailed assessment of assumptions and information sources used in valuation reports provided by independent valuation specialists and the Bank's analysts, including independent checks on market prices for comparable properties and benchmarking assumptions used within the cash flow forecasts against market practice. We analysed repayment scenarios for loans issued to borrowers from industries affected by COVID-19 pandemic, we checked reasonability of assumptions used and assessed whether impairment for such loans have been estimated appropriately by the Bank.

We tested whether the management correctly identified and treated factors evidencing a significant increase in credit risk and impairment for loans to customers. We audited management assumptions and inputs used in assessment of probability of default and loss given default ratios. We tested completeness and accuracy of data used for the calculation of impairment allowance.

We audited completeness and accuracy of disclosures related to loans to customers, impairment allowance and impairment losses.

Valuation of investments in subsidiaries and associated companies (the Bank)

Key audit matter

The carrying amount of the Bank's investments in subsidiaries and associated companies comprised EUR 4 442 thousand as at 31 December 2021 (31 December 2020: EUR 3 725 thousand) in the separate financial statements. More details on these investments are provided in the notes 20 and 21 while information on the recognition and measurement principles are provided in the note 4 of the separate and consolidated financial statements.

Determination of the recoverable amounts for investments in subsidiaries and associated companies is associated with significant estimation uncertainty as it involves subjective management judgments with respect to future operating cash flows, growth rates and discount rates.

The above uncertainty was particularly high in respect of the Bank's investment in associated company SIA "Citra Kaļķu" which was historically acquired as part of defaulted loan restructuring and represents an early-stage hotel development project.

Due to the circumstances described above, we defined the impairment of investments in subsidiaries and associates as a key audit matter.

Our audit response	We assessed financial projections and other key assumptions of valuations of the investments and the underlying assets performed by the Bank and compared them against external market information sources where possible and applicable. We tested the assumptions used by the management for unobservable inputs and made sure they represent the best estimate. We performed sensitivity analysis for key assumptions to assess their impact on the recoverable amount of the investments. We audited completeness and accuracy of disclosures related to investments in subsidiaries and associates.

Reporting on Other Information

The Bank's and Group's management is responsible for the other information. The other information comprises:

- the Management Report, as set out on pages 3 to 4 of the accompanying separate and consolidated Annual Report,
- the Statement on Management Responsibility, as set out on page 6 of the accompanying separate and consolidated Annual Report,
- the composition of the Supervisory Council and the Management Board, as set out on page 5 of the accompanying separate and consolidated Annual Report.

Our opinion on the separate and consolidated financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* related to other information section of our report.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia related to other information

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is

prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia – regulation No 113 Regulations on the Preparation of the Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia Regulation 113 Regulations on the Preparation of the Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies

Responsibilities of Management and Those Charged with Governance for the Separate and Consolidated Financial Statements

Management is responsible for the preparation of the separate and consolidated 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 separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated 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 and/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 Responsibility for the Audit of the Separate and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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 separate and consolidated 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 separate and consolidated 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/or 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 separate and consolidated 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 and/or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

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

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

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and the European Union when Providing Audit Services to Public Interest Entities

We were appointed by the shareholder's meeting on 4 August 2021 to audit the separate and consolidated financial statements of Signet Bank AS for the year ended 31 December 2021. This is our fourth year of appointment.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank and the Group;
- as referred to in the paragraph 37.6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Bank and the Group the prohibited non-audit services (NASs) referred to in paragraph 1 of article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity (the Bank) and the Group in conducting the audit.

The non-audit services that we have provided to the Bank and its controlled entities for the period to which our statutory audit relates, are disclosed in Note 11 to the financial statements.

Irita Cimdare is the responsible sworn auditor and audit engagement partner and Andrei Surmach is the assigned second audit engagement partner on the audit resulting in this independent auditor's report.

SIA "BDO ASSURANCE"
Licence No.182

Andrei Surmach
SIA "BDO ASSURANCE" Official representative

Irita Cimdare
Sworn auditor
Certificate No 103

SIGNET

PRIVATE
BANK

Signet Bank AS
3 Antonijas, Riga
LV-1010, Latvia
Unified Reg. No: 40003076407
signetbank.com