Annual report
for year 2020

Expobank

Without change of content, the structure of report might differ from approved statements.

CONTENTS

Report of the Board of Directors and the Management Board........3 - 5

Members of the Board of Directors and the Management Board........6

Statement of Management's Responsibility........7

Independent Auditor's Report........8 - 13

Financial Statements:

Statement of Comprehensive Income........14

Statement of Financial Position........15

Statement of Cash Flows........16

Statement of Changes in Shareholder's Equity........17

Notes to the Financial Statements........18 - 69

REPORT OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Dear Customers and Business Partners,

The Latvian and global economy started year 2020 with high expectations and at the beginning of the year the global economic growth was expected to grow slightly faster than the year before. However, due to the Covid-19 outbreak around the world, the economy experienced a recession in 2020, the depth and severity of which will depend on how quickly the spread of the virus can be stopped. Year 2020 has been difficult and challenging for the economy and society as a whole, and was accompanied by great anxiety and uncertainty. In 2020, however, the structure of Latvia's economy and the overall economic situation have been more favorable compared to the previous global financial crisis having sufficient financial resources to mitigate the effects of the crisis both by providing direct support to the general public and businesses affected by the crisis, and by investing in infrastructure development.

In response to the economic crisis caused by Covid-19, together with the automatic economic stabilizers, such as declining tax payments and increasing spending on unemployment benefits, the Latvian government approved a substantial package of support measures to overcome the crisis. According to the Ministry of Finance, at the end of 2020 the overall estimated amount of the measures reached EUR 3.5 billion or 12.5% of GDP, with an impact on the general government budget balance amounting to -4.5% of GDP this year and -1.5% of GDP in 2021.

Investment grade credit ratings assigned by international credit rating agencies confirm the stability of Latvia's economy. Despite the negative effects of the Covid-19 pandemic, which led to a rapid decline in Latvia's economy in 2020, the international rating agencies assessed the operational and effective action of the Latvian government in limiting the spread of Covid-19 in Latvia and taking significant measures to support the economy, and confirmed that the fundamentals of economic growth in Latvia have not been affected and economic growth rates are likely to resume once the effects of the pandemic subside.

At the beginning of 2021, S&P Global Ratings approved Latvia's credit rating at the high A+ level, keeping a stable outlook. At the end of 2020, Fitch, while maintaining Latvia's credit rating at the existing A- level, raised the outlook for Latvia's credit rating from negative to stable, while Moody's Investors Service assessed Latvia's credit rating at the current A3 level with a stable outlook.

The world's central organization for combating money laundering Financial Action Task Force (FATF) has concluded that Latvia has established a strong and sustainable financial crime prevention system and successfully complies with the FATF recommendations. International experts have appreciated the progress made by Latvia in the implementation of the recommendations of the Evaluation Report of the European Council Committee of Experts on Moneyval, in promoting cooperation between the competent authorities in the field of anti-money laundering and counter-terrorism and proliferation financing (AML/CTPF), etc., in order to improve the AML/CTPF system in the country, limit the vulnerability of the financial system and ensure transparent, sustainable and secure functioning of the financial sector in Latvia.

The National ML/FTP Risk Assessment 2017-2019 concludes that the national ML risk level has decreased in Latvia, because cross-border financial flows from high-risk countries have reduced significantly, the regulatory framework has been improved and the overall level of risk in the credit institution sector has declined, which is generally assessed as being medium-high, affected by medium high threats and vulnerability and which can be mitigated by efficient functioning of internal control systems.

AS Expobank, registration No.40003043232, registered address Kr.Valdemara street 19, Riga, LV-1010 (hereinafter referred to as the Bank) was founded on December 6, 1991 having received its license No.4 issued by the Bank of Latvia. The Bank obtained its credit institution license No.06.01.05.010/418 reregistered by the Financial and Capital Market Commission (FCMC) on February 3, 2016.

The Bank, looking forward to its 30th anniversary and looking back at what has been accomplished over the past three decades, can conclude that there have been both high performance phases and years less favorable in terms of profit earning, but the Bank has always been stable in its progress towards development, secure partnerships, and has managed to maintain high capital adequacy and liquidity ratios. In 2020, the Bank's capital adequacy ratio level was 61%, the liquidity ratio level was 129%, and the liquidity coverage ratio (LCR) was 452%.

REPORT OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Taking into account the impact of the Covid-19 pandemic on economic processes in Latvia and around the world, the Bank revised its business plans in mid-2020, substantially reducing its planned financial indicators and lending volumes which accordingly affected the projected revenues. A new Bank's Business and Development Strategy was approved, which strengthened the Bank's focus on certain activities in servicing businesses and individuals in Latvia and EEA countries, establishing a credit portfolio, strengthening the capacity of providing crediting services and managing credit risk, modernizing and making considerable investments in technologies related to provision of services while ensuring business continuity and security of information systems. At the end of 2020, issued loans amounted to EUR 22.4 million, however, the lending transactions including contracts already established with customers amounted to EUR 33.6 million.

In 2020, the Bank expanded its local customer base by attracting individuals and small and medium-sized enterprises partly by providing lending services remotely. The processes of provision of financial services have been improved, information technologies have been developed and a new innovative service provision channel has been created and approved by the FCMC – remote establishment of a business relationship and attraction of deposits from individuals via the online platform SmartDeposit, while ensuring the necessary security measures. The Bank has registered the SmartDeposit brand with the Patent Office.

The restrictions caused by the Covid-19 pandemic affected many sectors of the economy, including the customers projects financed by the Bank. Referring to the Guidelines legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis published by the European Banking Authority and urged by the FCMC, the Finance Latvia Association offered Latvian financial institutions to follow the principles contained in the temporary moratorium on loan principal payments developed by it. The Bank joined this Moratorium by providing support to its borrowers and by postponing repayment of significant principal amounts.

As the effects of the pandemic continue in 2021, the Bank created provisions of EUR 597 thousand on a prudent basis. The pandemic-related circumstances along with the changed revenue base and the ever-increasing long-term investments have adversely affected the financial results and the Bank closed 2020 with losses of EUR 1.324 thousand.

Lending and the provision of financing options to our customers is still planned to be the cornerstone of the Bank's operations, at the very least doubling the size of the portfolio in 2021. The demand for funding for new and existing projects has not abated, and the Bank is evaluating the opportunities and expectations of each potential customer by providing individualized solutions to our customers for the fulfilment of new ideas or restructuring of existing commitments.

The Bank's human resources – a professional, purposeful and loyal team – play an important role in change management ensuring that the application of the best principles of corporate governance and human resources development. During 2020, the average number of Bank's employees amounted to 63. Most much of 2020, all Bank employees worked and successfully provided services customers remotely. In this process, the Bank identified and treated information technology security as one of its main priorities. A system based on the principles of Objectives and Key Results (OKR) was used to define short-term objectives for all employees, organizational units and their managers, and to regularly assess their performance and achievements.

The Bank uses a sound and conservative approach to risk management. The Bank operates prudently, it undertakes risk only in well-known areas of its business and not permitting excessive risk in any of them. Further, it imposes restrictions or refuses to carry out transactions if an increased risk is had been determined. The Bank's risk appetite is limited to a pre-set acceptable risk level and does not exceed a moderate level of risk (with the exception of market price risk and credit risk where the inherent risk level may reach a significant level, but only in 2021, when higher concentrations are allowed during the rapid formation phase of the credit portfolio). In 2021, special attention will be paid to ensuring a stable and comprehensive risk culture in order to promote effective functioning of the internal control system.

In 2020, the FCMC assessed the Bank as a medium-low risk bank in the Supervisory Review and Evaluation Process (SREP).

In 2020, the Bank maintained a moderate risk level in the areas of ML/FTP risk management and sanctions risk management. The same risk level shall be ensured in 2021. Last year, an inspection by FCMC in the area of ML/FTP prevention was completed and the results are generally deemed as positive. The Bank was not sanctioned, however, the FCMC issued recommendations for the improvement of the Bank's internal control system for ML/FTP risk management and information systems. By the end of 2020, the Bank implemented all of the risk mitigating measures planned for the fulfilment of those recommendations.

REPORT OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Quality change management, ability to operate in conditions of constant and sizable changes in the external environment and regulatory requirements, development of internal processes and information systems and technologies are important in the ML/FTP risk and sanctions risk management. The improvement of customer due diligence processes and their operations, and an increase in the level of automation will continue in 2021. A key focus will be on ensuring quality control, training of employees, regular assessment of the effectiveness of ML/FTP and sanctions risk management including performing an independent audit of the effectiveness of the internal control system thereof, compliance with regulatory requirements, and compliance and adequacy of the information systems used in risk management. The Bank will continue to improve and supplement the Customers Relationship Management system developed in 2020 with new modules in order to create a single and transparent channel for access to all systems in the Bank.

Detailed information on the Bank's capital, its inherent risks and risk exposure, financial risk management, information relevant for the assessment of the Bank's assets, liabilities, financial position and profit and loss statement is provided in the notes to the Bank's financial statement for 2020, Risk and Capital Management.

In 2020, customers and service providers were forced to carry out a large part of their activities, reception and provision of services in a digital environment. The Bank will, therefore, continue its work on information technology development projects: provide opportunities to establish cooperation with the Bank on the online platform SmartDeposit and place term deposits remotely, as well as develop new products, including through digitized solutions, implement internal process automation and efficiency fostering projects, an introduction of a new mobile bank solution and internet banking version while focusing on ensuring information security and data protection, and improving the skills of the Bank's employees during the ever-changing circumstances.

The Bank will promote its visibility on the domestic market, make more active use of social networks and the internet environment in offering its services. The Bank's website will be renewed, qualitatively supplemented and modernized in 2021.

We would like to thank all of our customers and business partners, as well as Bank's employees for their contribution for ensuring stability and continued growth of the Bank!

Chairman of the Board of Directors
Ilya Mitelman

Chairman of the Management Board
Rolands Legzdiņš

5 March 2021

MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

As at 31 December 2020, the Members of the Board of Directors of the Bank were as follows:

Name	Position	Date of first election
Ilya Mitelman	Chairman of the Board of Directors	01/11/2017
Kirill Nifontov	Deputy Chairman of the Board of Directors	09/02/2012
Igor Kim	Member of the Board of Directors	09/02/2012
Gints Čakāns	Member of the Board of Directors	15/07/2019

As at 31 December 2020, the Members of the Management Board of the Bank were as follows:

Name	Position	Date of first election
Rolands Legzdiņš	Chairman of the Management Board	05/04/2017
Evija Sloka	Deputy Chairperson of the Management Board	02/11/2012
Vasilijs Karpovs	Member of the Management Board	15/07/2019
Valda Knauere	Member of the Management Board	15/07/2019

On 2 April, 2020 the Board of Directors of the Bank re-elected to the Management Board of the Bank Rolands Legzdins and appointed as the Chairman of the Management Board of the Bank for the next term.

REPORT OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Management of AS Expobank is responsible for the preparation of the financial statements of the Bank. The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and comply with legislative requirements of the Republic of Latvia.
The financial statements on pages 14 to 69 are prepared in accordance with source data and present fairly the financial position of the Bank as at 31 December 2020 and the results of operations and cash flows of the Bank for the year ended 31 December 2020.

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

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

On behalf of the Bank's management,

Chairman of the Management Board
Rolands Legzdiņš

Deputy Chairperson of the Management Board
Evija Sloka

Member of the Management Board
Vasilijs Karpovs

Member of the Management Board
Valda Knauere

5 March 2021

Translation from Latvian original*

Independent Auditor's Report

To the Shareholder of AS Expobank

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements set out on pages 14 to 77 of the annual report give a true and fair view of the financial position of AS Expobank ("the Bank") as at 31 December 2020, and of the financial performance and the cash flows of the Bank for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Our opinion is consistent with our additional report to the Audit Committee dated 5 March 2021.

What we have audited

The Bank's financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2020;
- the statement of financial position as at 31 December 2020;
- the statement of cash flows for the year then ended;
- the statement of changes in shareholder's equity for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

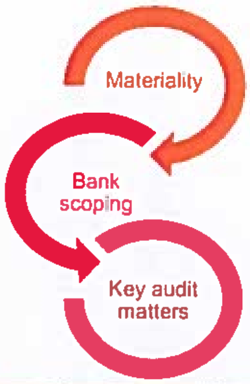
We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that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

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

The non-audit services that we have provided to the Bank, in the period from 1 January 2020 to 31 December 2020, are disclosed in Note 10 to the financial statements.

Our audit approach

Overview



- Overall Bank materiality is EUR 350 thousand, which represents approximately 1% of the Bank's net assets
- We have audited the separate financial information of the Bank
- Expected credit losses on loans

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

Materiality

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

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

Overall materiality	Overall materiality applied to the Bank was EUR 350 thousand.
How we determined it	1% of net assets of the Bank.
Rationale for the materiality benchmark applied	We chose net assets as the base benchmark because, in our view, it is the benchmark which is of primary focus by the users of the financial statements and forms the basis for capital adequacy for regulatory purposes.

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We chose the threshold of 1%, which is within the range of accepted quantitative materiality thresholds for this benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 35 thousand, as well as the misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans Refer to Note 3(4(d)) "*Significant accounting policies*" and Note 15 "*Loans and advances due from customers*" to the financial statements. We focused on this area because application of IFRS 9 "Financial instruments" expected credit loss (ECL) model for loans impairment losses requires complex and subjective judgements over the estimation of the ECL. The key features of the ECL model include classification of loans to 3 stages, assessment of credit risk parameters and application of forward-looking information. For all loans expected credit losses are calculated on individual basis. The amount of ECL for each loan is based on the calculations taking into consideration the exposure at default, probability of default, changes in customer credit rating, other known risk factors impacting stage of the exposure, and taking into account estimated future cash flows from the loan repayments, as well as fair value of the collateral provided, and ECL adjustments by expected impact of future macroeconomic scenarios. As at 31 December 2020 expected credit losses amounted to EUR 528 thousand (refer to note 15).	We assessed that the Bank's accounting policies in relation to the ECL of loans to customers are based on requirements of IFRS 9 by assessing each significant component: exposure at default, probability of default and loss given default, definitions of default and significant increase in credit risk. We assessed the process of incorporating the forward-looking information in the estimates. We assessed the design and operating effectiveness of the controls over relevant loan data and ECL calculations. These controls included controls over recording of loans data in the system, credit analysis and approval before issuing loans, periodic monitoring of performance for corporate loans, a timely inspection and update of collateral values, examination of provision amount prior to recording. We determined that we could rely on these controls for the purpose of our audit. Further, on a sample basis, we performed detailed testing over reliability of loan data, including contract dates, interest rates, collateral values and types and other inputs used in ECL calculation. For a sample of loans, we have assessed reasonableness of assumptions related to future expected cash flows and recoverability of loans as made by credit expert for individually assessed loans. We have verified the rationale of these assumptions and verified the reasonableness of the values of collateral used in the assessment.

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

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

Reporting on other information including the Report of the Board of Directors and the Management Board

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

- Report of the Board of Directors and the Management Board, as set out on pages 3 to 5 of the accompanying Annual Report;
- Information on Members of the Board of Directors and the Management Board, as set out on page 6 of the accompanying Annual Report; and
- Statement of Management's Responsibility, as set out on page 7 of the accompanying Annual Report,

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

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

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

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

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

- the information given in the Report of the Board of Directors and the Management Board, information on Members of the Board of Directors and the Management Board and the Statement of Management's Responsibility for the financial year for which the financial statements are prepared is consistent with the financial statements;

- the Report of the Board of Directors and the Management Board has been prepared in accordance with the requirements of the Financial and Capital Market Commission Regulation No 113 "Regulation on preparation of the annual report and consolidated annual report of credit institutions, investment brokerage companies and investment management companies".

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors by the Bank shareholders' resolution on 6 October 2016. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of 5 years.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
5 March 2021

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STATEMENT OF COMPREHENSIVE INCOME

	Note	2020 EUR'000	2019 EUR'000
Interest income	5	1,229	1,004
including income at effective interest rate		1,132	490
Interest expense	5	(210)	(287)
Net interest income		**1,019**	**717**
Fee and commission income	6	1,809	2,527
Fee and commission expense	7	(123)	(101)
Net fee and commission income		**1,686**	**2,426**
Net income from transactions with financial instruments	8	577	168
Other income		148	156
Other expenses	9	(705)	(757)
Impairment on financial assets		(509)	(85)
General administrative expenses	10	(3,537)	(3,373)
(Loss) before income tax for the year		**(1,321)**	**(748)**
Income tax expense	11	(3)	(9)
(Loss) for the year		**(1,324)**	**(757)**
Items that may be reclassified subsequently to profit or loss			
Net gains on financial assets measured at FVOCI		219	473
Net gains on financial assets measured at FVOCI reclassified to profit or loss on disposal		(305)	(10)
Other comprehensive (expenses)/ income for the year		**(86)**	**463**
Total comprehensive (expenses) for the year		**(1,410)**	**(294)**

The accompanying notes on pages 18 to 69 form an integral part of these financial statements.

The financial statements as set out on pages 14 to 69 were approved for issue by the Management Board on 5 March 2021.

Chairman of the Management Board
Rolands Legzdiņš

Deputy Chairperson of the Management Board
Evija Sloka

Member of the Management Board
Vasilijs Karpovs

Member of the Management Board
Valda Knauere

5 March 2021

STATEMENT OF FINANCIAL POSITION

	Note	31.12.2020 EUR'000	31.12.2019 EUR'000
ASSETS			
Cash and demand deposits with the central banks	12	7,169	10,142
Due from financial institutions	14	1,231	15,815
Loans and advances due from customers	15	21,898	10,292
Financial assets measured at fair value through other comprehensive income	17	29,059	31,508
Property and equipment and right-of-use assets	18	717	927
Intangible assets	19	568	468
Current income tax refund receivable		41	32
Other assets	20	862	504
Total Assets		**61,545**	**69,688**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Deposits and balances due to financial institutions	21	1	1
Current accounts and deposits due to customers	22	25,483	32,178
Accrued liabilities	23	148	107
Other liabilities	24	143	42
Lease liabillity	25	486	666
Total Liabilities		**26,261**	**32,994**
Share capital		11,644	11,644
Share premium		6,360	6,360
Revaluation reserve		417	503
Other reserves		25	25
Retained earnings		16,838	18,162
Total Shareholder's Equity	**26**	**35,284**	**36,694**
Total Liabilities and Shareholder's Equity		**61,545**	**69,688**
Contingent liabilities and commitments	27	11,288	20
Funds under trust management	28	18,777	24,551

The accompanying notes on pages 18 to 69 form an integral part of these financial statements.
The financial statements as set out on pages 14 to 69 were approved for issue by the Management Board on 5 March 2021.

Chairman of the Management Board
Rolands Legzdiņš

Deputy Chairperson of the Management Board
Evija Sloka

Member of the Management Board
Vasilijs Karpovs

Member of the Management Board
Valda Knauere

5 March 2021

STATEMENT OF CASH FLOWS

	2020 EUR'000	2019 EUR'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) before income tax	(1,321)	(748)
Amortisation and depreciation	234	251
Depreciation of right-of-use assets	167	168
Interest income	(1,228)	(1,004)
Interest expense	206	287
Disposal of fixed assets	1	1
Net increase in provisions	543	85
Decrease in cash and cash equivalents before changes in operating assets and liabilities	**(1,398)**	**(960)**
Decrease in financial assets measured at fair value through other comprehensive income	2,310	2,542
Increase in due from financial institutions	(2)	(10)
Increase in loans and advances	(11,525)	(10,250)
(Increase)/ decrease in other assets	(358)	135
Decrease in current accounts and deposits due to customers	(6,634)	(12,457)
Decrease in other liabilities	(396)	(516)
Decrease in cash and cash equivalents from operating activities before interest and corporate income tax	**(18,003)**	**(21,516)**
Interest received	1,202	1,056
Interest paid	(267)	(308)
Corporate income tax recovered	3	411
Net cash and cash equivalents from operating activities	**(17,065)**	**(20,357)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment and intangible assets	(298)	(250)
Decrease in cash and cash equivalents from investing activities	**(298)**	**(250)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments for the principal part of the lease	(195)	(200)
Decrease in cash and cash equivalents from financing activities	**(195)**	**(200)**
Net cash flows for the period	**(17,558)**	**(20,807)**
Cash and cash equivalents at the beginning of the year	**25,958**	**46,765**
Cash and cash equivalents at the end of the year	**8,400**	**25,958**

The accompanying notes on pages 18 to 69 form an integral part of these financial statements.The financial statements as set out on pages 14 to 69 were approved for issue by the Management Board on 5 March 2021.

Chairman of the Management Board
Rolands Legzdiņš

Deputy Chairperson of the Management Board
Evija Sloka

Member of the Management Board
Vasilijs Karpovs

Member of the Management Board
Valda Knauere

5 March 2021

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Share capital	Share premium	Revaluation reserve	Other reserves	Retained earnings	Total
Balance at 1 January 2019	**11,644**	**6,360**	**40**	**25**	**18,919**	**36,988**
Total comprehensive loss						
Loss for the year	-	-	-	-	(757)	**(757)**
Other comprehensive income	-	-	463	-	-	**463**
Total comprehensive expenses	**-**	**-**	**463**	**-**	**(757)**	**(294)**
Balance at 31 December 2019	**11,644**	**6,360**	**503**	**25**	**18,162**	**36,694**
Balance at 1 January 2020	**11,644**	**6,360**	**503**	**25**	**18,162**	**36,694**
Total comprehensive loss						
Loss for the year	-	-	-	-	(1,324)	**(1,324)**
Other comprehensive expenses	-	-	(86)	-	-	**(86)**
Total comprehensive expenses	**-**	**-**	**(86)**	**-**	**(1,324)**	**(1,410)**
Balance at 31 December 2020	**11,644**	**6,360**	**417**	**25**	**16,838**	**35,284**

The accompanying notes on pages 18 to 69 form an integral part of these financial statements.
The financial statements as set out on pages 14 to 69 were approved for issue by the Management Board on 5 March 2021.

Chairman of the Management Board
Rolands Legzdiņš

Deputy Chairperson of the Management Board
Evija Sloka

Member of the Management Board
Vasilijs Karpovs

Member of the Management Board
Valda Knauere

5 March 2021

NOTES TO THE FINANCIAL STATEMENTS

1 Background

Information on the Bank

AS Expobank (hereinafter the "Bank") was established in the Republic of Latvia on 6 December 1991 as a closed joint stock company. The Bank operates under a credit institution license issued by the Financial and Capital Market Commission of the Republic of Latvia according to which the Bank is allowed to provide all financial services.

In 2020, the Bank continues its operations and development by offering Bank's services to corporate clients and private persons. The services offered by the Bank include current accounts, deposits, lending, local and international money transfers, remote banking, escrow accounts, currency exchange, documentary operations, transactions with securities, brokerage services and payment cards.

Information about the Bank:	AS Expobank
Address:	Valdemara street 19, Riga, LV-1010, Latvia

The Bank does not have any branch, representative office or subsidiary.

Shareholders

The sole shareholder of the Bank is Igor Kim.

Related party transactions are disclosed in Note 29.

2 Basis of preparation

(1) Statement of compliance

The accompanying financial statements of the Bank 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.

The financial statements were approved for issue by the Management Board on 5 March 2021.

The shareholder has the right to reject these financial statements and request that new financial statements are prepared.

(2) Basis of measurement

The accounting system of the Bank is organised in accordance with the legislation of the Republic of Latvia, including requirements applicable to credit institutions operating in Latvia. The financial year of the Bank coincide with the calendar year.

The financial statements have been prepared on a historical cost basis, except for financial assets measured at fair value through other comprehensive income.

(3) Functional and Presentation Currency

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

3 Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the financial statements, apart from the accounting policy changes set out in section 3.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(1) Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of the operation at exchange rates published by the European Central Bank at the dates of the transactions. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Foreign currency differences arising on translation are recognized in profit and loss, except for differences arising on the translation of financial assets measured at fair value through other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the spot exchange rate at the date when the fair value was determined.

Exchange rates as of 31 December 2020 and 31 December 2019 were as follows:

	31 December 2020	31 December 2019
EUR/USD	0,8149	0,8902
EUR/RUB	0,0109	0,0143
EUR/GBP	1,1123	1,1754

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into EUR at exchange rates set by the European Central Bank at the reporting date. The income and expenses of foreign operations are translated into the functional currency at the exchange rates of transaction dates.

Foreign currency differences are recognized in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income and accumulated in the translation reserve.

(2) 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 in the management of their short-term commitments, and deposits and balances due to financial institutions with original maturity less than 3 months (See Note 13).

(3)Financial assets and financial liabilities

(a) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial assets are recognised on settlement date, the date on which the asset is delivered to or by the Bank.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(3) Financial assets and financial liabilities, continued

(a) Initial recognition and measurement, continued

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

(b) Classification

Financial assets at initial recognition are classified in the following measurement categories:

Financial assets measured at amortised cost (AC), if the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on principal amount outstanding.

Financial assets measured at fair value through other comprehensive income (FVOCI), if the following conditions are met:

- The financial asset is 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 give rise on specified dates to cash flows that are solely payments of principal and interest on principal amount outstanding.

All financial assets that are not measured at amortized cost or at fair value through other comprehensive income are measured ***at fair value through profit or loss (FVPL).***

The Bank may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

Financial liabilities carried at amortized cost represent financial liabilities of the Bank other than financial instruments designated at fair value through profit or loss. Deposits from financial institutions, customer deposits and other financial liabilities are included in this category.

Financial liabilities carried at amortized cost are initially measured at fair value less directly attributable transaction costs and are subsequently remeasured to amortized cost using the effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(3) Financial assets and financial liabilities, continued

(b) Classification, continued

Financial assets measured at fair value through other comprehensive income (FVOCI)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as government and corporate bonds.

The Bank classifies its acquired debt instruments into the measurement category:

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the asset's cash flow represents solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI).

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses on the instruments amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in "Interest income" using the effective interest method.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably measure an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments at fair value

through other comprehensive income when those investments are held for purposes other than to generate investment returns. In this case, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investment and the right to receive payments is established, are recognised in profit or loss.

Financial assets and financial liabilities measured at amortized cost (AC)

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

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables that are measured at amortized cost using the effective interest rate method;

All financial liabilities , other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(3) Financial assets and financial liabilities, continued

Financial assets measured at amortised cost (AC)

Loans and advances

Demand deposits with central banks, placements with financial institutions and loans and advances due from customers are classified as financial assets measured at amortised cost, provided that the following criteria are met:

- they are held within a business model whose objective is achieved by collecting contractual cash flows ("Held to collect" business model);
- their contractual cash flows represent solely payments of principal and interest on principal amount outstanding;
- the Bank does not designate them on initial recognition to fair value through profit or loss measurement option.

Financial assets meeting the aforementioned criteria are measured at amortised cost and are subject to IFRS 9 impairment model.

Financial liabilities measured at amortised cost

Balances due to banks and customer deposits

All financial liabilities initially are recognised at fair value net of directly attributable transaction costs. After the initial recognition, the interest-bearing financial liabilities are recognised at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as net interest income in the statement of profit and loss.

(c) Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(3) Financial assets and financial liabilities, continued

(d) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of a financial instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm’s length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in statement of comprehensive income depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the the Bank believes a third-party market participant would take them into account in pricing a transaction.

A number of the Bank’s accounting policies and disclosures require the determination of fair value of financial assets and liabilities. The methods described below have been used for the determination of fair values. When applicable, further information about the assumptions made in determining fair values is disclosed in the respective notes.

Shares and other non-fixed income securities

The fair value of shares (S.W.I.F.T) and other non-fixed income securities is determined by reference to their quoted bid price at the reporting date, if available.

The fair value of S.W.I.F.T shares was determined based on the “transfer amount” approved for the respective year by the shareholder’s meeting, that represents the price for new share allocation and participants quit price.

Loans

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. The interest rated used to discount estimated cash flows are based on the prevailing money-market interest rates curve plus an adequate credit spread.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(3) Financial assets and financial liabilities, continued

(e) Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or a part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred the rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When the contractual cash flows of a financial assets are substantially modified, such a modification is treated as a derecognition of the original assets and the recognition of a new financial asset, and the difference in respective carrying amounts is recognised in the income statement. In the case of financial asset modification, which does not lead to derecognition, the Bank recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss.

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

Financial assets or financial liabilities are considered ‘substantially modified’ when the net present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, differs by at least 10 percent from the present value of the remaining cash flows under the original terms.

(f) 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 recognized amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(4) Expected credit loss

(a) Measurement

Impairment is determined using the expected credit loss (ECL) model. It provides for monitoring of trends in deterioration or improvement of the credit quality of financial instruments.

Impairment requirements under IFRS 9 apply to the following financial instruments:

- financial assets measured at amortised cost:
- debt instruments measured at FVOCI,
- contractual obligations;
- loan commitments and financial guarantee contracts.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(4) Expected credit loss, continued

(a) Measurement, continued

The Bank introduced a three stage model to estimate the expected credit losses.

Stage 1 – financial instruments with no significant increase in credit risk since initial recognition:

- no expected problems with counterparty's obligations in terms of cash flows, as current and future cash flows are sufficient to meet the liabilities;
- financial instruments with low credit risk; the credit risk of a financial instrument is considered low if the financial instrument has low default risk. If a financial instrument has an 'investment grade' (i.e. BBB- and better) external rating, it is considered to have low credit risk.

Stage 2 - financial instruments with a significant increase in credit risk after initial recognition (unless they have low credit risk at the valuation date) but does not have objective evidence of impairment. Regardless of the Bank's assessment whether the credit risk has increased significantly, if the payments of contractual cash flows are past due more than 30 days, the credit risk of the financial instrument is considered to have increased significantly.

Stage 3 – financial instruments that have objective evidence of impairment at the assessment date, i.e. the financial instrument is in default and/or is assigned a status of a non-performing financial instrument.

Defaults are deemed to have occurred, and the financial instrument is considered as non-performing, if it is clear that customer will not be able to fulfil his obligations to the Bank without any additional measures like realisation of collateral, or if the customer falls more than 90 days past due in making its contractual payments.

ECL for financial assets measured at amortised cost and for lease receivables are reflected as deductions from the book value of these assets, i.e. the gross carrying amount is reduced by the amount of these deductions. Furthermore, ECL for off-balance loan commitments and financial guarantee contracts is reflected as provisions, i.e. in the liabilities section of the balance sheet. Adjustments of provisions for credit loss due to changes in ECL are recognised in the statement of comprehensive income, in section "Impairment or reversal of impairment on financial assets ".

The credit risk is measured and ECL estimates are determined by objectively evaluating risks and taking into account all the available information about the measurement, including information about past events, current circumstances, as well as justified and supportable forecasts on future events and economic circumstances on the date of the report.

(b) Significant increase in credit risk

At each reporting date, the Bank evaluates whether the credit risk of the financial instrument has considerably increased since its initial recognition by analysing changes in the risk of default over the expected lifetime of the financial instrument.

In order to carry out this evaluation, the Bank compares the risk of default of financial instrument liabilities on the reporting date with the risk of default of financial instrument liabilities at the time of its initial recognition, taking into account relevant and justified information, which is available without unreasonable costs or effort, which would evidence of a significant increase in credit risk since its initial recognition.

For the transactions the main indicator is changes in the probability of default (or PD) of lifecycle liabilities, which are determined by comparing the scenario providing the lifecycle PD set for the year on the reporting date with a scenario providing the lifecycle PD set for the year at the time of initial recognition.

Regardless of the quantitative indicator, a significant increase in credit risk is caused by the following back-stop indicators:

- payments are more than 30 days, but less than 90 days past due; or
- financial assets which are classified as financial assets to be supervised; or
- reviewed financial assets (terms of the loan contract have been reviewed and relieves have been granted due to customer's financial difficulties).

Backstop indicators usually overlap with the quantitative indicator of a significant increase in credit risk.

If a credit risk has significantly increased since its initial recognition, provisions for lifecycle ECL are recognised and the financial instrument is moved to the second stage. The approach is symmetrical, i.e. if credit quality of the financial instrument in future reporting periods improves to the extent that a significant increase in credit risk since initial recognition disappears, the financial instrument is moved back to the first stage.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(4) Expected credit loss, continued

(c) Definition of default

The financial instruments, which are defaulted, are included in the third stage. For accounting purposes, the Bank uses the definition of default included in the capital requirements regulation (Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, Article 178), i.e. the financial assets which are past due more than 90 days. It is considered that the credit value of all the financial assets in the third stage has reduced. It is considered that the debtor is unlikely to be able to settle the credit obligations in full without collateral, irrespective of the existence of the overdue amounts and the number of days past due. Bank make such conclusion based on regular or ad-hoc analysis of debtor (DSCR, cashflow analysis, planned, future events).

(d) Modelling

ECL is calculated taking into account the probability of default or PD, the exposure at default or EAD, the loss given default or LGD, as well as the time of loss. The methodology used by the Bank for measurement of ECL in accordance with IFRS 9 is based on internal creditworthiness measurement models.

PD reflects the probability that the loan will not be repaid and that it will be defaulted in the next 12 months or during its entire lifecycle. When evaluating ECL with regard to each individual instrument, the category of the customer and justified external historical information allowing to use supportable information on future economic circumstances are taken into account. They are adapted to the class of assets and the type of product. EAD means estimation of the credit risk at the time of default. With regard to off-balance liabilities, EAD means estimation of the additional amounts, which will be paid at the time of default. For the purposes of IFRS 9, EAD models are adjusted for 12 months or lifecycle.

LGD is the amount, which will not be recovered in case of default. For the purposes of LGD, the quality and amount of any held security, as well as the probability of its recovery are taken into account, i.e. that the borrower will repay all the outstanding liabilities for the loan or resume payments under the contract. The Bank uses justified external historical information on LGD.

Credit loss is the difference between all the cash flows under the contract to be paid in accordance with the contract, and all the cash flows the Bank is planning to receive (i.e. all cash shortages), discounting using the initial effective interest rate (or the adjusted effective interest rate of the loan for financial assets purchased or issued with reduced credit value).

The Bank evaluates cash flows, taking into account all the contract terms of the financial instrument (for example, prepayment, extension of the contract, sale and similar possibilities) using the expected lifetime of this financial instrument. These cash flows include cash flows occurring from sale of securities or other credit quality improvements, which are an integral part of terms of the contract.

Expected credit loss is the weighted average indicator of credit loss with respective defaults as weights. Expected credit loss during lifetime of the asset is expected credit loss, which occurs due to all potential defaults over the expected lifetime of the financial instrument. 12-month expected credit loss is part of expected credit loss during lifetime of the asset, which reflects expected credit loss arising from events of default relating to the financial instrument, which are possible within 12 months of the reporting date.

For a financial asset, whose credit value is reduced at the reporting date, but which is not a financial asset, which was already purchased with reduced credit value, the Bank evaluates expected credit loss as the difference between the gross carrying amount of the asset and the current value of the net expected future cash flow obtained by discounting future cash flows by the initial effective interest rate of the financial asset. Any adjustment is recognised in profit or loss as income or expenses from changes in the value of provisions.

Financial guarantees and loan commitments for issuing of a loan are also subject to measurement of expected credit loss. For loan commitments, the Bank takes into account changes in the credit risk of the loam, to which the loan commitments apply. For financial guarantee contract, the Bank takes into account the changes related to the risk that the specific debtor will default the contract.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(4) Expected credit loss, continued

(e) Assessment of impairment

Individual assessment of impairment

Loss events indicating objective evidence of impairment of individually assessed assets are when scheduled payments are past due by more than 90 days, or if the counterparty is expected to be in default or any other combination of events that are deemed so negative that there will be a probable payment default in the foreseeable future. The debt instrument is impaired if the cash flows including the value of the collateral does not cover outstanding exposure.

Collective assessment of impairment when assets are not individually impaired

Assets assessed for impairment on an individual basis and found not impaired are included in a collective assessed, of incurred but not identified, impairment. The collective assessment of incurred but not identified credit losses is based on the Bank counterpart rating scale.

Recognition of impairment loss on financial assets carried at amortised cost

An impairment of an individually assessed financial asset in the category loans and receivables carried at amortised cost is calculated on the basis of the original effective interest rate of the financial instrument. The amount of the impairment is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (recoverable amount). If the terms of an asset are restructured or otherwise modified due to financial difficulties on behalf of the borrower or issuer, impairment is measured using the original effective interest rate before modification of the terms and conditions. Cash flows relating to short-term receivables are not discounted if the effect of the discounting is immaterial. The entire outstanding amount of each loan for which a specific provision has been established is included in impaired loans, i.e. including the portion covered by collateral.

(5) Property and equipment

Items of property and equipment are stated at cost, net of accumulated depreciation and impairment losses, if any.

When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Depreciation is charged to the income statement 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:

Furniture and equipment	2 to 10 years
Computers and equipment	4 years
Software inseparable from equipment (OEM software)	4 years

Depreciation of leasehold improvements is calculated over the remaining period of lease. Depreciation is calculated from the date when leasehold improvements are completed and ready for use.

An item of property and equipment is derecognized upon disposal or when the asset is no longer in use and no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset calculated as the difference between the net disposal proceeds and the carrying amount of the item upon disposal is included in the statement of comprehensive income. Depreciation methods, useful lives, and residual values are reviewed annually.

(6) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance (licences and software that are separately identifiable from electronic devices, etc.) held for rendering of services or other purposes if it is expected that an economic benefit attributable to these assets will flow to the Bank.

Intangible assets are stated at cost less accumulated amortisation and impairment losses and are amortized over the useful life of the asset. The useful life of each class of intangible assets is estimated, considering the

contractual conditions, and/or based on the estimated period over which the asset is expected to generate economic benefits.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(6) Intangible assets, continued

The estimated useful lives are as follows:

Software	5 years
Mastercard licence	10 years
Other licences	5 years

Licences acquired by the Bank for a period up to one year are expensed as acquired.

Amortisation methods and useful lives are reviewed annually.

(7) Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

Provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions are evaluated at each balance sheet date and are adjusted as necessary.

(8) Leased assets and lease payments

Classification

When concluding a contract, the Bank evaluates whether the contract is a lease or contains a lease. A contract is a lease or contains a lease, if the contract conveys the right to control the use of an identifiable asset for a specific period of time in exchange for consideration. In order to evaluate whether the contract is a lease or contains a lease, the Bank evaluates, whether:

- The contract provides for the use of an identifiable asset – the asset can be specified directly or indirectly and it should be physically distinguishable or reflect the entire capacity of the asset from a physically separable asset. If the supplier has significant rights to replace the asset, the asset is not identifiable;
- The Bank is entitled to gain all economic benefits from the use of the identifiable asset throughout the period of its use;
- The Bank is entitled to determine the type of use of the identifiable asset. The Bank is entitled to determine the type of use, when it decides on how and for what purpose the asset will be used.

  In the cases, when respective decisions on how and for what purpose the asset is used are pre-defined, the Bank should evaluate whether they have the right to handle the asset or designate handling of the asset in a certain way or the Bank has developed the asset in such a way that it is pre-determined how and for what purpose the asset will be used.

In initial measurement or repeated measurement of a contract containing a lease component or several lease components, the Bank applies a relative separate price to each lease component.

Lessee

Lease is recognised as the right to use an asset and respective lease liabilities on the date, when the asset is available to the Bank for use. The costs of the right-of-use asset consist of:

- the amount of initial measurement of lease liabilities;
- any lease payments made at or before the start date, less received lease promotion payments;
- any initial direct costs.

The costs of renewal related to dismantling and renewal of right-of-use assets are classified separately as provisions and related assets.

Depreciation is calculated using the straight-line method from the lease start date to the end of lease unless there are plans to buy the asset. The right-of-use asset is periodically reduced for asset impairment loss, if any, and adjusted taking into account revaluation of lease liabilities.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(8) Leased assets and lease payments, continued

The assets and liabilities arising from lease on the date of their initial application are measured at the current value of residual lease payments discounted using the Bank's incremental borrowing rate rate. Lease liabilities include the current value of the following lease payments:

- fixed lease payments made (less essentially fixed lease payments), less lease promotion payments;
- variable lease payments, which depend on the index or rate;
- payments to be made by the lessee in accordance with residual value guarantees;
- price of using the possibility to buy, if there is sufficient reason to believe that the lessee will use this possibility, and
- penalty payment for termination of the lease, if the lease period does not reflect that the lessee uses the possibility to terminate the lease.

Lease liabilities are repeatedly measured, if future lease payments change, because the index or the rate used to determine these payments has changed, if Bank's estimates regarding the amount of expected payments change or if the Bank changes its evaluation of using the possibility to buy, extension or termination of the lease period. When lease liabilities are repeatedly measured, the respective adjustment is made to the carrying amount of the right-of-use asset or recognised in the profit and loss statement, if the carrying amount of the right-of-use asset reduces to zero.

Each lease payment is divided between lease liabilities and interest expenses for lease liabilities. Interest expenses of lease liabilities are recognised in the profit and loss statement in the lease period to form a constant periodical interest rate for the residual lease liability in each period.

Short-term lease and lease with underlying asset having low value

The lease payments related to short-term lease or lease with underlying asset having low value are recognised in the profit and loss statement as expenses using the straight-line method. Short-term lease is a lease with a lease period of 12 months or less at the start date.

(9) Taxation

Corporate income tax on dividends is recognized in the statement of comprehensive income as expense in the reporting period when respective dividends are declared, whilst for other deemed profit items it is recognized at the time when expense is incurred.

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

Corporate income tax for the distributed profit and corporate income tax for the conditionally distributed profit is included in the profit and loss statement line item "Income tax expense " and disclosed by the components in the notes to the financial statements.

(10) Income and expense recognition

All income and expense categories, including interest income and expense, are recognized on the accrual basis. Income is recognized only to the extent that an inflow of economic benefits to the Bank is possible and such income can be reasonably estimated.

Interest income and expense are recognized in the income statement using the effective interest rate method. Payments made by the Bank to the deposit guarantee fund are disclosed under other interest expense.

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 amortized to interest income over the estimated life of the financial instrument using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(10) Income and expense recognition, continued

Commission and fee income and expense on non-recurring services are recognized on the transaction date on an accrual basis. Commission and fee income and expense on services provided or received in a certain period of time are accrued and charged to the income statement over the period of the services received/rendered.

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except purchased or originated credit-impaired assets where interest income is calculated by applying the revised EIR to the net amount of the financial assets and Stage 3 impaired assets.

(11) Employee benefits

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

The Bank makes social security contributions to the state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the Bank.

(12) Use of significant accounting estimates and judgments

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The Bank uses The EBA Risk Dashboard Credit Risk parameters for the last quarter of Latvia (assuming them as representative external data), which are allocated to the risk categories assigned by the Bank and adjusted by macroeconomic impact element to determine PDs and LGDs for IFRS9 stage 1 loans to calculate ECL. For the assessment of stages 2 and 3 of IFRS 9, the Bank uses future cash flow scenarios to model possible situation developments. For the assessment of the ECL of other assets, the Bank used the "One Year Global corporate Default rates" parameters published by Standard & Poor's (S&P), which serve as an assumption for the approximate assessment of the size of the ECL.

Bank uses sensitivity analysis in modeling macroeconimic component in ECL calculation by setting multiple scenarios as well as in strategic planning process by analysing impact of possible structure of loan portfolio divided by industries and laon quality.

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

COVID-19 impact on Expected credit loss

In 2020, COVID-19 has had an impact on the levels of the Bank's provisions for doubtful loans, both as a result of the deterioration of the financial situation of individual borrowers and the deterioration of overall macroeconomic indicators.

To determine PD and LGD indicators Bank uses The EBA Risk Dashboard Credit Risk parameters, data for the last quarter on Latvia - for the loans that are classified as in the first stage of IFRS 9 and there are assigned risk categories by the Bank and afterwards adjusted by the impact element of macroeconomic indicators. The Bank models the impact of macroeconomic indicators of scenarios set by the Bank with the help of regression analysis. For macroeconomic scenarios, the Bank uses current data on the Latvian economy and forecasts of the International Monetary Fund, which have been updated several times in 2020 and include the impact of COVID-19 on the economy. The level of the Bank's provisions for doubtful loans in 2020 increased due to the negative macroeconomic outlook for Latvia's economic development in 2020, however, it will tend to decrease in 2021 if the forecasts for economic recovery come true. The level of provisions will also be affected by EBA data, which will reflect changes in PD and LGD including the impact of COVID-19.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(12) Use of significant accounting estimates and judgments, continued

In order to improve the provisioning model, in 2021 the Bank plans to include in it the element of macroeconomic impact of the sectors affected by COVID-19, thus more cautiously assessing loans in the sectors that have suffered more from COVID-19.

For loans classified as in IFRS 9 stage 2 or 3, the Bank uses the Discounted Cash Flow method in the calculation of ECL, by modeling the scenarios arising from the classification of the loan according to the going concern and gone concern principles and the resulting different repayment and severity scenarios; collateral realization and value scenarios.

In 2020, the direct effect of COVID-19 was on 1 loan, which was classified as IFRS 9 stage 2 loan. The Bank applied a deferral of principal payments to the loan and, as the loan did not meet the criteria set by the Moratorium introduced by the Financial Industry Association, the loan was not granted the status of a forborne loan. Identifying that the situation caused by COVID-19 would necessitate an extension of the deferral of principal payments, as IFRS 9 stage 2 loan, and established additional provisions (380 thousand EUR).

The effect of COVID-19 on other loans was indirect and their financial situation did not deteriorate to such an extent that the Bank would consider that their credit risk had increased significantly.

To assess the ECL of other assets, the Bank used the One Year Global corporate Default rates parameters published by Standard & Poor's (S&P) in April 2020, which are based on an external rating assessment and a prudent approach if ratings are not available. During 2020, the external ratings of the Bank's counterparties and issuers mainly improved, thus the impact of COVID-19 on the Bank's counterparties and issuers' ECL was minimal. Such assessment has approved by the latest Standard & Poor's data for 2020, which shows that insolvencies of financial institutions (Bank's counterparties) even decreased. The Bank has exposures to real estate sector but it didn't become subject to increased credit risk.

(13) Trust operations

The trust operations policy of the Bank set forth the general guidelines on organisation and execution of trust operations, their control and monitoring. The Bank's policy for trust operations is reviewed annually. The

Bank provide trust services only to customers of the Bank.

Trust operations are accounted for separately from the Bank's own operations thus ensuring separate accounting in a separate trust sheet for assets of each customer, by customer and by type of assets under management.

(14) Off-balance sheet items

In the ordinary course of business, the Bank has been involved with off-balance sheet financial instruments consisting of commitments to extend loans and advances. Such financial instruments are recorded in the balance sheet when they are funded or related fees are incurred or received.

The Bank measures loan commitments initially at their fair value. Subsequent to initial recognition, loan commitments are measured at amortized cost using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting policies, continued

(15) New Standards and Interpretations

Following standards or interpretations became effective for the first time for the annual periods beginning on 1 January 2020, but did not have any material impact on the Bank:

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

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

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

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

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

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

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

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

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

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

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

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

The Bank expects that the adoption of the new standards, amendments and interpretations will not have a material impact on the Bank's financial statements during the period of initial application.

4 Risk and capital management

The Bank's activities result in exposure to a variety of financial and non-financial risks. The Bank's strategic aim is to achieve an appropriate balance between risks assumed by the Bank and returns and minimize the potential adverse effect on the Bank's financial performance and operations.

The risk management system is integrated in the framework of the Bank's internal control based on the effective bank supervision requirements laid down by the Financial and Capital Market Commission and the Basel Committee on Banking Supervision to provide for a risk control function and operational compliance control function independent from business units. Risk measurement, assessment and control functions are separated from the business unit (risk acceptance) functions.

The Bank identifies all inherent significant risks and develop documents and implement appropriate policies for risk management, including measurement, assessment, control, mitigation, and risk reporting and disclosures. Policies are reviewed at least on an annual basis in line with changes in the Bank's operations and external factors impacting the Bank's activities.

In order to identify risks in due time and completely and assess the acceptable levels of risks prior to launching new products and services the Bank assess the potential inherent risks and approves internal normative documents related to risk management that include appropriate procedures, restrictions and limits, and hedging methods. The most important types of risk are credit risk, concentration risk, liquidity risk, interest rate risk, foreign currency and market prices risk, operational risk, money laundering and proliferation terrorism financing (further – AML) risk, sanctions risk and business model risk.

Concentration risk is closely related to different risks of the Bank and assessments are carried out as part of risk management of these risks. The Bank identifies and assesses strategy and business risk, reputational risk and compliance risk. The impact of these risks has been taken into account during strategic planning.

(1) Credit risk

Credit risk represents the Bank's exposure to potential loss in case a borrower (debtor) or a business partner fails or refuses to fulfil its contractual liabilities towards the Bank. The Bank is exposed to credit risk which is a significant inherent risk for the Bank. Therefore, credit risk management is performed with particular care.

Sources of credit risk

The basic source for credit risk of the Bank are in connection with lending operations, amounts due from credit institutions, investments in securities, letters of credit and warranties/guarantees.

For the Bank mostly as a payment bank, exposure to credit risk may interfere with liquidity management activities as the Bank should maintain sufficient funds on accounts with several principal correspondents to provide necessary customers' payments in relevant currencies, which sometimes causes also significant concentrations with particular counterparties.

Management and control of credit exposures

The Bank ensures ongoing monitoring of concentrations of credit risk especially to individual counterparties or groups of counterparties, borrower, industries, and type of collateral and to countries.

The Bank structures the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one counterparty, or a group of counterparties, and to geographical and industry segments, loan type, loan portfolio structure based on risk categories, deviations from loan schedules and for a specific type of transaction or type of collateral. Such limits are subject at least once a year or more frequent review, taking into account changes in the Bank's operations or external circumstances that can affect the Bank's operations.

The credit risk monitoring system applied by the Bank comprises of:

- regular monitoring of credit ratings nominated by external credit rating agencies assigned to the Bank's borrowers and their countries;
- regular analyzing of the creditworthiness of borrowers, assessing the quality of the Bank's assets;
- analyzing changes in the quality of the loan portfolio, trends in different sections;
- constant monitoring of compliance with the set restrictions / limits;
- constant monitoring of compliance with the terms and conditions of concluded credit risk exposure agreements, fulfillment of obligations and the condition of collateral;
- ensuring an adequate provisioning process in accordance with IFRS 9;
- performing of regular stress tests.

NOTES TO THE FINANCIAL STATEMENTS

4 Risk and capital management, continued

(1) Credit risk, continued

Management and control of credit exposures, continued

The following techniques are used to manage credit risk:

- early warning indicators of credit deterioration;
- application of the internal rating system;
- loan portfolio diversification;
- process of identification and monitoring loans with the status of Watchlist, forborne, non-performing, related with early warning indicators, restructuring process;
- regular monitoring and documentation of the value and adequacy of credit collateral;
- regular monitoring of all credit conditions;
- identification, management and recovery of substantially impaired loans;
- daily monitoring reports on borrowers, guarantors, pledgers, their statuses;
- reporting on credit risk and stress test results;
- monitoring the process of developing new financial services (or introducing significant changes to existing service rules) and appropriate procedures to identify credit risk in a timely and complete manner and to determine its acceptable level.

Limits on exposures to operations with credit institutions and products are considered by the Assets and Liabilities Management Committee and approved by the Management Board. Limits on exposures to non-banks are considered by the Credit Committee and approved by the Management Board or the Board of Directors depending on the authorisation scope.

The Bank performs regular monitoring of the counterparty credit risk and in case a transaction is to be made with a member of a group of counterparties, the Bank would also assess the overall credit risk exposure of the group.

The Bank ensures regular monitoring of the quality of receivables from counterparties/borrowers and the assessment of credit risk is performed by reference to expected loss and the amount of capital required for addressing credit risk.

Exposures to related groups of counterparties and counterparties related to the Bank is also subject to regulatory requirements.

Credit risk mitigation policies

The Bank employs a range of credit risk mitigation methods.

Credit risk arising from issued warranties/guarantees and credit limits attached to payment cards is primarily covered by a pledge of cash on the accounts opened with the Bank.

The funds derived from the sales of the collateral should generally cover the Bank’s expenses incurred in the sale of the collaterals (legal expenses, auctions etc.) and the entire amount of the client’s debt towards the Bank, including calculated interest (for the entire period of the loan in the event that the term of the loan is shorter than 12 months or for a period of 12 months in the event that the term of the loan exceeds 12 months). Credit risk arising from loans can be mitigated by mortgage or another collateral type. The Bank’s exposures to credit institutions and investment firms are usually unsecured.

Quantitative disclosures

Further quantitative disclosures in respect of credit risk are presented in Note 31.

(2) Foreign exchange risk

Foreign exchange risk represents potential loss from revaluation of items of financial position and contingent liabilities and commitments denominated in foreign currencies due to movements in foreign exchange rates.

Foreign exchange risk management process

The foreign exchange risk management policy determines and regulates the tasks to be performed by the Bank’s management and structural units and their responsibilities in managing foreign exchange risk, and foreign exchange risk control regulations and mitigation measures relevant for the Bank’s transactions in foreign currencies, as well as measurement, reporting and disclosure procedures.

NOTES TO THE FINANCIAL STATEMENTS

4 Risk and capital management, continued

(2) Foreign exchange risk, continued

Foreign exchange risk management process, continued

Limits on the foreign exchange open position in a single currency and the total open position in foreign currencies are set both on open currency positions to be maintained during the business day and open positions at the end of the day which are monitored and controlled.

Quantitative disclosures

Further quantitative disclosures in respect of foreign exchange risk are presented in Note 32.

(3) Position (market price) risk

Position risk is the risk of losses of financial instrument position due to changes in the security's price.

Position risk management process

The Bank by creation of securities portfolios is exposed to securities price fluctuations. Position risk management is addressed in Trading and Investment policies, as well as in the procedures and methodologies that set the limits and limitations. The Bank uses Value at Risk (Value-at-Risk) calculation to estimate maximal loss due to fair value change and assess risks by market stress scenarios. See Note 34.

(4) Liquidity risk

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

Liquidity risk management process

The Bank's liquidity risk management policy sets the key principles and processes of liquidity risk management, tasks of management and structural units and their responsibilities in liquidity management and maintenance, methods and conditions, asset and liability management procedure, measures for preventing and managing liquidity crisis, and reporting and disclosure procedure.

Liquidity risk management is performed by the Bank on the basis of the asset and liability management method ensuring a balanced asset and liability term structure and analysing funding concentration. The Bank manages liquidity risk as an aggregate of market liquidity risk and financing liquidity risk. Where required, the Bank performs operational liquidity management by attracting funds on the interbank market and by entering into foreign exchange swaps (FX SWAP).

The following techniques are used to manage liquidity:

- Assessment and regular analysis of early warning indicators that help identify adverse trends that may impact the Bank's liquidity;
- Cash flow planning;
- Maintenance of a sufficient amount of liquid assets representing at least level set by regulator (60% of the total amount the Bank's liabilities;
- Monitoring of Liquidity Coverage requirement (LCR) set by European Parliament and Council Regulation (EU) No. 575/2013 and Regulation No 2019/876 of the European Parliament and of the Council, collateral;
- Liquidity risk limits, restrictions (including finance concentration) and liquidity ratios monitoring;
- The Bank creates a liquidity reserve by maintaining a portfolio of available financial assets - financial assets acquired for the purpose of holding indefinitely and gaining interest income and / or profits from the increase in the price of a financial asset and may be sold for liquidity purposes;
- Balancing asset and liability (including contingent liability) term structure.

Once a year, the Bank submits to the regulator a report on the liquidity adequacy assessment process, which involves identifying, assessing, managing of the liquidity risk and assessing the adequacy of the amount of liquidity needed to ensure the Bank's operations.

The Bank calculates the capital requirement for liquidity risk by assessing possible expenses that may arise if additional financing is required to secure the Bank's liabilities.

NOTES TO THE FINANCIAL STATEMENTS

4 Risk and capital management, continued

(4) Liquidity risk, continued

Quantitative disclosures

Further quantitative disclosures in respect of liquidity risk are presented in Note 33.

(5) Interest rate risk

Interest rate risk represents the Bank's exposure in the event that changes in interest rates have an adverse impact on the Bank's income and expenses and result in a decrease of the Bank's equity.

Interest rate risk arises from:

- repricing risk;
- yield curve risk;
- basis risk;
- optionality risk - the possibility of incurring losses if a financial instrument directly (options) or indirectly (demand deposits, etc.) provides an option to choose.

When assessing interest rate risk, repricing risk and yield curve risk are assessed together as a single element – the maturity mismatch. The maturity mismatch is used as joint element for assessing repricing risk and yield curve risk as part of interest rate risk.

Interest rate risk management process

The interest rate risk management policy states risk management principles, tasks and responsibilities of the Bank's management and structural units in interest rate risk management, interest rate risk measurement, setting of limits, and control processes, stress testing, as well as reporting and disclosure procedures.

The Bank assesses the impact produced by changes in interest rates on the entire Bank's business, as well as transactions belonging to the Bank's trading and non-trading portfolios, and interest rate risk in each currency for which assets or liabilities exceed 5% of the total balance, and all currencies in total.

Interest rate risk control and mitigation are performed through:

- Interest rate risk limits are determined: net annual interest income, interest rates changing in parallel by 1% (or 100 base points), decrease of economic value assuming that unexpected changes in interest rates represent 200 base points.
- Ensuring the structure of interest rate sensitive assets and liabilities is maintained within levels of interest rate risk that are acceptable to the Bank;
- Control of optionality in client's agreements;
- Constant monitoring of changes in the interest rates on the financial instrument and money markets;
- Perform regular interest rate risk stress tests (6 scenarios defined in EBA guidelines);
- If necessary an interest rate hedge is applied and interest rate options of the Bank's products are limited.

Quantitative disclosures

Further quantitative disclosures in respect of interest rate risk are presented in Note 34.

(6) Operational risk

Operational risk is the risk that the Bank may suffer loss as a result of noncompliant, unsuccessful or incomplete internal processes or due to staff activities and system operations, or due to external impacts, including risks connected with information technologies and legal risks but excluding reputational risk and strategy and business risk. In order to identify operational risk events promptly and to take appropriate and timely measures to minimize operational risk the Bank has developed and implemented a statistical data base for registering operational risk events on a regular basis. The Bank has implemented a procedure that all employees regardless of their position immediately make entries of operational risk events in the Event Database upon identifying any circumstances that have caused or may cause losses (irrespective of the type) to the Bank or may inflict damage to the Bank's reputation. If required, all operational risk events entered in the Event Database are checked according to the procedures specified in internal documents, and risk mitigation measures are developed and assigned to improve the internal controls.

NOTES TO THE FINANCIAL STATEMENTS

4 Risk and capital management, continued

(6) Operational risk, continued

Operational risk management process

The Operational Risk Management Policy details the tasks to be performed by the Bank's management and structural units and their responsibilities in the operational risk management, the basic principles of the operational risk management system and operational risk management processes, reporting and disclosures. Besides the above policy, operational risk management connected with the Bank's information systems is regulated by Information System Management Policy and Information System Security Management Policy and internal documents that govern the application thereof.

Operational risk management is performed in the Bank as a complex of systemic measures and it includes:

- identification and assessment of operational risks,
- control of operational risks,
- measures to mitigate operational risks,
- set duties, authorities and responsibilities,
- procedure for reporting and disclosures.

The operational risk management system is integrated in the Bank's internal control system and is aimed at effective management of operational risk. The Bank reviews and improves the operational risk management system on a regular basis to reflect changes in the Bank's operations and external circumstances that impact operations.

The control over operational risks in the Bank is performed using the following control procedures:

- systematic assessment of the operational risk management system, including efficiency assessment;
- compliance reviews against normative documents regulating operational risk management;
- assessment of the results of operational risk assessment and stress testing and, if applicable, implementation of corrective measures in the risk management system;
- consistent control over restrictions and limits imposed by internal documents regulating the respective area;
- regular testing of business continuity plans;
- assessment of changes in the Bank's operations and external environment in order to determine the potential impact on the Bank and its business processes;
- providing the Bank's management with reports of various detail and information on operational risk management and non-compliance with procedures, restrictions and limits and key risk indicators (KRI).
- control over the development of new banking products or services and related internal documents in order to identify operational risks on a timely and complete basis, assess the acceptable level of operational risk and make a decision on risk management. Control over compliance with the Bank's procedures during implementation of new products and services.

(7) Money Laundering and Terrorism and Proliferation Financing risk

Money Laundering and Terrorism and Proliferation Financing risk (hereinafter – ***MLTPF risk***) – its impact on the Bank and the likelihood that the Bank may be used for money laundering or terrorism or proliferation financing purposes.

MLTPF risk management

The MLTPF risk at the Bank is managed by aiming to ensure the operational integrity of the Bank, its officials and employees in compliance with the regulatory and legislative requirements. During its everyday business activities the Bank implements and complies by the highest international standards and best practices of the banking sector in managing the MLTPF risk while applying the "comply or explain" principle. The Bank maintains and comprehensive internal control system, regularly examines, evaluates and strengthens its functional effectiveness. In order to manage the MLTPF risks effectively and comprehensively the Bank provides for sufficient financial, material, personnel, information, and technological resources and ensures that employee training and individual development of essential skills and competencies in the field of risk management takes places on a regular basis.

The Bank's MLTPF risk management strategy determines an acceptable MLTPF risk level, and expecting it to be moderate, defines quantitative MLTPF risk exposure indicators and their permissible maximum threshold limits based on the MLTPF risk absorption capacity in accordance with the business strategy and the resources allocated to managing the MLTPF risk.

NOTES TO THE FINANCIAL STATEMENTS

4 Risk and capital management, continued

(7) Money Laundering and Terrorism and Proliferation Financing risk, continued

MLTPF risk management, continued

The Bank is consistently monitoring and controlling the MLTPF risk level, performs stress testing, evaluates the effectiveness of risk management, and carries out risk-mitigating activities.

The Bank's *Money laundering and terrorism and proliferation financing risk management policy* prescribes the tasks and responsibilities for the Bank's management team and its business units, fundamental principles, elements and measures for managing the MLTPF risk and the Bank's internal control system, risk identification, assessment and control processes, risk-mitigating activities, basic provisions for employee training, instructions and procedures on presenting reports and information, employee responsibility pertaining to the implementation of the MLTPF risk management requirements, and reporting and information provision procedure (including during contingency conditions), and instructions on reporting of any MLTPF prevention requirements violations at the Bank (including anonymous).

The Bank's internal control system within the framework of MLTPF risk management is an assortment of internal regulatory documents, measures, and processes, and it has been created according to the Bank's business model and its scope of activity considering the inherent customer, products and services used by the customer, country and geographical, and delivery channels MLTPF risk level and extent, as well as the personnel, financial and technological resources involved in managing the MLTPF risk, the interaction of the MLTPF risk with other risks associated with the Bank's operations, and other factors that may substantially impact the overall MLTPF risk level at the Bank. The Bank's MLTPF risk management internal control system is focused on MLTPF prevention, the fulfillment of regulatory and legislative requirements, the implementation of international standards, and application of best practices in the banking industry by allocating appropriate resources and carrying out employee training. Throughout its day-to-day commercial activity the Bank, its officials and employees comply with the inherent high risk work place culture and environment and practice utmost corporate standards while performing their daily duties having no tolerance towards corrupt activities and remaining politically neutral.

In line with the Bank's business strategy as it relates to customer acquisition priorities the Bank determines a certain set of potential customers and acquisition principles thereof, keeping in mind a customer's registration (residence) country, customer's reputation, industry (sector) and type(s) of economic activity, planned transactions, as well as availability of information and documents about customers and their transactions.

In order to mitigate the MLTPF risk, the Bank has defined a specific group of individuals whose inherent risks are unacceptable to the Bank, and consequently, would not initiate, or completely terminate a business relationship. The Bank does not provide services to customers whose industry, type of economic activity or business form the Bank has acknowledged to be displaying an excessive risk level given the Bank does not have adequate resources and/or competencies in order to manage such risk. The Bank does not enter into or would terminate business relationships with shell banks and customers who could be characterized by at least one indication of a shell company (arrangement), as well as financial institutions which the United States Department of the Treasury's *Financial Crimes Enforcement Network (FinCen)* has included in its *"Special Measures Financial Institutions of Primary Money Laundering Concern"* list. The Bank does not render financial services to customers whose registration (residence) country has been recognized by the European Union and FATF *(Financial Action Task Force)* as high-risk jurisdiction, or such jurisdictions that do not cooperate in the field of MLTPF prevention *(High-risk and Non-cooperative Jurisdictions).*

For the purposes of MLTPF risk mitigation the Bank puts into practice various automated control systems, including a control measure relating to list of customers and countries *undesirable* to the Bank, customer cash flow control, automated customer MLTPF risk scoring and transaction monitoring control measures.

The Bank upholds a regular assessment of its internal control systems concerning the MLTPF prevention, including an independent evaluation of its IT solutions, an evaluation of the Bank's MLTPF risk management's compliance and efficiency by competent external auditors with relevant professional expertise and experience specifically in the field of MLTPF risk management. Reports regarding specific MLTPF risk management processes at the Bank and the attainment of particular goals thereof according to the MLTPF risk management strategy are brought forth on a regular basis.

The Bank has created a whistleblowing system which ensures internal and external (including anonymous), reporting channel regarding any infringements of the MLTPF prevention requirements.

NOTES TO THE FINANCIAL STATEMENTS

4 Risk and capital management, continued

(7) Money Laundering and Terrorism and Proliferation Financing risk, continued

MLTPF risk management, continued

In July 2020, the Bank received the final inspection results from the *Financial and Capital Market Commission's* 2019 assessment of the Bank's operations. The purpose of this thorough assessment was to evaluate the Bank's implementation of the regulatory and legislation requirements in the field of MLTPF prevention, as well as compliance with international and national sanctions. While the Commission did not impose any sanctions or monetary fines on the Bank as a result of the inspection, the Bank must ensure a timely correction of the deficiencies that were identified. The Bank's MLTPF risk management enhancement plan would be reached by implementing a specific set of measures, and the progress thereof monitored by the Commission. Those measures, nonetheless, are not regarded as sanctions towards the Bank. By the end of 2020 the Bank had established and brought forward a complex set of improvements and actions that would ultimately boost and strengthen the functioning of the Bank's internal control system.

(8) Sanctions Risk

Sanctions risk is an impact and a likelihood that sanctions requirements are not taken into consideration or complied with by the Bank, and that the Bank may be used to violate or circumvent sanctions laws and requirements, or to avoid an implementation thereof altogether.

Sanctions risk management

An internal control system that specifically manages the overall sanctions risk at the Bank is an integral part of the Bank's main internal control system, and it ensures that the Bank's operations are compliant with regulatory and legislative requirements. Adequate resources have been allocated so that proper management of sanctions risk can be implement. In order to prevent the Bank from being involved in a breach of sanctions, evasion, or an attempt to avoid the fulfilment of applicable sanctions requirements, the Bank ensures mandatory legislative and regulatory framework as well as technological and personnel provisions.

The Bank sees to it that the implementation of the requirements of sanctions imposed by international organizations as well as the fulfilment of national sanctions is strictly followed and adhered to. The Bank also applies best practices and standards in order to effectively execute its control measures both when conducting transactions on behalf of the Bank and providing financial services to its customers while rejecting any undertakings where the objective or the outcome of which is to breach the sanctions enforced by the Cabinet of Ministers of the Republic of Latvia, Council of United Nations, European Union and its member states, Organization for Security and Cooperation in Europe, United States Department of the Treasury *(Office of Foreign Assets Control, OFAC),* and to prevent the financial system from being abused by unlawful activities that do not conform with international practice and applicable laws.

The Bank does not provide financial services identified in the applicable sanctions to customers that are subject to those sanctions, and also ensures that such individuals are not granted access to funds and financial instruments, and freezes assets belonging to such individuals. The Bank does not conduct civil law transactions of any nature nor with any type of economic or financial resources or financial means, or any of its parts thereof, that are owned by the state, or held or possessed by the state or any parties associated with the state, or over which effective control is exercised if civil law restrictions have been imposed on that state by the appropriate legislation.

While servicing its customers and performing customer transaction monitoring, the Bank implements a sophisticated set of measures in order to insure that the financial services offered by the Bank would not be directly or indirectly exploited in order to violate or circumvent the requirements of applicable sanctions, or to avoid the fulfilment of those requirements. The Bank does not enter into and immediately terminates business relationships with customers once disproportionately high sanctions risks have been identified in their business activity.

To lessen the sanctions risk, the Bank has determined a set of individuals whose inherent sanctions risk is unacceptable to the Bank, and with whom the Bank does not enter into a business relationship or terminates it.

With the intention of complying with the requirements of applicable sanctions and minimizing risk, the Bank uses completely automated IT solutions which enable the screening of customers, their beneficial owners, each participant, authorized representatives, business partners, and customer transactions combined with payment verification processes and an ongoing monitoring thereof.

The Bank's *Sanctions compliance policy* outlines the underlying principles for evaluating the internal control system and the sanctions risk at the Bank, the tasks and responsibilities for the Bank's management and business units, as well as employee rights, their duties and responsibilities, professional qualification, and the *"fit and proper"* standards according to their specific job tasks and mandate, decision making and reporting processes, employee training, reporting and information provision procedure relating to ensuring sanctions compliance, including a procedure safeguarding the reporting of sanctions requirements violations at the Bank (including anonymous).

NOTES TO THE FINANCIAL STATEMENTS

4 Risk and capital management, continued

(9) Capital management

The strategic objective of the Bank's capital management is to maintain the adequate capital base that would promote attaining the strategic business goals set by the Bank, that is:

- comply with the regulatory requirements;
- be sufficient and optimal to support and further development of the Bank's business in terms of both volume and structure;
- ensure that the Bank's capital, which, based on the internal calculations, is required to cover risks and to establish the capital reserve, both existing and potential, inherent in the current and future business of the Bank, is sufficient to cover significant inherent risks and establish the capital reserve in terms of amount, components and proportion.

The Law on Credit Institutions and the regulations developed by the Financial and Capital Market Commission to apply the provisions of this Law require that the Bank maintain equity that at all times is equal to or exceeds the minimum regulatory capital requirement.

In order to calculate the statutory capital and capital requirement in 2020 and 2019 the Bank applied the rules laid down by REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL and REGULATION (EU) No 2019/876 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on prudential requirements for credit institutions and investment firms.

The following table summarises the regulatory capital, capital requirements, and capital adequacy ratios of the Bank as at 31 December 2020 and as at 31 December 2019.

	31.12.2020 EUR'000	31.12.2019 EUR'000
Tier 1 capital		
Paid-in share capital	11,644	11,644
Share premium	6,360	6,360
Reserve capital	25	25
Retained earnings	18,162	18,919
Revaluation reserve	417	503
Foreign currency revaluation reserve	-	-
(Loss) for the reporting year	(1,324)	(757)
Less: investments in non-financial subsidiaries	-	-
Less: value adjustments due to the requirements for prudent valuation	(29)	(32)
Less: intangible assets	(568)	(492)
Total Tier 1 capital	**34,687**	**36,170**
Subordinated capital (Tier 2)	-	-
Equity used for capital adequacy calculation	**34,687**	**36,170**
Summary of calculations		
Capital requirement for credit risk in the banking book:	3,891	2,185
Due from central governments and central banks	210	294
Due from and contingent liabilities to credit institutions	35	265
Due from and contingent liabilities to corporates	2,449	1,547
Due from and contingent liabilities to retail	-	-
Due from and contingent liabilities to items associated with particularly high risk	1,134	-
Other items of financial position and contingent liabilities	63	79
Total capital requirements for market risks, including:	-	-
Capital requirement for currency risk	-	-
Capital requirement for traded debt instruments	-	-
Capital requirement for operational risk	621	1,019
Total capital requirement	**4,512**	**3,204**
Surplus of available equity over capital requirement	**30,175**	**32,966**
Capital adequacy ratio	**61,49%**	**90,31%**

NOTES TO THE FINANCIAL STATEMENTS

4 Risk and capital management, continued

(9) Capital management, continued

The above is based on internal reports of the Bank, provided to key management of the Bank.

The Bank's Capital Management Policy lays down the principles of capital management, elements and definition of capital, tasks to be performed by the Bank's management and structural units and their responsibilities, capital management process and its control, reporting and disclosure requirements and actions to be taken by the Bank in emergency situations. The policy requires that the TSCR (the amount of capital needed to cover the risks inherent in the Bank's current and planned operations) ratio always is compliant. The methods used for its assessment of amount of TSCR are more prudent than those used for the calculation of capital as prescribed by law.

Under the current capital requirements provided by the FCMC banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. Although the minimum requirement as at 31 December 2020 was 8%, in accordance with a special requirement of the FCMC the Bank had to ensure the capital adequacy above the minimum OCR (the amount of TSCR, the amount of the total recommended capital reserve requirement calculated in Chapter IV of the Credit Institutions Law and the total amount of the recommended capital buffer) ratio level, starting from 21 April 2020– 15.4%.

The Bank manages capital by setting the target range for the capital adequacy and OCR ratios, which is treated as a measure of whether the strategic objectives set in capital management have been attained.

The goal of capital management control is to maintain the adequate capital to cover significant risks and keep the reserve on an ongoing basis as well as to comply with the capital adequacy targets set by the Bank. The Bank performs control of the capital management process as a set of systematic measures, defining the relevant control procedures.

5 Net interest income

	2020 EUR'000	2019 EUR'000
Interest income		
Interest income from financial assets at amortised cost:		
Due from financial institutions	96	514
Loans and advances due from customers	755	205
Financial assets at fair value through other comprehensive income	377	285
Other interest income	1	-
	1,229	**1,004**
Interest expense		
Current accounts and deposits due to customers	107	203
Deposits due to financial institutions	50	47
Lease obligations	21	25
Other interest expense	32	12
	210	**287**

6 Fee and commission income

	2020 EUR'000	2019 EUR'000
Money transfers	209	342
Trust account servicing	361	808
Current account servicing	882	894
Payment cards	9	16
Brokerage fees	259	332
Escrow account fees	60	121
Issuing of loan	28	8
Other	1	6
	1,809	**2,527**

During the reporting year, commission income from customer money transfers and trust account servicing decreased significantly. The main reasons - we terminate the business relationship with the client, for whom we provide trust services, respectively in 2020 we receive commissions only for 1 trust agreement.

NOTES TO THE FINANCIAL STATEMENTS

7 Fee and commission expense

	2020 EUR'000	2019 EUR'000
Money transfers	12	19
Payment cards	49	34
Brokerage	47	37
Other	15	11
	123	**101**

8 Net income from transactions with financial instruments

	2020 EUR'000	2019 EUR'000
Gain on currency exchange transactions	243	160
(Loss)/ gain on translation of balances denominated in foreign currencies	(1)	1
Unrealized gain on currency exchange transactions	-	(2)
Gain on financial instruments trading	30	9
Net gain on financial assets measured at FVOCI reclassified to profit or loss on disposal	305	-
	577	**168**

9 Other expenses

	2020 EUR'000	2019 EUR'000
Association membership fees	63	69
Payments for IT services	494	495
Professional services	138	186
Other expense	10	7
	705	**757**

NOTES TO THE FINANCIAL STATEMENTS

10 General administrative expenses

	2020 EUR'000	2019 EUR'000
Remuneration to staff	1,597	1,402
Remuneration to the Management Board and Board of Directors (included Bank`s shareholder)	612	596
Statutory social insurance contributions to staff	365	322
Statutory social insurance contributions to the Management Board and Board of Directors (included Bank`s shareholder)	143	140
Taxes	3	15
Professional services (consultations)	15	65
Depreciation and amortisation	236	251
Depreciation of the right-of-use assets	167	169
Security	53	49
Telecommunications	149	90
Transport	1	1
Repairs and maintenance of premises	60	73
Business trips	3	34
Representations	29	20
Other expense	57	97
Audit fee	43	41
Other audit services	4	8
	3,537	**3,373**

The average number of the Bank's employees in 2020 was 63 (2019 - 63).

Other audit services:

During the reporting year the sworn auditor's company provided the following non-audit services to the Bank: - limited assurance engagements on compliance with the requirements of the Financial Instruments Market Law on the separate maintenance of financial instruments and monetary resources of the Bank and its clients and the requirements of the Deposit Guarantee Law on preparation of the report on guaranteed deposits and payments into deposit guarantee fund;

- other non-audit services in accordance with applicable law and regulations in Latvia and that is in line with Article 37.6 of Law on Audit Services of the Republic of Latvia. Total fees for non-audit services EUR 4 thousand (2019: EUR 8 thousand).

11 Income tax expense

Income tax charge

The components of income tax expense for the years ended 31 December 2020 and 2019 were as follows:

	2020 EUR'000	2019 EUR'000
Corporate income tax expense	3	9
Total	**3**	**9**

NOTES TO THE FINANCIAL STATEMENTS

12 Cash and demand deposits with the central banks

	31.12.2020 EUR'000	31.12.2019 EUR'000
Cash	64	85
Demand deposits with the Central Bank	7,105	10,057
Total cash and deposits with Central banks	**7,169**	**10,142**

Since the beginning of 2014 Latvia is a member of European Monetary Union (EMU) and Latvian commercial banks should fulfil all requirements set by the European Central Bank (ECB). In particular ECB set reserve requirement ratio meaning that financial institutions should maintain certain amount of cash with its local Central Bank - in case of AS Expobank with the Bank of Latvia. Cash and balances with the central banks are available on demand. The Bank's average correspondent account balance should exceed the minimum reserve requirement. The Bank was in compliance with reserve requirement ratio during the reporting year.

13 Cash and cash equivalents

	31.12.2020 EUR'000	31.12.2019 EUR'000
Cash and demand deposits with the Central bank	7,169	10,142
Due from financial institutions with original maturity less than 3 months	1,231	15,815
Deposits and balances due to financial institutions with original maturity less than 3 months	(1)	(1)
	8,399	**25,956**

14 Due from financial institutions

	31.12.2020 EUR'000	31.12.2019 EUR'000
Nostro accounts		
Latvian commercial banks	-	75
OECD banks	145	214
Non-OECD banks	1,086	366
Total nostro accounts	**1,231**	**655**
Deposits		
OECD banks	-	14,244
Non-OECD banks	-	916
Total deposits	**-**	**15,160**
Total due from financial institutions	**1,231**	**15,815**

NOTES TO THE FINANCIAL STATEMENTS

15 Loans and advances due from customers

AS Expobank have to carve out a niche in lending to small and medium-sized enterprises (SMEs) by providing: fast loan review process and decision making, financing of projects at the initial phase of implementation, financing of business or an individual asset purchase deal, refinancing. The average loan amount is 3 million euros for the purchase of technology, equipment and other fixed assets, as well as for working capital financing. In order to deepen the competence and be able to accurately assess the risks of project, the Bank plans focus on lending in the following sectors: real estate management and development, processing and food industry, trade.

The breakdown of loans due from customers is as follows:

a) by customer types

	31.12.2020 EUR'000	31.12.2019 EUR'000
Corporate clients	18,663	10,370
Households	3,763	5
Loans total, gross	**22,426**	**10,375**
Less: impairment allowance	(528)	(83)
Loans total, net	**21,898**	**10,292**

(b) by the term of agreement

	31.12.2020 EUR'000	31.12.2019 EUR'000
Up to one year	1	5
More than one year	22,425	10,370
Gross loans and advances due from customers	**22,426**	**10,375**
Less: impairment allowance	(528)	(83)
Net loans and advances due from customers	**21,898**	**10,292**

(c) by product

	31.12.2020 EUR'000	31.12.2019 EUR'000
Commercial credit	1,397	519
Investment	19,926	9,851
Credit cards	1	5
Collateral-dependent credit	1,102	-
Gross loans and advances due from customers	**22,426**	**10,375**
Less: impairment allowance	(528)	(83)
Net loans and advances due from customers	**21,898**	**10,292**

The table below shows the gross amount of loans and receivables and the amount of expected credit losses at 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS

15 Loans and advances due from customers, continued

(c) by product, continued

	Gross EUR'000	Impairment allowance for loans EUR'000
Commercial credit	1,397	11
Investment	19,926	508
Credit cards	1	-
Collateral-dependent credit	1,102	9
Total	**22,426**	**528**

The table below shows the gross amount of loans and receivables and the amount of expected credit losses at 31 December 2019

	Gross EUR'000	Impairment allowance for loans EUR'000
Commercial credit	519	2
Investment	9,851	81
Credit cards	5	-
Total	**10,375**	**83**

Investment loan **-** a loan to a legal entity for the purchase of fixed assets, long-term investments and other long-term purposes, incl. refinancing of long-term liabilities with a term of up to 10 years and a repayment schedule from the borrower's cash flow for up to 15 years (amortization or annuity principle).

Commercial loan **-** a loan to a legal entity for the purchase of goods or other current assets for financing with a contract term of up to 3 years and a repayment schedule of up to 3 years from the sale / sale of current assets or in accordance with the agreed schedule.

Collateral-dependent loan - a loan to a legal entity for the purchase of fixed assets, long-term investments for resale, refinancing of liabilities with a contract term of up to 5 years and a repayment schedule from the realization / sale of collateral.

(d) by geographical region

	31.12.2020 EUR'000	31.12.2019 EUR'000
Latvia	18,664	10,374
Non-OECD	1	1
OECD	3,762	-
Gross loans and advances due from customers	**22,426**	**10,375**
Less: impairment allowance	(528)	(83)
Net loans and advances due from customers	**21,898**	**10,292**

NOTES TO THE FINANCIAL STATEMENTS

15 Loans and advances due from customers, continued

(e) Movements in the impairment allowance

	Credit loss allowance				Gross loans			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2019	**83**	**-**	**-**	**83**	**10,375**	**-**	**-**	**10,375**
Movements between stages:								
From stage 1 to stage 2:		**380**	**-**	**380**	**-**	**6,926**	**-**	**6,926**
Investment		380	-	**380**	-	6,926	-	**6,926**
From stage 2 to stage 3				**-**	**-**	**-**	**-**	**-**
Repayments:	**(35)**	**-**	**-**	**(35)**	**(830)**	**-**	**-**	**(830)**
Investment	(34)	-	-	**(34)**	(628)	-	-	**(628)**
Commercial credit	(1)	-	-	**(1)**	(202)	-	-	**(202)**
New originated or purchased:	**196**	**-**	**-**	**196**	**5,955**	**-**	**-**	**5,955**
Commercial credit	11	-	-	**11**	1,397	-	-	**1,397**
Investment	176	-	-	**176**	3,449	-	-	**3,449**
Collateral-dependent credit	9	-	-	**9**	1,109	-	-	**1,105**
As at 31 Decemeber 2020	**148**	**380**	**-**	**528**	**15,500**	**6,926**	**-**	**22,426**

In the Bank's financial statements none of the loans were overdue as at 31 December 2020 and 31 December 2019. All are classified in Stage 1, excluding only one investment loan, it was classified in Stage 2.

(f) by type of collateral

	31.12.2020 EUR'000	31.12.2019 EUR'000
Without collateral	1	5
Mortgage	22,383	10,302
Commercial pledge	42	68
Gross loans and advances due from customers	**22,426**	**10,375**
Less: impairment allowance	(528)	(83)
Net loans and advances due from customers	**21,898**	**10,292**

(g) by collateral value

	31.12.2020 EUR'000	31.12.2019 EUR'000
Commercial credit	7,327	3,952
Investment	60,496	39,771
Credit cards	17	20
Collateral-dependent credit	3,149	-
Net loans and advances due from customers	**70,989**	**43,743**

NOTES TO THE FINANCIAL STATEMENTS

16 Impairment of other assets

	2020 EUR`000	2019 EUR`000
Provisions at the beginning of the reporting period total	5	4
Increase in provisions for other assets	5	1
As at 31 December 2020	**10**	**5**

17 Financial assets measured at fair value through other comprehensive income

	31.12.2020. EUR'000	31.12.2019. EUR'000
Central governments issued debt securities, including	**15,152**	**20,919**
from AAA to A-	12,905	18,551
from BBB+ to BBB-	2,247	2,368
Corporate debt securities, including	**13,842**	**10,527**
from AAA till A-	3,558	2,028
from BBB+ to BBB-	3,800	8,499
from BB+ to BB-	6,484	-
Private corporations shares	**65**	**62**
Total	**29,059**	**31,508**

	31.12.2020. EUR'000	31.12.2019. EUR'000
Net gain on financial assets measured at FVOCI, including:	**219**	**473**
Central governments issued debt securities	(22)	110
Corporate debt securities	241	363
Net gain on financial assets measured at FVOCI reclassified to profit or loss on disposal, including:	**(305)**	**(10)**
Central governments issued debt securities	-	-
Corporate debt securities	(305)	(10)
Total comprehensive (expense)/ income for the year	**(86)**	**463**

NOTES TO THE FINANCIAL STATEMENTS

18 Property and equipment and right-of-use-assets

EUR'000	Leasehold improvements	Furniture and equipment	The right-of-use assets	Computer equipment and computer programs	Total
Historical cost					
As at 1 January 2020	137	276	841	899	**2,153**
Additions	-	5	-	64	**69**
Disposals	-	(39)	-	-	**(39)**
Changes in agreement	-	-	(6)	-	**(6)**
As at 31 December 2020	**137**	**242**	**835**	**963**	**2,177**
Accumulated depreciation					
As at 1 January 2020	137	196	168	725	**1,226**
Depreciation charge	-	14	167	91	**272**
Disposals	-	(38)	-	-	**(38)**
As at 31 December 2020	**137**	**172**	**335**	**816**	**1,460**
Net carrying amount					
As at 1 January 2020	**-**	**80**	**673**	**174**	**927**
As at 31 December 2020	**-**	**70**	**500**	**147**	**717**

EUR'000	Leasehold improvements	Furniture and equipment	The right-of-use assets	Computer equipment and computer programs	Total
Historical cost					
As at 1 January 2019	137	280	-	907	**1,324**
Result of initial application of IFRS 16	-	-	882	-	**882**
Additions	-	-	-	12	**12**
Disposals	-	(4)	-	(20)	**(24)**
Changes in agreement	-	-	(41)	-	**(41)**
As at 31 December 2019	**137**	**276**	**841**	**899**	**2,153**
Accumulated depreciation					
As at 1 January 2019	137	184	-	622	**943**
Depreciation charge	-	15	168	123	**306**
Disposals	-	(3)	-	(20)	**(23)**
As at 31 December 2019	**137**	**196**	**168**	**725**	**1,226**
Net carrying amount					
As at 1 January 2019	**-**	**96**	**-**	**285**	**381**
As at 31 December 2019	**-**	**80**	**673**	**174**	**927**

All tangible assets are used in the operating activities of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

19 Intangible assets

EUR'000	MasterCard licences 2020	Other licences 2020	Total 2020	MasterCard licences 2019	Other licences 2019	Total 2019
Historical cost						
As at 1 January	126	1,1663	1,789	126	1,570	**1,696**
Additions	-	229	229	-	238	**238**
Disposals	-	-	-	-	(145)	**(145)**
As at 31 December	**126**	**1,892**	**2,018**	**126**	**1,663**	**1,789**
Accumulated amortisation						
As at 1 January	98	1,223	1,321	91	1,262	**1,353**
Amortisation charge	7	122	129	7	106	**113**
Disposals	-	-	-	-	(145)	**(145)**
As at 31 December	**105**	**1,345**	**1,450**	**98**	**1,223**	**1,321**
Net carrying amount						
As at 1 January	**28**	**440**	**468**	**35**	**308**	**343**
As at 31 December	**21**	**547**	**568**	**28**	**440**	**468**

All intangible assets including software are used in the operating activities of the Bank.

20 Other assets

As at 1 January 2019	**Other assets**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Other financial assets				
Credit cards guarantee deposit	180	-	-	**180**
Movements	(14)	-	-	**(14)**
Less: impairment allowance	-	-	-	**-**
As at 31 December 2020	**166**	**-**	**-**	**166**

As at 1 January 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Other financial assets				
Due from broker accounts	53	-	-	**53**
Movements	265	-	-	**265**
Less: impairment allowance	-	-	-	**-**
As at 31 December 2020	**318**	**-**	**-**	**318**

As at 1 January 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Other non-financial assets				
Prepaid expense	156	-	-	**156**
Movements	73	-	-	**73**
Less: impairment allowance	-	-	-	**-**
As at 31 December 2020	**229**	**-**	**-**	**229**

NOTES TO THE FINANCIAL STATEMENTS

20 Other assets, continued

As at 1 January 2019	Stage 1	Stage 2	Stage 3	Total
Other non-financial assets				
Accrued income	62	-	14	**76**
Movements	29	-	-	**29**
Less: impairment allowance	-	-	(6)	**(6)**
As at 31 December 2020	**91**	**-**	**8**	**99**

As at 1 January 2019	Stage 1	Stage 2	Stage 3	Total
Other non-financial assets				
Other non-financial assets	44	-	-	44
Movements	10	-	-	10
Less: impairment allowance	(4)	-	-	(4)
As at 31 December 2020	**50**	**-**	**-**	**50**
Other assets, net	**854**	**-**	**8**	**862**

In 2020, security deposits of EUR 166 thousand (2019: EUR 181 thousand) were reserved for potential transactions connected with Mastercard Europe system. Four accounts in position accrued income are classified in Stage 3.

21 Deposits and balances due to financial institutions

	31.12.2020 EUR'000	31.12.2019 EUR'000
Vostro accounts	**1**	**1**
	1	**1**

22 Current accounts and deposits due to customers

As at 31 December 2020, the largest deposit from one customer with the Bank amounted to EUR 5,645 thousand or 22% of the total deposits respectively (2019: EUR 10,531 thousand or 33%), while the deposit from one group of related customers with the Bank amounted to EUR 3,666 thousand or 14% respectively of the total deposits (2019: EUR 20,996 thousand or 65%).

The breakdown of current accounts and deposits due to customers is as follows:

(a) by the term of the agreement

	31.12.2020 EUR'000	31.12.2019 EUR'000
Current accounts, including accrued interest	16,834	13,028
Deposits:		
up to six months	100	16,131
from six months to one year	4,142	741
from one year to two years	2,579	2,271
from two years to three years	1,610	-
from three years to five years	150	-
Accrued interest	68	7
Total current accounts and deposits due to customers	**25,483**	**32,178**

NOTES TO THE FINANCIAL STATEMENTS

22 Current accounts and deposits due to customers, continued

(b) by geographical region

	31.12.2020 EUR'000	31.12.2019 EUR'000
Residents of Latvia	8,829	5,193
Non-residents:		
Residents of OECD countries	6,147	3,926
Residents of other countries	10,507	23,059
Total current accounts and deposits due to customers	**25,483**	**32,178**

(c) by depositor

	31.12.2020 EUR'000	31.12.2019 EUR'000
Current accounts		
Residents:		
Private enterprises	3,390	970
Private individuals	409	891
Bank employees	470	1
	4,269	**1,862**
Non-residents:		
Financial institutions	-	57
Private enterprises	9,786	6,538
Insurance companies	-	2
Private individuals	2,311	4,569
	12,097	**11,166**
Total current accounts	**16,834**	**13,028**
Deposits		
Residents:		
Private enterprises	558	736
Private individuals	3,996	2,588
Bank employees	7	7
	4,561	**3,331**
Non-residents:		
Private enterprises	1	15,317
Private individuals	4,087	500
Financial institutions	-	2
	4,088	**15,819**
Total deposits	**8,649**	**19,150**
Total current accounts and deposits due to customers	**25,483**	**32,178**

Interest rates applied to deposits of the Bank's employees do not differ from interest rates on deposits from other customers.

NOTES TO THE FINANCIAL STATEMENTS

23 Accrued liabilities

EUR'000	Employee unused holiday pay
As at 1 January 2019	**110**
Decrease in provisions	(3)
As at 31 December 2019	**107**
Increase in provisions	41
As at 31 December 2020	**148**

Management is unaware of any significant actual, pending or threatened claims against the Bank.

24 Other liabilities

	31.12.2020 EUR'000	31.12.2019 EUR'000
Non-financial liabilities		
Accrued expense	84	42
Provisions for off-balance	59	-
Total other liabilities	**143**	**42**

25 Lease liability

	31.12.2020 EUR'000
Undiscounted lease liabilities as at 1 January 2020	666
Less: repayments of the principle part of the lease liability during the reporting period	(195)
Less: Were granted discount	(6)
Plus: Rental interest expense during the reporting period	21
Lease liabilities in the statement of financial position as at 31 December 2020	**486**
Short-term liabilities (up to 1 year)	184
Long-term liabilities (from 1 to 5 years)	302

	31.12.2019 EUR'000
Undiscounted lease liabilities as at 1 January 2019	882
Less: repayments of the principle part of the lease liabilityduring the reporting period	(200)
Less: Amendments in agreements (Bank reduced office space)	(41)
Plus: Rental interest expense during the reporting period	25
Lease liabilities in the statement of financial position as at 31 December 2019	**666**
Short-term liabilities (up to 1 year)	199
Long-term liabilities (from 1 to 5 years)	467

The Bank has only concluded a premises lease agreement. In 2019 the contract was amended during the year, when the Bank made the respective recalculations. As at 1 January 2020 the total undiscounted lease liabilities to the Bank amounted to EUR 666 thousand. As at 31 December 2020, the approximate monthly lease payment amount for the Bank was EUR 17 thousand. The Bank has used a single discount rate of 3.15%.

NOTES TO THE FINANCIAL STATEMENTS

26 Shareholder's equity

Share capital

As at 31 December 2020, the fully paid-in share capital of the Bank was EUR 11 644 thousand, consisted of 820,000 voting ordinary registered shares with nominal value of EUR 14,20 each.

All shares rank equally with regard to the Bank's residual assets, to the right to dividends and to vote at meetings of the Bank. The sole shareholder owning 100% of paid-in share capital is Mr Igor Kim.

Share premium

In 2004, the Bank executed a share capital increase of EUR 4,240 thousand with a share premium of EUR 6,360 thousand.

Revaluation reserve

The revaluation reserve includes the revaluation result of financial assets measured at fair value through other comprehensive income.

Other reserves

Other reserves comprise the remaining portion of the statutory reserves made from the previous years' profits.

27 Contingent liabilities and commitments

	31.12.2020 EUR'000	31.12.2019 EUR'000
Commitments		
Credit cards commitments	68	20
Loans commitments	11,220	-
	11,288	**20**
Total contingent liabilities and commitments	**11,288**	**20**

To meet the financial needs of customers, the Bank enters into various transactions resulting in contingent liabilities and commitments. Even though these financial liabilities are not recognized in the statement of financial position, they do contain credit risk and are therefore part of the overall risk assessment of the Bank.

Nevertheless, the potential credit loss is less than the total unused part of the liability since these are contingent upon customers maintaining specific standards. The Bank employs collateral mainly in the form of term deposits for mitigation of related credit risk.

The Bank's credit liabilities from the date of signing the respective agreement until the actual date of issue are recorded in off-balance sheet items. As at 31 December 2020, the Bank's in contingent liabilities and commitments items include loans commitments to Companies registered in the Republic of Latvia in the amount of 11,220 thousand EUR. The loans are qualified loans in Stage 1 in accordance with IFRS 9, provisions have been made for loans commitments in the amount of EUR 59 thousand.

NOTES TO THE FINANCIAL STATEMENTS

28 Funds under trust management

The Bank provides Assets under management services to individuals and institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The assets under management are held at nominal value. The Bank receives fee income for providing these services. Assets under management are neither assets of the Bank nor recognised in the consolidated and separate statement of financial position.

	31.12.2020 EUR'000	31.12.2019 EUR'000
Assets under management		
Non-residents:		
Loans	18,777	24,551
	18,777	**24,551**
Liabilities under management		
Residents:		
Private individuals	-	-
Non-residents:		
Private enterprises	18,777	24,551
	18,777	**24,551**

29 Related party transactions

Related parties are defined as shareholders who have a significant influence over the Bank, members of the Council and the Board and Other related parties, that are companies owned by Bank's shareholder, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated and related companies. The Bank enters into transactions with related parties in the ordinary course of business. All the loans, advances and financing activities arranged with related parties are at market rates. For the year ended 31 December 2020, all assets are performing and expected credit losses 72 thousend eiro (2019: nil).

The Bank's financial statements comprise the following outstanding balances, contingent liabilities and commitments, and statement of comprehensive income items as a result of transactions with related parties:

The Bank's statement of financial position

	Key management personnel		Companies owned by Bank's shareholder	
	31.12.2020 EUR'000	31.12.2019 EUR'000	31.12.2020 EUR'000	31.12.2019 EUR'000
Assets				
Due from financial institutions	-	-	-	214
Loans and advances due from customers	-	-	4,430	-
Less: impairment allowance	-	-	(72)	-
	-	**-**	**4,358**	**214**
Liabilities				
Current accounts and deposits due to customers	469	748	258	189
	469	**748**	**258**	**189**

NOTES TO THE FINANCIAL STATEMENTS

29 Related party transactions, continued

The Bank's contingent liabilities and commitments

	Key management personnel		Companies owned by Bank's shareholder	
	31.12.2020 EUR'000	**31.12.2019 EUR'000**	**31.12.2020 EUR'000**	**31.12.2019 EUR'000**
Other commitments	4	4	-	-

The Bank's statement of comprehensive income

	Key management personnel		Companies owned by Bank's shareholder	
	2020 EUR'000	**2019 EUR'000**	**2020 EUR'000**	**2019 EUR'000**
Interest income	-	-	132	-
Fee and commission income	2	-	5	9
	2	**-**	**137**	**9**

Detailed information about remuneration to the Management Board and Board of Directors members is disclosed in Note 10.

30 Fair value of financial assets and financial liabilities

Set out below is the comparison of the carrying amounts and fair values of the Bank's financial instruments that are recognized in the financial statements.

(a) Financial instruments measured at fair value

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

2020	**Level 1 EUR'000**	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total EUR'000**
Financial assets				
Financial assets at fair value through other comprehensive income	28,994	-	65	**29,059**
	28,994	**-**	**65**	**29,059**
2019				
Financial assets				
Financial assets at fair value through other comprehensive income	31,446	-	62	**31,508**
	31,446	**-**	**62**	**31,508**

During 2020 there were no reclassification between fair value hierarchy levels.

NOTES TO THE FINANCIAL STATEMENTS

30 Fair value of financial assets and financial liabilities, continued

(b) Financial instruments not measured at fair value

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

31 December 2020	**Level 1 EUR'000**	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair values EUR'000**	**Total carrying amount EUR'000**
Financial assets					
Cash and demand deposits with the central banks	64	7,105	-	7,169	**7,169**
Due from financial institutions	-	1,231	-	1,231	**1,231**
Loans and advances due from customers	-	-	23,862	23,862	**21,898**
Other financial assets	-	-	484	484	**484**
Financial liabilities					
Deposits and balances due to financial institutions	-	-	1	1	**1**
Current accounts and deposits due to customers	-	25,509	-	25,509	**25,483**
Contingent liabilities and commitments	-	-	11,889	11,889	**11,220**

Cash and demand deposits with the Central banks are various currency cash and deposits with the Bank of Latvia whose carrying amount represents the fair value.

Other financial assets consist of cash on broker and escrow accounts, credit card guarantee deposits and currency exchange transactions in progress; thus the carrying amount is equal to their fair value.

Loans and advances due from customers are financial assets that are measured using a valuation technique based on discounted cash flows.

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

31 December 2019	**Level 1 EUR'000**	**Level 2 EUR'000**	**Level 3 EUR'000**	**Total fair values EUR'000**	**Total carrying amount EUR'000**
Financial assets					
Cash and demand deposits with the central banks	85	10,057	-	10,142	**10,142**
Due from financial institutions	-	15,823	-	15,823	**15,815**
Loans and advances due from customers	-	-	9,630	9,630	**10,292**
Other financial assets	-	-	233	233	**233**
Financial liabilities					
Deposits and balances due to financial institutions	-	-	1	1	**1**
Current accounts and deposits due to customers	-	31,968	-	31,968	**32,178**

The methodology for determining the fair value is disclosed in Note 3.

The following table presents interest rates used to discount estimated cash flows, where applicable, by the classes of financial assets and financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

30 Fair value of financial assets and financial liabilities, continued

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

	31.12.2020	31.12.2019
Due from and due to financial institutions	-0.5-0.3419%	-0.249-1.9963%
Loans and advances due from customers	0.00%-2.67%	0.00%-4.20%
Current accounts and deposits due to customers	0.11%-0,86%	0.06%-2.37%

For financial instruments whose fair value is estimated using valuation techniques with non-market observable inputs, net unrealized amount due to changes in the inputs was zero during the year 2020 (2019: nil).

31 Credit risk

Maximum credit risk exposure

The table below shows the Bank's maximum exposure to credit risk for the components of the statement of financial position.

The maximum credit exposures are shown both gross, i.e. without taking into account any collateral, ECL and other credit enhancements, and net, i.e. after taking into account any collateral and other credit enhancements.

	Note	Gross maximum credit exposure		Net maximum credit exposure	
		31.12.2020 EUR'000	31.12.2019 EUR'000	31.12.2020 EUR'000	31.12.2019 EUR'000
Cash and demand deposits with the Central banks	12	7,169	10,142	7,169	10,142
Due from financial institutions	14	1,231	15,815	1,231	15,815
Loans and advances due from customers	15	22,426	10,375	21,898	10,292
Financial assets at fair value through other comprehensive income	17	29,059	31,508	29,059	31,508
Other financial assets	19	484	234	484	233
Total financial assets		**60,369**	**68,074**	**59,841**	**67,990**
Credit cards commitments	27	68	20	68	20
Loans commitments	27	11,220	-	11,220	-
Total contingent liabilities and commitments		**11,288**	**20**	**11,288**	**20**
Total maximum credit risk exposure		**71,657**	**68,094**	**71,129**	**68,010**

As it is shown above, 41% of the total gross maximum credit exposure is derived from financial assets at fair value through other comprehensive income (2019: 46%).

NOTES TO THE FINANCIAL STATEMENTS

31 Credit risk, continued

Concentrations of the maximum credit risk exposure

The following table breaks down the gross exposure related to the Bank's balances due from credit institutions by geographical regions and major counterparties or groups of related counterparties.

		31.12.2020 EUR'000	31.12.2019 EUR'000
Latvia			
AS „Swedbank"		-	75
Total Latvia		**-**	**75**
OECD countries			
Norddeutsche Landesbank Luxembourg SA	Luxembourg	-	14,244
Expobank CZ a.s.	Czech Republic	145	214
Total OECD countries		**145**	**14,458**
Other countries			
OAO „Alfa-Bank"	Russia	27	947
OAO „Sberbank of Russia"	Russia	1,057	331
Industrial and Commercial Bank of China (ASIA)	Hong Kong	-	2
Industrial and Commercial Bank of China	China	1	1
Bank of China (Russia)	China	1	1
Total other countries		**1,086**	**1,282**
Total balances due from credit institutions		**1,231**	**15,815**

For the Bank the gross maximum credit risk exposure to a single counterparty or a group of related counterparties as at 31 December 2020 comprised 86% (2019: 90%).

NOTES TO THE FINANCIAL STATEMENTS

31 Credit risk, continued

Credit quality per class of financial assets

Credit quality of financial assets is managed by the Bank by employing debtors' (borrowers') financial analysis techniques, analysis of the counterparty's reputation and historical cooperation with the counterparty, as well as using credit ratings granted by international rating agencies.

The transactions subject to credit risk are divided into four credit quality groups depending on the credit ratings published by international rating agencies. There are the following credit quality groups for financial assets due from financial institutions:

Group 1: AAA, AA (Standard& Poor's, Fitch) / Aaa, Aa (Moody's)

This group includes first class transaction partners who are considered to be low-risk investments.

Group 2: A, BBB (Standard& Poor's, Fitch) / A, Baa (Moody's)

This group includes transaction partners with a market position ranging from medium to good. The largest exposure included in this group relates to receivables from OAO „Sberbank of Russia" and Expobank CZ a.s. (2019: Norddeutsche Landesbank Luxembourg SA, Swedbank AS, OAO „Sberbank of Russia",).

Group 3: BB, B, CCC, CC, (Standard& Poor's, Fitch) / Ba, B, C (Moody's)

The largest credit risk exposure in this group relates to receivables from transaction partners below medium rating BB (Standard& Poor's, Fitch) / Ba (Moody's). Out of the above group, the most significant receivables are from OAO „Sberbank of Russia" (2019: OAO „Alfa-Bank")

No rating

Transaction partners who have not been assigned an international credit rating are primarily daughter banks of credit institutions operating in the Republic of Latvia. In this group, the largest receivables are from Expobank Cz.

The table below shows the credit quality by class of financial assets for the Bank as at 31 December 2020 based on international ratings.

EUR'000	Neither past due nor impaired				Total
	Group 1	Group 2	Group 3	No rating	
Cash and demand deposits with the Central banks	-	7,105	-	64	7,169
Due from financial institutions	145	1	1,058	27	1,231
Loans and advances due from customers	-	-	-	21,898	21,898
Financial assets at fair value through other comprehensive income	8,970	13,540	6,484	65	29,059
Other financial assets	-	-	-	484	484
Total financial assets, gross	**9,115**	**20,646**	**7,542**	**22,538**	**59,841**
Less: impairment allowance	-	-	-	(528)	(528)
Total financial assets, net	**9,115**	**20,646**	**7,542**	**22,010**	**59,313**
Contingent liabilities and commitments	**-**	**-**	**-**	**11,288**	**11,288**

NOTES TO THE FINANCIAL STATEMENTS

31 Credit risk, continued

Credit quality per class of financial assets, continued

The table below shows the credit quality by class of financial assets for the Bank as at 31 December 2019 based on international ratings.

EUR'000	Neither past due nor impaired				Total
	Group 1	Group 2	Group 3	No rating	
Cash and demand deposits with the Central banks	-	10,057	-	85	10,142
Due from financial institutions	-	3	14,575	1,237	15,815
Loans and advances due from customers	-	-	-	10,375	10,375
Financial assets at fair value through other comprehensive income	8,689	13,434	9,322	63	31,508
Other financial assets	-	-	-	234	234
Total financial assets, gross	**8,689**	**23,494**	**23,897**	**11,994**	**68,074**
Less: impairment allowance	-	-	-	(84)	(84)
Total financial assets, net	**8,689**	**23,494**	**23,897**	**11,910**	**67,990**
Contingent liabilities and commitments	**-**	**-**	**-**	**20**	**20**

Expected credit loss broken down into stages, excluded loans

	31.12.2020		
	Stage 1 EUR'000	Stage 2 EUR'000	Stage 3 EUR'000
Financial assets measured at FVOCI	4	-	-
Debtors in the amortised cost	-	-	6
Expected credit losses, total	**4**	**-**	**6**

	31.12.2019		
	Stage 1 EUR'000	Stage 2 EUR'000	Stage 3 EUR'000
Financial assets measured at FVOCI	5	-	-
Expected credit losses, total	**5**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS

31 Credit risk, continued

Credit quality per class of financial assets, continued

In order to assess the credit risk inherent in loans, the Bank assesses the borrower's creditworthiness and information on the customer's current and planned cash flows, collateral, credit purpose and quality of submitted documents, borrower's reputation and industry, determining the borrower's credit risk categories in range 1-6, where categories 1-4 correspond to loans classified as stage 1 according IFRS 9, category 5 corresponds to the category high risk and are classified as stage 2 according IFRS 9, and category 6, where the borrower considered as defaulted.

Loans and contingent liabilities and commitments expected credit loss broken down into stages

	31.12.2020		
	Stage 1 EUR'000	**Stage 2 EUR'000**	**Stage 3 EUR'000**
	The borrower's internal credit categories from 1 till 4	**The borrower's internal credit category 5**	**The borrower's internal credit category 6**
Loans	148	380	-
Contingent liabilities and commitments	59	-	-
Expected credit losses, total	**207**	**380**	**-**
	31.12.2019		
	Stage 1 EUR'000	**Stage 2 EUR'000**	**Stage 3 EUR'000**
	The borrower's internal credit categories from 1 till 4	**The borrower's internal credit category 5**	**The borrower's internal credit category 6**
Loans	83	-	-
Contingent liabilities and commitments	-	-	-
Expected credit losses, total	**83**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS

32 Currency risk

Currency risk exposure

The Bank's currency analysis of financial assets and financial liabilities by currency profile as at 31 December 2020 was as follows:

EUR'000	USD	EUR	RUB	GBP	Other currencies	Total
Financial assets						
Cash and demand deposits with Central banks	56	7,108	2	3	-	**7,169**
Due from financial institutions	271	333	604	17	6	**1,231**
Loans and advances due from customers	-	21,898	-	-	-	**21,898**
Financial assets at fair value through other comprehensive income	4,040	25,019	-	-	-	**29,059**
Other financial assets	264	220	-	-	-	**484**
Total	**4,631**	**54,578**	**606**	**20**	**6**	**59,841**
Financial liabilities						
Deposits and balances due to financial institutions	1	-	-	-	-	**1**
Current accounts and deposits due to customers	4,520	20,292	653	4	14	**25,483**
Other financial liabilities	-	-	-	-	-	**-**
Total	**4,521**	**20,292**	**653**	**4**	**14**	**25,484**
Net position - on and off statement of financial position	110	34,286	8 (47)	16	(8)	
Net open position	**110**	**34,286**	**(47)**	**16**	**(8)**	

The Bank's currency analysis of financial assets and financial liabilities by currency profile as at 31 December 2019 was as follows:

EUR'000	USD	EUR	RUB	GBP	Other currencies	Total
Financial assets						
Cash and demand deposits with Central banks	21	10,116	2	3	-	**10,142**
Due from financial institutions	14,548	340	920	2	5	**15,815**
Loans and advances due from customers	-	10,292	-	-	-	**10,292**
Financial assets at fair value through other comprehensive income	6,956	24,552	-	-	-	**31,508**
Other financial assets	212	20	1	-	-	**233**
Total	**21,737**	**45,320**	**923**	**5**	**5**	**67,990**
Financial liabilities						
Deposits and balances due to financial institutions	1	-	-	-	-	**1**
Current accounts and deposits due to customers	21,643	9,575	956	3	1	**32,178**
Other financial liabilities	-	-	-	-	-	**-**
Total	**21,644**	**9,575**	**956**	**3**	**1**	**32,179**
Net position - on and off statement of financial position	93	35,745	8 (33)	2	4	
Net open position	**93**	**35,745**	**(33)**	**2**	**4**	

NOTES TO THE FINANCIAL STATEMENTS

32 Currency risk, continued

Sensitivity analysis

The scenario used for the analysis is based on reasonable volatility of exchange rates equal for all exposures of the Bank in foreign currencies assuming that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for both years.

31% of the RUB (2019:-14%) and a 9% strengthening of the USD (2019: -2%) and other foreign currencies against the euro as at 31 December 2020 and 31 December 2019 respectively would have increased profit by the amounts shown below:

	2020 EUR'000	2019 EUR'000
RUB	(15)	(5)
USD	10	(2)
Total	**(5)**	**(7)**

33 Liquidity risk

Maturity analysis

The table below reflects the maturity analysis of the Bank's financial assets and financial liabilities based on the term from the reporting date until the maturity dates of the respective assets and liabilities. The maturity analysis of the Bank's financial assets and financial liabilities and contingent liabilities and commitments as at 31 December 2020 was as follows:

EUR'000	On demand	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	No maturity	Total
Financial assets									
Cash and demand deposits with the central banks	7,169	-	-	-	-	-	-	-	**7,169**
Due from financial institutions	1,231	-	-	-	-	-	-	-	**1,231**
Loans and advances due from customers	1	-	-	-	-	14,922	6,975	-	**21,898**
Financial assets at fair value through other comprehensive income	28,994	-	-	-	-	-	65	-	**29,059**
Other financial assets	484	-	-	-	-	-	-	-	**484**
Total	**37,879**	**-**	**-**	**-**	**-**	**14,922**	**7,040**	**-**	**59,841**
Financial liabilities									
Deposits and balances due to financial institutions	1	-	-	-	-	-	-	-	**1**
Current accounts and deposits due to customers	16,825	-	100	-	4,166	4,383	-	9	**25,483**
Lease liabilities	-	15	46	46	77	302	-	-	**486**
Other financial liabilities	-	-	-	-	-	-	-	-	**-**
Total	**16,826**	**15**	**146**	**46**	**4,243**	**4,685**	**-**	**9**	**25,970**
Contingent liabilities and commitments	11,288	-	-	-	-	-	-	-	**11,288**
Net liquidity position	9,766	(15)	(146)	(46)	(4,243)	10,237	(7,040)	(9)	

NOTES TO THE FINANCIAL STATEMENTS

33 Liquidity risk, continued

Maturity analysis, continued

Amounts due from credit institutions repayable, according to contracts, by prior notice of withdrawal are included in the category "On demand". Other financial assets and financial liabilities are disclosed in accordance with their remaining contractual maturities.

The maturity analysis of the Bank's financial assets and financial liabilities and contingent liabilities and commitments as at 31 December 2019 was as follows:

EUR'000	On demand	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	No maturity	Total
Financial assets									
Cash and demand deposits with the central banks	10,142	-	-	-	-	-	-	-	**10,142**
Due from financial institutions	656	15,159	-	-	-	-	-	-	**15,815**
Loans and advances due from customers	1	1	-	-	2	10,288	-	-	**10,292**
Financial assets at fair value through other comprehensive income	31,446	-	-	-	-	-	62	-	**31,508**
Other financial assets	-	57	-	-	-	-	-	176	**233**
Total	**42,245**	**15,217**	**-**	**-**	**2**	**10,288**	**62**	**176**	**67,990**
Financial liabilities									
Deposits and balances due to financial institutions	1	-	-	-	-	-	-	-	**1**
Current accounts and deposits due to customers	28,340	820	-	-	743	2,275	-	-	**32,178**
Lease liabilities	-	17	50	50	82	467	-	-	**666**
Other financial liabilities	-	-	-	-	-	-	-	-	**-**
Total	**28,341**	**837**	**50**	**50**	**825**	**2,739**	**-**	**-**	**32,845**
Contingent liabilities and commitments	20	-	-	-	-	-	-	-	**20**
Net liquidity position	13,924	14,380	(50)	(50)	(823)	7,549	62	176	

NOTES TO THE FINANCIAL STATEMENTS

33 Liquidity risk, continued

Analysis of financial liabilities' contractual undiscounted cash flows

The tables below present the cash flows payable by the Bank under contractual financial liabilities, including derivative financial liabilities, by remaining contractual maturities as at the reporting date.

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

The analysis of financial liabilities' contractual undiscounted cash flows of the Bank as at 31 December 2020 was as follows:

EUR'000	Carrying amount	Contractual cash flows	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Longer than 5 years
Non-derivative financial instruments							
Deposits and balances due to financial institutions	1	(1)	-	-	-	-	-
Current accounts and deposits due to customers	25,483	(25,414)	(16,854)	(2,954)	(2,857)	(2,749)	-
Leases of right-of-use assets	486	(578)	(17)	(51)	(153)	(357)	-
Other financial liabilities	-	-	-	-	-	-	-
Total	**25,970**	**(25,993)**	**(16,871)**	**(3,005)**	**(3,010)**	**(3,106)**	**-**

The analysis of financial liabilities' contractual undiscounted cash flows of the Bank as at 31 December 2019 was as follows:

EUR'000	Carrying amount	Contractual cash flows	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Longer than 5 years
Non-derivative financial instruments							
Deposits and balances due to financial institutions	1	(1)	-	-	-	-	-
Current accounts and deposits due to customers	32,178	(32,178)	(29,160)	(1)	(956)	(2,061)	-
Leases of right-of-use assets	666	(666)	(17)	(50)	(132)	(467)	-
Other financial liabilities	-	-	-	-	-	-	-
Total	**32,845**	**(32,845)**	**(29,177)**	**(51)**	**(1,088)**	**(2,528)**	**-**

NOTES TO THE FINANCIAL STATEMENTS

34 Interest rate risk

Exposure to interest rate risk

The Bank's exposure to interest rate risk is characterised by the maturity of financial assets and financial liabilities subject to interest rate risk based on the shorter of the remaining maturity dates of financial instruments subject to interest rate risk and the interest rate review dates.

The repricing maturity analysis of financial assets and financial liabilities of the Bank as at 31 December 2020 was as follows:

EUR'000	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	Interest free	Total
Financial assets								
Cash and demand deposits with the Central banks	7,105	-	-	-	-	-	64	**7,169**
Due from financial institutions	1,231	-	-	-	-	-	-	**1,231**
Loans and advances due from customers	-	10,904	10,994	-	-	-	-	**21,898**
Financial assets at fair value through other comprehensive income	355	14	187	1,276	27,163	-	64	**29,059**
Other financial assets	176	-	-	-	-	-	308	**484**
Total	**19,714**	**10,736**	**515**	**1,277**	**27,163**	**-**	**436**	**59,841**
Financial liabilities								
Deposits and balances due to financial institutions	-	-	-	-	-	-	1	**1**
Current accounts and deposits due to customers	16,030	2,642	625	2,544	2,749	-	893	**25,483**
Lease liabilities	-	-	-	486	-	-	-	**486**
Other financial liabilities	-	-	-	-	-	-	-	**-**
Total	**16,030**	**2,642**	**625**	**3,030**	**2,749**	**-**	**894**	**25,970**
Interest rate risk	**3,684**	**8,094**	**(110)**	**(1,753)**	**24,414**	**-**	**(458)**	

NOTES TO THE FINANCIAL STATEMENTS

34 Interest rate risk, continued

Exposure to interest rate risk, continued

The repricing maturity analysis of financial assets and financial liabilities of the Bank as at 31 December 2019 was as follows:

EUR'000	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Longer than 5 years	Interest free	Total
Financial assets								
Cash and demand deposits with the Central banks	10,057	-	-	-	-	-	85	**10,142**
Due from financial institutions	15,194	-	-	-	-	-	621	**15,815**
Loans and advances due from customers	-	7,038	3,249	5	-	-	-	**10,292**
Financial assets at fair value through other comprehensive income	215	107	5,378	3	25,743	-	62	**31,508**
Other financial assets	176	-	-	-	-	-	57	**233**
Total	**32,717**	**3,318**	**5,379**	**4**	**25,747**	**-**	**825**	**67,990**
Financial liabilities								
Deposits and balances due to financial institutions	-	-	-	-	-	-	1	**1**
Current accounts and deposits due to customers	27,696	1	6	949	2,056	-	1,470	**32,178**
Lease liabilities	-	-	-	666	-	-	-	**666**
Other financial liabilities	-	-	-	-	-	-	-	**-**
Total	**27,696**	**1**	**6**	**1,615**	**2,056**	**-**	**1,471**	**32,845**
Interest rate risk	**5,021**	**3,317**	**5,373**	**(1,611)**	**23,691**	**-**	**(646)**	

The table below shows the Bank's interest rate sensitive assets and liabilities as at 31 December 2020 and 2019 and the corresponding average weighted effective interest rates in 2020 and 2019.

	Carrying amount 31.12.2020 EUR'000	2020 average weighted effective interest rate	Carrying amount 31.12.2019 EUR'000	2019 average weighted effective interest rate
Interest rate sensitive assets				
Due from financial institutions	1,231	0.26%	15,815	1.63%
Financial assets at fair value through other comprehensive income	29,059	1.27%	31,508	0.96%
Loans and advances due from customers	22,243	4.60%	10,376	4.40%
Total	**52,533**		**57,699**	
Interest rate sensitive liabilities				
Deposits and balances due to financial institutions	-	-	-	-
Current accounts and deposits due to customers	8,649	1.17%	19,150	0.69%
Lease liabilities	486	3.15%	666	3.00%
Total	**9,135**		**19,816**	

NOTES TO THE FINANCIAL STATEMENTS

34 Interest rate risk, continued

Sensitivity analysis

The following table demonstrates the sensitivity to reasonably possible changes in interest rates of the Bank's net interest income. The analysis assumes that all other variables remain constant.

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

	Increase in basis points	Sensitivity of net interest income EUR'000	Decrease in basis points	Sensitivity of net interest income EUR'000
As at 31 December 2020				
	+100	1,240	-100	(1,240)
Total effect		**1,240**		**(1,240)**
As at 31 December 2019	**+100**	**1,014**	**-100**	**(1,014)**
Total effect		**1,014**		**(1,014)**

To assess risks in securities portfolio Bank uses Value at Risk (Value-at-Risk) calculation to estimate maximal loss due to prices change. Bank defines Value at Risk (VaR) as possible adverse loss that will not be exceeded with a 99% confidence level, over period 1 day.

	31.12.2020	**31.12.2019**
	Financial assets at fair value through other comprehensive income	**Financial assets at fair value through other comprehensive income**
Value of portfolio (000' EUR)	28,989	31,471
1 day VaR (000' EUR)	97	19

35 Events subsequent to the reporting date

No significant subsequent events have occurred in the period from the year-end to the date of these financial statements that would need to be disclosed in these separate financial statements, or would require adjustments to be made to these consolidated and separate financial statements and disclosures added to the notes thereto.

Investment grade credit ratings assigned by international credit rating agencies confirm the stability of Latvia's economy. Despite the negative effects of the Covid-19 pandemic, which led to a rapid decline in Latvia's economy in 2020, the international rating agencies assessed the operational and effective action of the Latvian government in limiting the spread of Covid-19 in Latvia and taking significant measures to support the economy, and confirmed that the fundamentals of economic growth in Latvia have not been affected and economic growth rates are likely to resume once the effects of the pandemic subside.

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