FINANŠU UN KAPITĀLA TIRGUS KOMISIJA

OVERVIEW OF FINANCIAL AND CAPITAL MARKETS

Quarter 2 2021

CONTENTS

BANKS

Key performance indicators

	Q1 2021	Q2 2021
Number of market participants (banks and branches of foreign banks)	13+3	13+3
Assets (billion euro)	25.4	25.3
Non-bank deposits (billion euro)	19.8	19.7
Non-bank gross loan portfolio (billion euro)	14.2	14.1
Share of non-performing loans (NPLs) in the non-bank loan portfolio[1;2], %	4.6	4.6
Share of loans past due more than 90 days in the non-bank loan portfolio, %	1.8	2.0
Coverage ratio of non-bank NPLs[1;2], %	24.6	25.7
Share of domestic loan portfolio to deposits (household and non-financial corporations)	74.7	72.7
Return on Equity[1], % (ROE)	7.5	10.7
Cost-to-Income Ratio[1], % (CIR)	65.2	61.4
Common Equity Tier 1 capital ratio[1], % (CET1)	23.8	24.1
Total Capital Ratio[1], % (TCR)	24.8	25.1
Liquidity Coverage Ratio[1], % (LCR)	320.4	312.3
Net Stable Funding Ratio[1], % (NSFR)	-	178.4

- **Following a rapid increase in previous quarters , the amount of non-bank deposits declined slightly in the reporting quarter.** Overall, deposits reduced by 98.5 million euro or 0.5%. In the second quarter , domestic deposits showed a sharp decrease in deposit growth rate (a rise of 143 million euro or 0.9%). In addition to the high uncertainty and limited consumption opportunities, domestic household deposits continued to increase, though slower than in previous quarters (by 327 million euro or 3.6%), while deposits of other segments shrank (by 29 million euro or 0.5% for non-financial corporations, by 59 million euro or 6.4% for deposits of other financial corporations and by 96 million euro or 19.4% for general government). The amount of foreign customer deposits diminished in the reporting quarter (by 242 million euro or 6.7%), mainly due to a reduction in deposits of non-financial corporations (by 197 million euro or 16.5%) and households deposits (by 41 million euro or 2.2%). The share of foreign customer deposits in total deposits dropped to 17.0% during the reporting quarter (18.1% at the end of March), including 10.0% outside the EU.
- **Following a significant decrease in the growth rate of the non-bank customer deposits, the total amount of assets did not change substantially in the reporting quarter.** Contrary to the growth trend observed in previous quarters, the total amount of the banking sector's assets decreased slightly in the reporting quarter (by 155 million euro or 0.6%). Also, there was no substantial change in the structure of assets: the claims on the central bank increased slightly (by 329 million euro or 5.8%), with a decrease in claims against other credit institutions (by 258 million euro or 23%), accordingly. Compared to the corresponding period of the previous year, the growth rate of assets remained high: the amount of assets in the banking sector increased by 2.0 billion euro or 8.6% during the year, driven mainly by an increase in deposits of non-bank customers of 1.9 billion euro or 10.9%.
- **The average liquidity coverage ratio of the banking sector did not change significantly.** Although the average EU harmonised liquidity coverage ratio (LCR) for the banking sector decreased from 320.4% to 312.3% in the reporting quarter, it remained at a high level of more than 3 times above the minimum requirement (since 1 January 2018, the LCR minimum requirement has been set at 100%). For individual banks, the indicator ranged from 151% to 653%.
- **The stable funding ratio was at a relatively high level.** As from the second quarter of 2021, banks should also comply with the EU harmonised net stable funding ratio (100% requirement). The average ratio of the Latvian banking sector was 178.4% at the end of June, while it ranged from 134% to 247% for

[1] Ratios calculated according to The EBA methodological guide (www.eba.europa.eu*)*

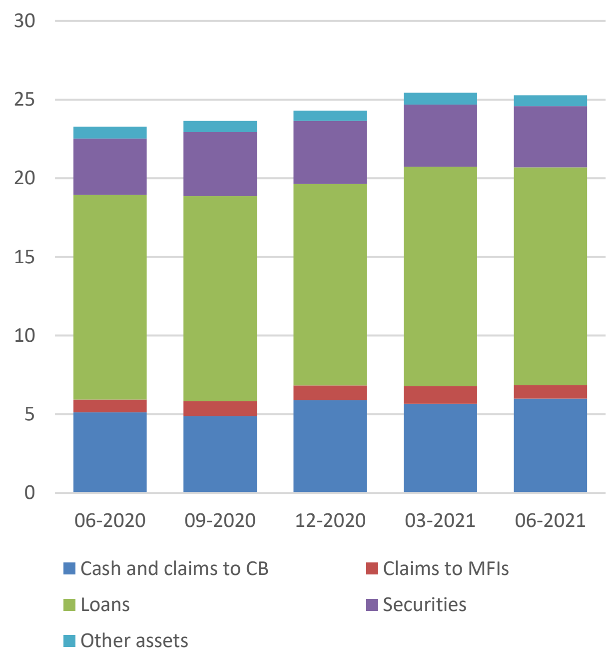
[2] Excluding claims on the central bank and other credit institutions

individual banks. The major share of the required amount of stable funding is determined by the level of bank lending, while the available stable funding is determined by the deposits of individuals or small and medium-sized enterprises.

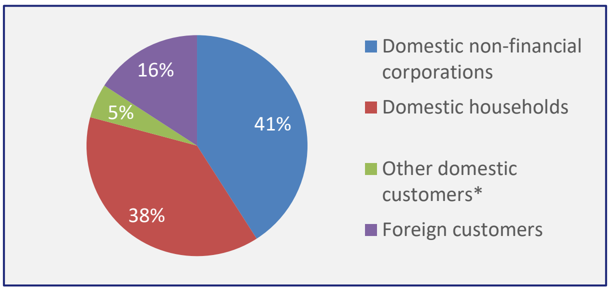
- **The amount of loans issued to non-bank customers decreased by 0.8% in the reporting quarter.** The total domestic non-banks portfolio decreased by 0.4% or 51 million euro, mainly due to a decrease in the loan portfolio of domestic non-financial corporations (by 2.6% or 155 million euro). As the positive developments in housing lending continued, domestic households' portfolio grew by 0.9%. In the reporting quarter, the domestic household segment showed an increase in demand for consumer credits with a rise of 2.4%. In the second quarter of the year, the amount of foreign customer loans fell (by 2.5% or 58 million euro), driven by a relatively rapid decline in the amount of loans to non-financial corporations (-5.8%). On the other hand, foreign households' credit portfolio increased by 4.6%.
- **The quality of loans to non-bank customers remained unchanged**, with the share of non-performing loans (NPL) remaining at the level of previous quarter (4.6%). The share of doubtful loans declined slightly in the structure of NPL (from 2.8% to 2.6%), with a corresponding increase in the share of loans past due more than 90 days (to 2.0%). The quality of assets improved in both domestic and foreign households' credit portfolios, with the share of NPL shrinking to 2.6% and 7.1%, respectively, while the opposite trend was observed in loans to non-financial corporations: the share of domestic non-financial corporations increased by 0.2 percentage points (4.6%), while foreign non-financial corporations - to 13.3%.
- **As provisions grew, their proportion to NPLs (NPL coverage ratio) slightly improved.** With provisions increasing by 4.4% during the reporting quarter, while the absolute amount of non-performing loans remaining unchanged, the coverage ratio increased by 1.1 percentage points in the reporting quarter, reaching 25.7%.
- **The Latvian banking sector continued to show resilience to the shock caused to the economy by the Covid-19 pandemic.** The negative impact of the pandemic on asset quality was not significant, but there was an increase in the share of non-performing loans in the sector affected by Covid-19: accommodation and catering where the NPL ratio increased to 21.7% by the end of June. At the end of the reporting quarter, existing bank support measures remained for loans amounting to 66.6 million euro (8.1% of the granted), i.e., 0.5% of total non-bank loan portfolio. The EBA's moratorium support measures are due to expire, while the individual support measures offered by banks for borrowers remain in place (18% of those granted). The share of loans receiving aid (existing and expired) classified as NPLs increased by 5.1 percentage points during the reporting quarter and reached 18.5% of total NPLs.
- **The profitability of the banking sector continued to improve.** In the first half of 2021, the banking sector operated at a profit of 146 million euro, i.e., more than 3.5 times the profit in the corresponding period of the previous year. A sharp increase in profits continued to be driven by the low base level of 2020, driven mainly by significantly higher credit institutions' spending on provisioning and lower profits on transactions in financial instruments and exchange rate fluctuations. In the first half of 2021, the banking sector expenses on the provisions were 89.5% or 42 million euro lower, while income from core business by 78 million euro or 24.2% higher than in the corresponding period of the previous year. With increasing profits, the return on equity (ROE) continued to improve from 7.5% to 10.7%. Four credit institutions closed the first half of 2021 with losses and their ROE ranged from -36.5% to -3.5%.
- **A rapid rise in core operating income was driven by several factors.** The major impact on the growth in operating income remained on the profit from financial instrument transactions and exchange rate fluctuations, with an increase of 29 million euro or 8 times in the first half of the year. The growth in core operating income was also driven by a relatively significant increase in net interest income of 20 million euro or 9.6%, mainly affected by the closing the "Citadele" acquisition of SIA "UniCredit Leasing" in the first quarter of year. Excluding this effect, net interest income remained at previous year's level (-0.1%). A positive trend was also observed regarding net commission income, which grew by 10.1 million euro or 10.0% during the year. The increase in operating income during the reporting period was also significantly affected by the increase in other operating income (+18 million euro or 4 times), resulting from the sale of real estate by the subsidiary of one market participant. With core operating income rising, the cost-to-income ratio also improved from 65.2% to 61.4%, respectively, during the quarter.
- **Capital ratios remained stable at high levels**. Although the Total Capital Ratio (TCR) and Common Equity Tier 1 capital (CET1) decreased slightly in the reporting quarter (by 0.7% and 0.6%), the credit portfolio also decreased and, correspondingly, the amount of credit risk-weighted assets and the total exposure value (by 163.5 million euro or 1.7%). And consequently, the banking sector's TCR improved from 24.8% to 25.1%, while the CET1 ratio rose from 23.8% to 24.1%.

Balance sheet structure

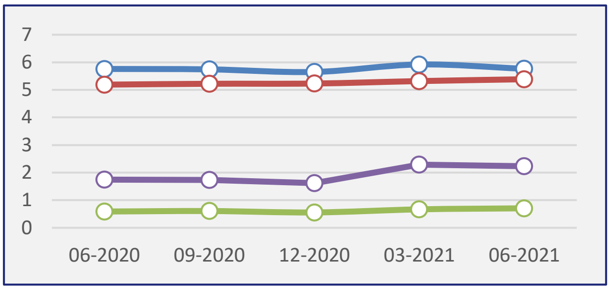
Asset structure, billion euro



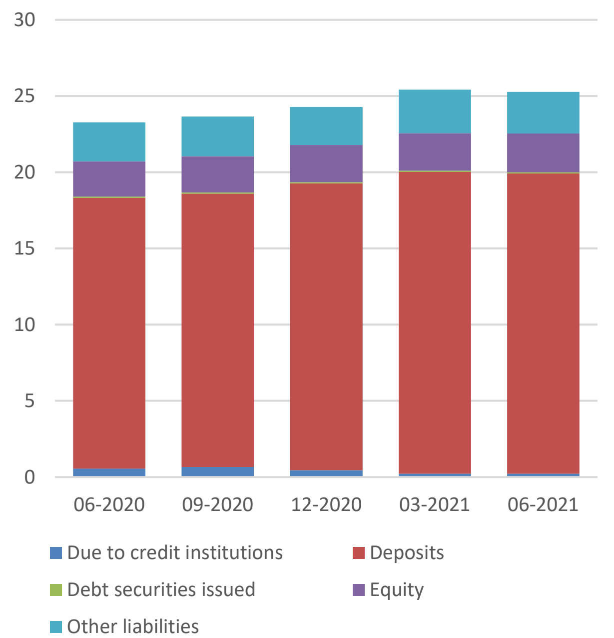
Structure of gross non-bank customer loan portfolio at the end of reporting period (%)



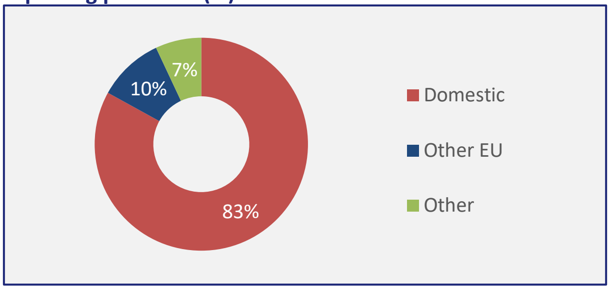
Gross non-bank loan portfolio, billion euro



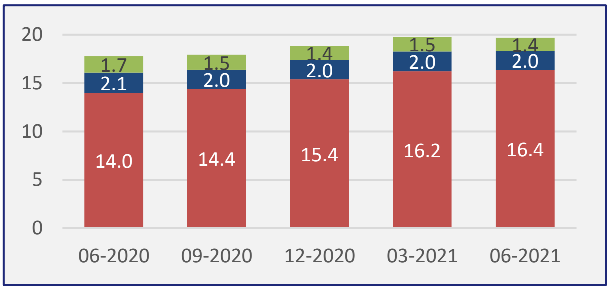
Liabilities structure, billion euro



Structure of non-bank customer deposits at the end of reporting period ** (%)



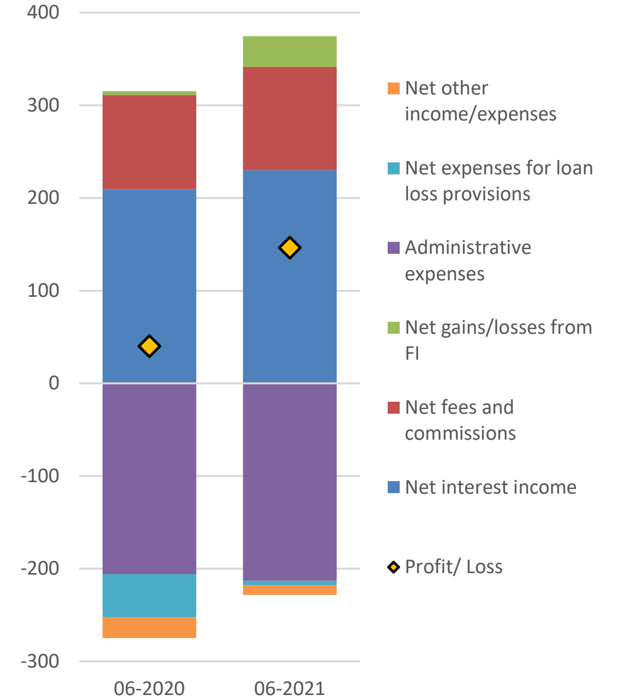
Non-bank deposits, billion euro



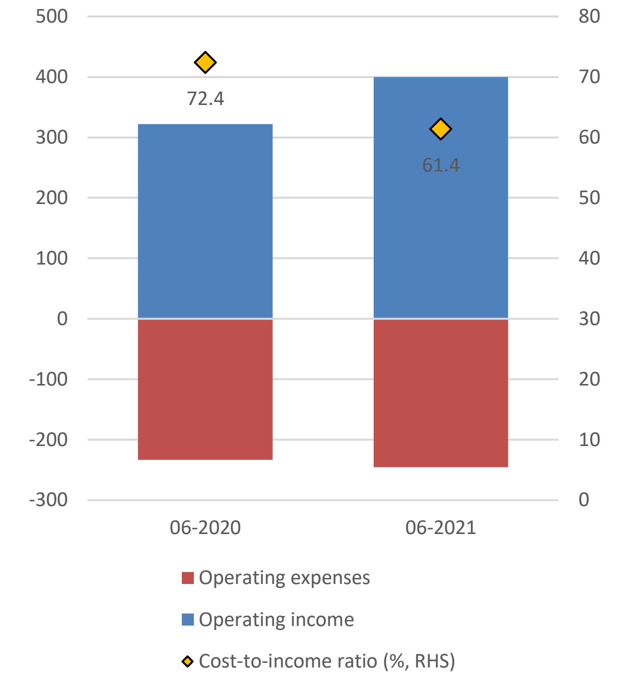
**Central government and financial corporations **From 01.01.2021, in the data published by the FCMC, the UK is classified in the group "Other countries "*

Profitability

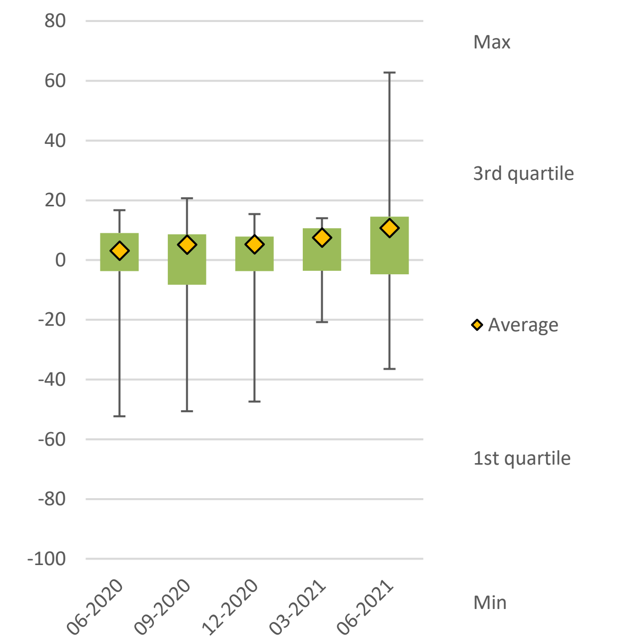
Profit structure, million euro



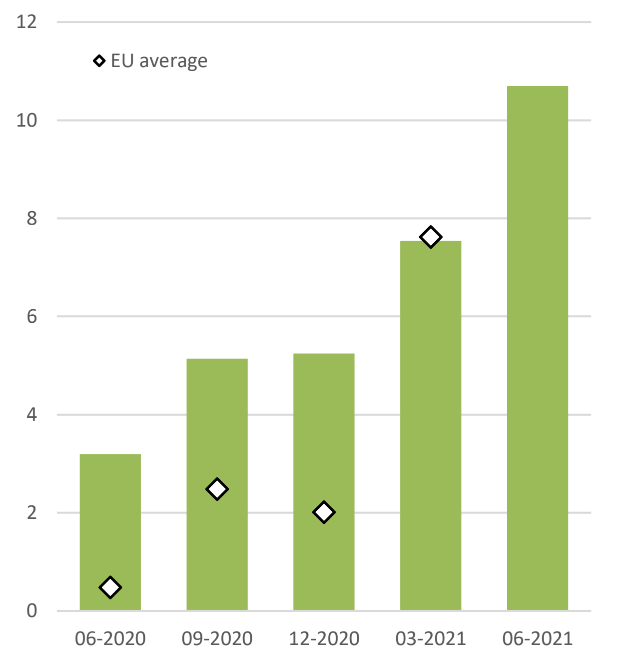
Cost-to-Income Ratio (CIR), %



ROE dispersion, %



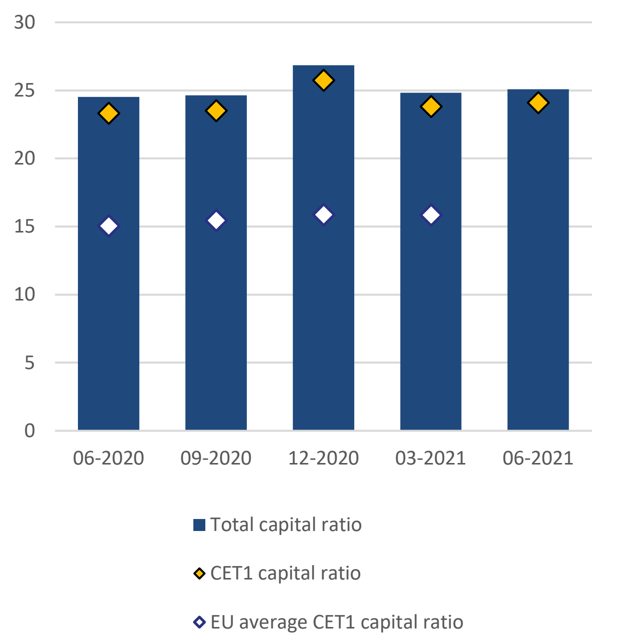
Return on Equity (ROE*), %



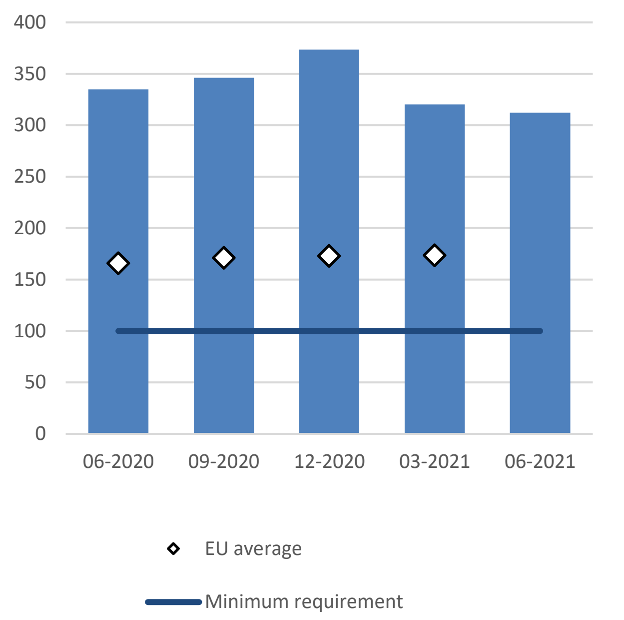
**Source for the EU average: EBA Risk Dashboard*

Capital adequacy and liquidity

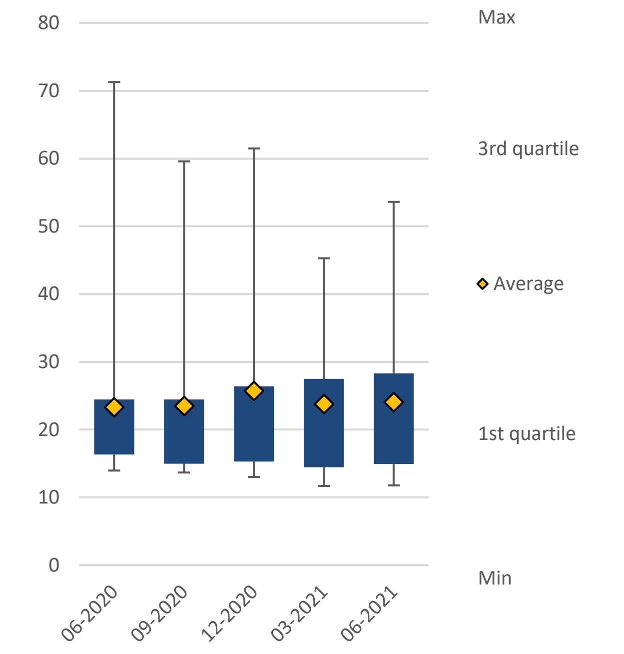
Capital ratios, %



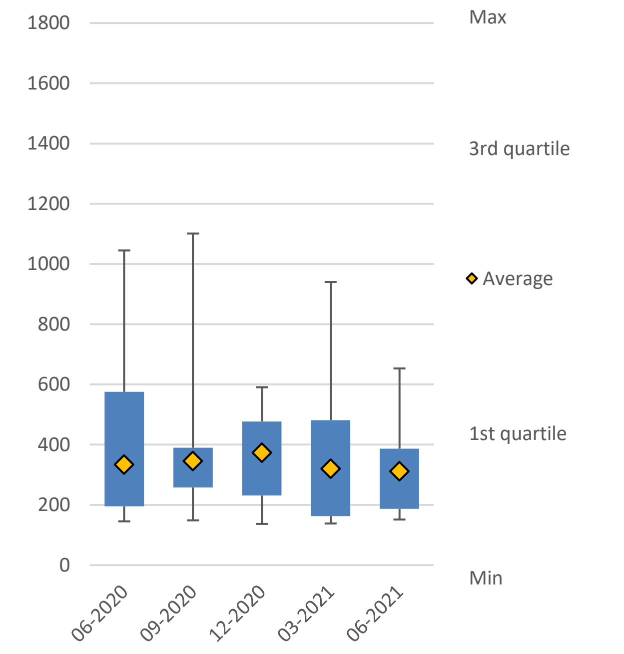
Liquidity coverage ratio (LCR), %



CET1 ratio dispersion, %

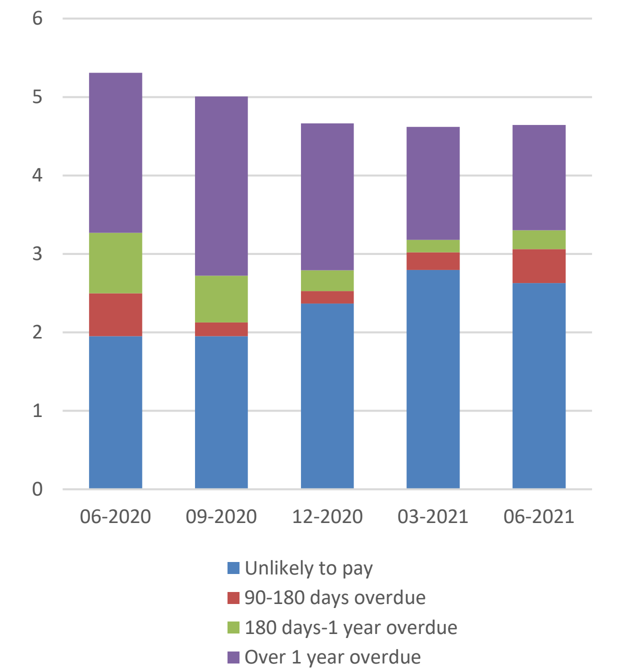


LCR ratio dispersion, %

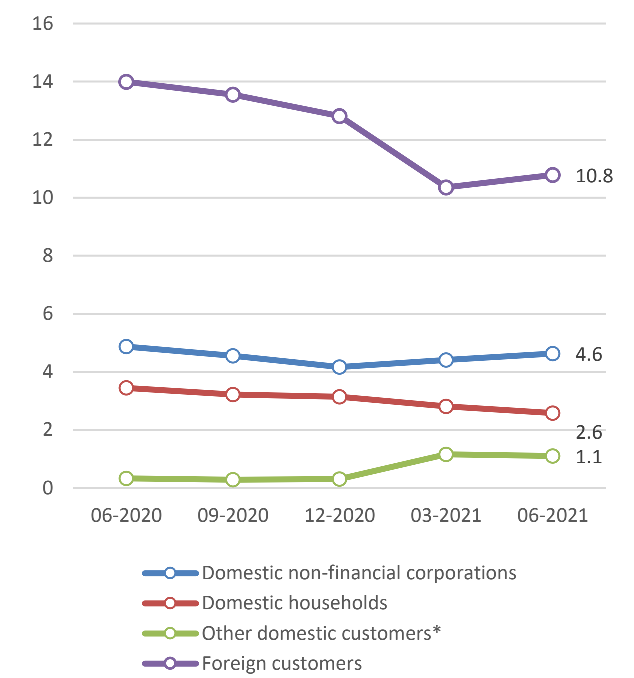


Non-bank customers' loan portfolio quality

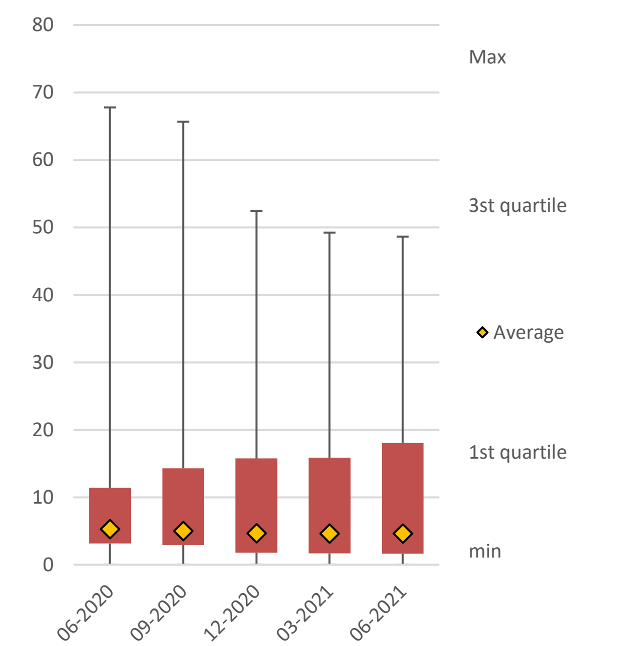
NPL structure, %



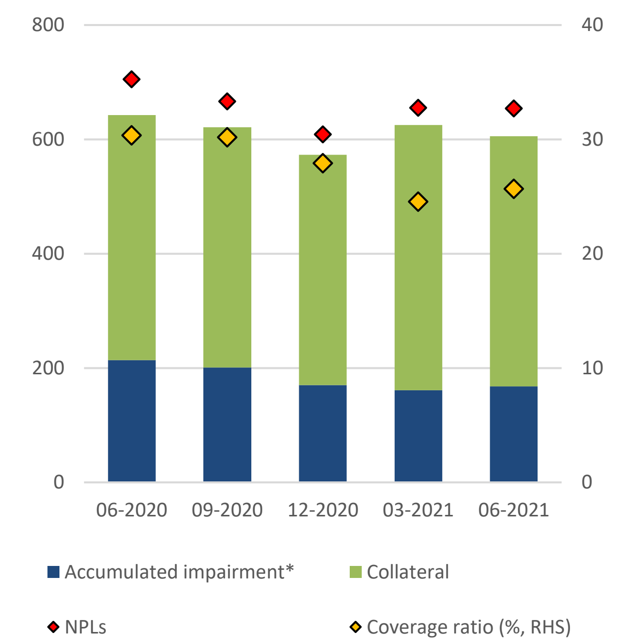
NPL (respective segment, %)



Dispersion of NPL, %



NPLs, collateral and provisions, million euro



** Central government and financial corporations **Provisions for non-performing loans*

INSURERS

Key performance indicators

	Q2 2020	Q2 2021
Number of market participants (companies and branches)	6+12	6+11
Gross premiums written since the beginning of the year (million euro)	406.8	406.7
Gross claims paid since the beginning of the year (million euro)	245.3	249.5
Profit/loss for the reporting period (million euro)	13.5	18.1
Loss ratio, %[3]	60.5	65.5
Expense ratio, %[3]	30.6	29.5
Combined ratio, %[3]	91.1	95.0
Solvency ratio, %	165	184

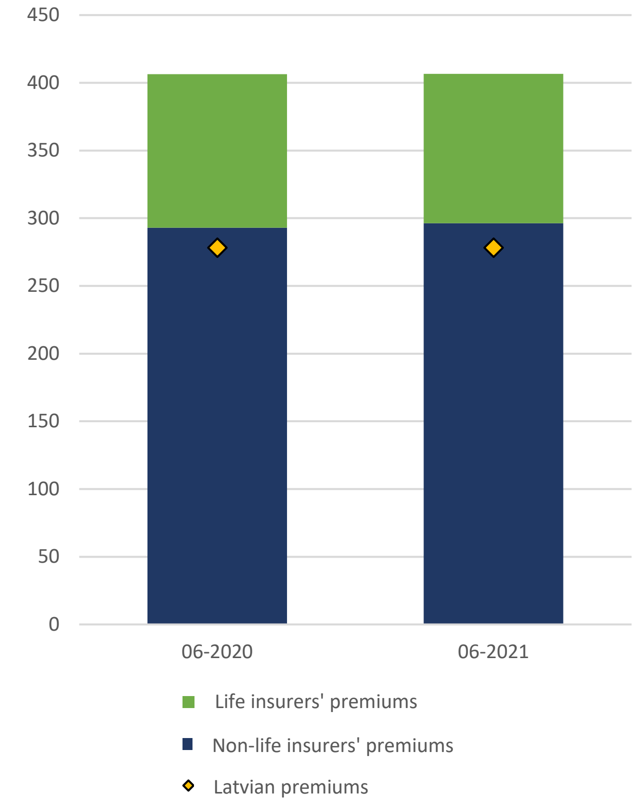
- **Since the second half of 2020, when the Estonian insurance company "Seesam Insurance" AS Latvia's branch was merged with "Compensa Vienna Insurance Group" ADB Latvia's branch, there have been no structural changes in the insurance sector.** The number of market participants remained unchanged: six insurance companies (including two life and four non-life companies) and 11 branches of foreign insurance companies (including four life and seven non-life companies).
- **Total gross premiums written in the first half of 2021 did not change significantly compared to the corresponding period of the previous year** (decreased by only 0.03%), amounting to 406.7 million euro, also the amount of premiums written in Latvia did not change significantly (increasing by 0.02% compared to the corresponding period of the previous year). 1% growth of non-life insurers' gross premiums written was mainly driven by 11% or 6.8 million euro increase of gross premiums written for health insurance products as well as 13.4% or 6.1 million euro increase for property insurance. For both health and property insurance, the upsurge was affected by the gradual market return to pre-pandemic trends, while health insurance was also affected by a growing demand for the new product covering risks of COVID-19. The largest decrease in the range of non-life insurance products was for OCTAA (-16.4% or a decrease of 7.7 million euro), which was mainly due to a drop in prices caused by increased competition due to the conditions created by COVID-19 pandemic. The amount of premiums written by life insurers diminished by 4.0% or 3.7 million euro, mainly affected by a decline of 29.7% or 7.8 million euro in annuity insurance (because during the period of performance volatility caused by COVID-19 participants of the second pension pillar were offered the possibility not to withdraw their savings until November 2021.
- **In the overall portfolio of premiums written, the major part (37.4%) was still generated by premiums for land vehicle insurance[4]** amounting to 151.9 million euro. In Latvia, the most important classes of insurance were land vehicle insurance (30.2%), as well as health insurance (23.1%), life insurance (21.1%, including annuity insurance 6.7%), and property insurance against fire, natural damage and other losses (15.3%).
- **The profits of insurance companies increased** – earning a total of 18.1 million euro during the reporting period, an increase of 33.4% or 4.5 million euro was affected by life insurance companies' profit of 8.7 million euro (losses of 4.8 million euro in the corresponding period of 2020). On the other hand, the profits of non-life insurance companies shrank to 9.3 million euro (18.3 million euro in the corresponding period of 2020), with one insurance company closing the second quarter of 2021 with losses of 137.4 thousand euro. With an increase in profits, Return on Equity (ROE) and Return on Assets (ROA), indicators continued to improve in the reporting quarter from 10.0% to 11.5% and from 2.1% to 2.4%, respectively.
- **While the amount of premiums written remained unchanged compared to the corresponding period of the previous year (407 million euro), claims paid climbed by 1.8% to 249.5 million euro**, thus influencing the combined ratio[5] that reached a level of 95% in the second quarter of 2021. For one non-life insurance company, it was above 100%.

[3] Loss, expense and combined ratios calculated for non-life insurance companies
[4] Land vehicle insurance, civil liability insurance for land vehicle owners and motor vehicle liability compulsory insurance (*OCTAA*)
[5] A combined ratio above 100% indicates losses from the non-life insurance activities (excluding investment income)

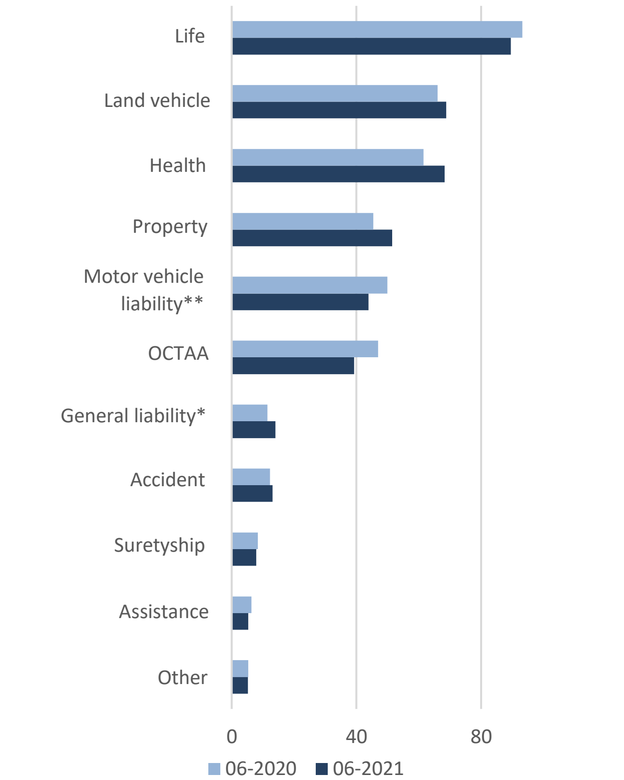
- **The size of insurance companies' investment portfolio increased by 8.6%** (or 111.3 million euro), reaching 1.4 billion euro at the end of June, while the structure of the investment portfolio has not changed significantly. Compared to the corresponding period of the previous year, investments in investment funds increased by 23.1% (or by 118.4 million euro), thus increasing their share in the investment portfolio structure to 45%, while the most significant decline was for investments in government bonds, i.e., by 5.16% (or by 26.3 million euro), their share in the investment portfolio decreased to 34%, respectively.
- **The solvency ratio of insurance companies[6] remained stable above the minimum requirements and reached 184% at the end of March** (the lowest permitted limit is 100%), including 247% for life insurance companies and 153% for non-life insurance companies.

Premiums written

Gross premiums written by insurers, million euro



Gross premiums written by insurers by type of insurance, million euro

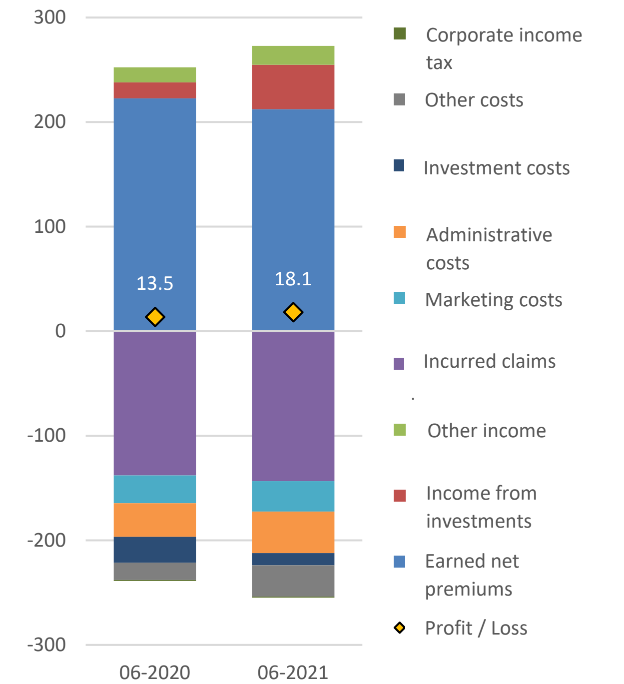


** Civil liability insurance ** Civil liability insurance for land vehicle owners*

[6] Characterises the adequacy of eligible own funds for the calculated solvency capital requirement

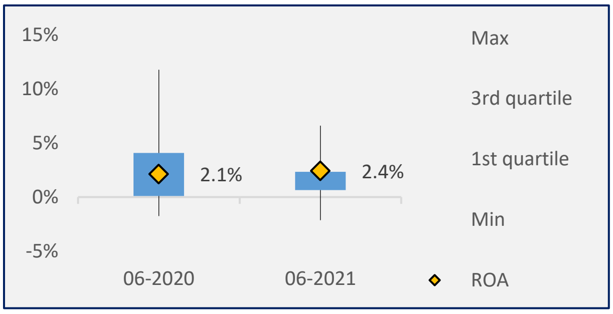
Profitability and solvency

Insurance companies: profit structure, million euro

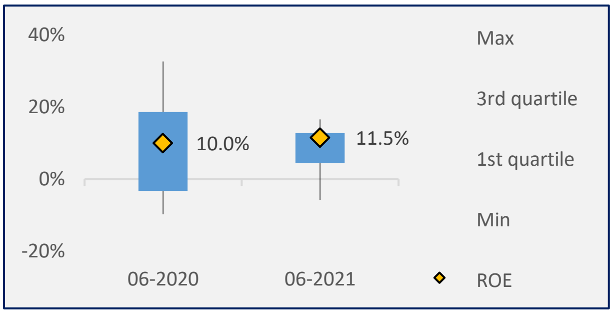


Insurance companies (ROA, ROE), %

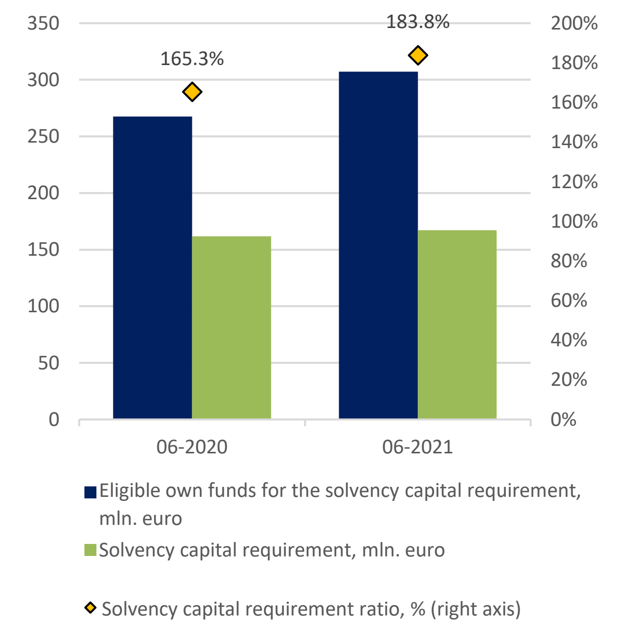
Return on Assets (ROA), %



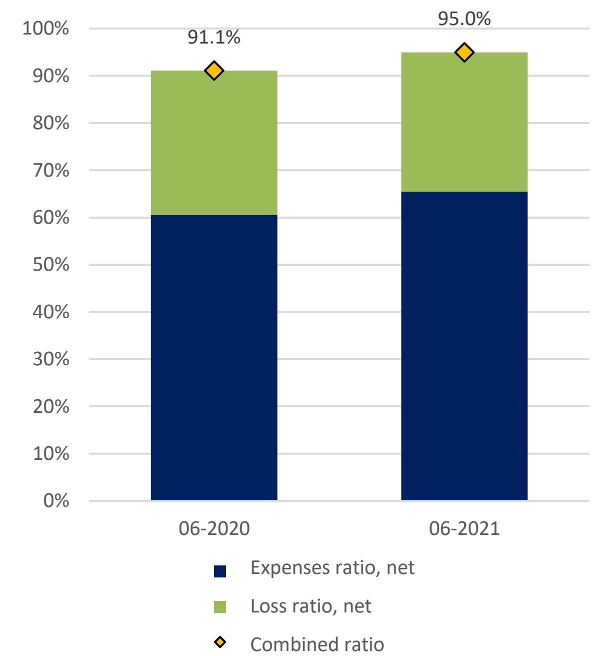
Return on Equity (ROE), %



Insurance companies: Solvency ratio, %



Combined ratio of non-life insurance companies, %



CO-OPERATIVE CREDIT UNIONS

Key performance indicators

	2020	H1 2021
Number of market participants	34	34
Market concentration[7], %	82.6	82.2
Assets (million euro)	31.3	31.4
Deposits (million euro)	22.2	22.3
Loans (million euro)	24.2	23.4
Share of non-performing loans (NPL)[8], %	16.9	17.3
Provisions / Total loans, %	7.2	7.2
Return on equity (ROE), %	3.9	4.4
Capital adequacy ratio[9] (%)	22.2	22.5

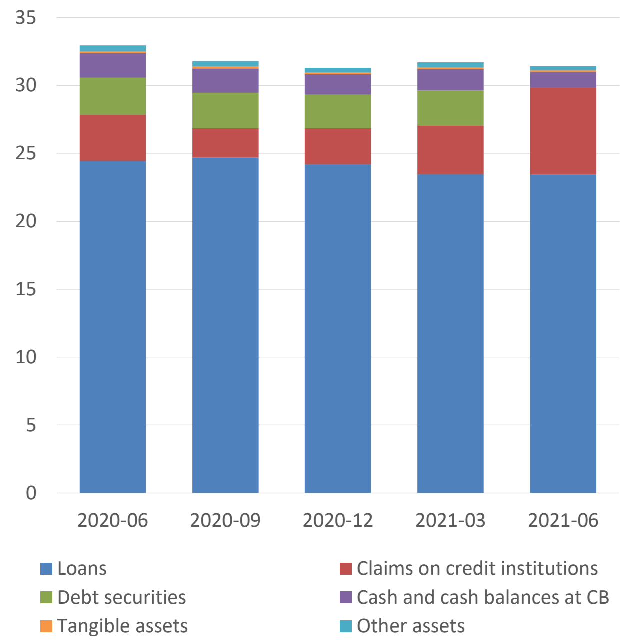
- **The amounts of assets and deposits from members remained almost unchanged during the first six months of the year**. Deposits grew by 0.5% or 0.1 million euro, while assets climbed by 0.4% or 0.1 million euro. Members' deposits were almost the only source of the funds raised by the co-operative credit unions (CCU) sector (~100%), and most of them (88.4%) were household deposits. During the reporting period, there were changes in the sector's overall asset structure: at the end of the maturity of the debt securities, the level of claims against monetary financial institutions increased accordingly in the second quarter of 2021.
- **In the reporting period, the total loans of CCU sector decreased** (by 3.3%), because the amount of loans issued to members that were paid off and written off exceeded the amount of loans newly issued. As uncertainty about the prospects for economic development under the COVID-19 pandemic conditions continued, the prudence of borrowers, in particular individuals, remained high and the loans of CCUs was dominated by loans issued to households (98.6%). Mortgage and consumer loans decreased by 4.6% and by 4.8%, respectively (the share of these types of loans in the total loans of CCUs was 51.3% and 37.5%, respectively).
- **The quality of the loans deteriorated slightly**. The share of standard loans in the CCU sector total loans remained generally unchanged over the first half-year, but partly due to loans previously classified as close-watch. The share of NPL grew from 16.9% to 17.3%. Besides, the amount of provisions created for loans decreased (mainly due to the influence of one market participant) and their proportion to the total loans at the end of June was 7.2%, but the share of NPL provisions to the amount of NPLs – 37.4% (excluding the influence of one market participant – much higher, 80.4%).
- **The overall profitability of CCU sector improved, with the Return on Equity (ROE) rising to 4.4% at the end of June**. The decrease in net interest income during the first half of 2021 (by 10.9% compared to the corresponding period of the previous year) also resulted in a decrease in financial operating profit (by 9.2%). However, the reduction of all types of expenses (e.g., administrative costs decreased by 1.5%, while the income from reduction of provisions exceeded the costs of their creating by 10.8 thousand euro) allowed the CCU sector to generate a profit of 153 thousand euro in the first half of the year (or by 10.3% more than in the corresponding period of the previous year), moreover, half of CCUs – 17 out of 34 generated profit (their total market share – 96.6%), together earning 177.3 thousand euro. However, this decrease in costs did not improve the performance of CCUs in general, and cost-to-income ratio (CIR) deteriorated compared to the end of June 2020, climbing from 73.4% to 76.6%.

[7] Three largest co-operative credit unions in terms of assets
[8] Total substandard, doubtful and lost loans
[9] Capital and reserves to total assets and off-balance sheet liabilities

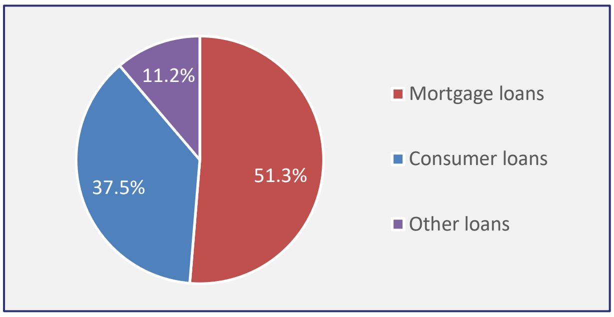
- **All of CCUs met the minimum capital adequacy requirement – 10%**. For almost all CCUs (31 out of 34) the capital adequacy ratio was above 20% at the end of June, while for the other three – above 12%. The weighted average capital adequacy ratio of CCU sector reached 22.5% at the end of June and was the highest figure since 2018.

Balance sheet structure

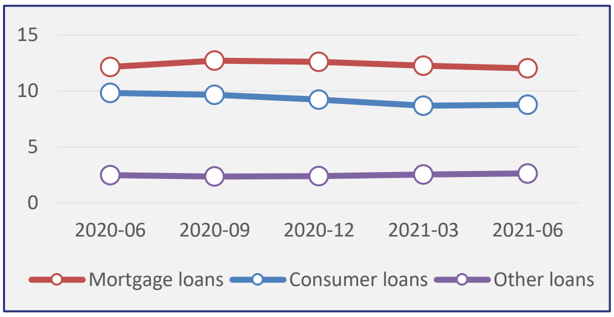
Structure of assets, million euro



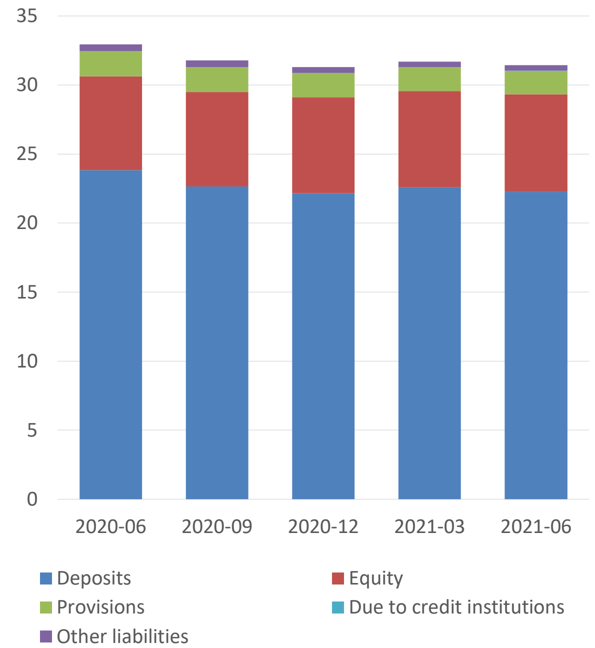
Structure of loans at the end of the reporting period (%)



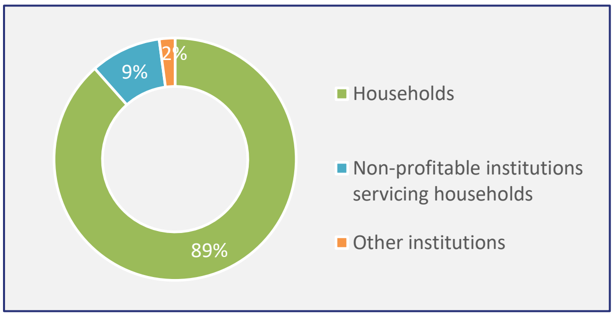
Loans (million euro)



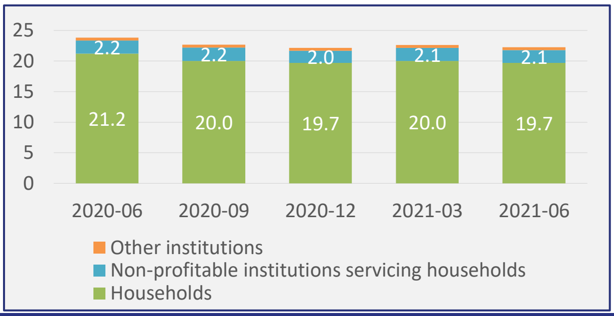
Structure of liabilities, million euro



Deposit structure at the end of the reporting period (%)

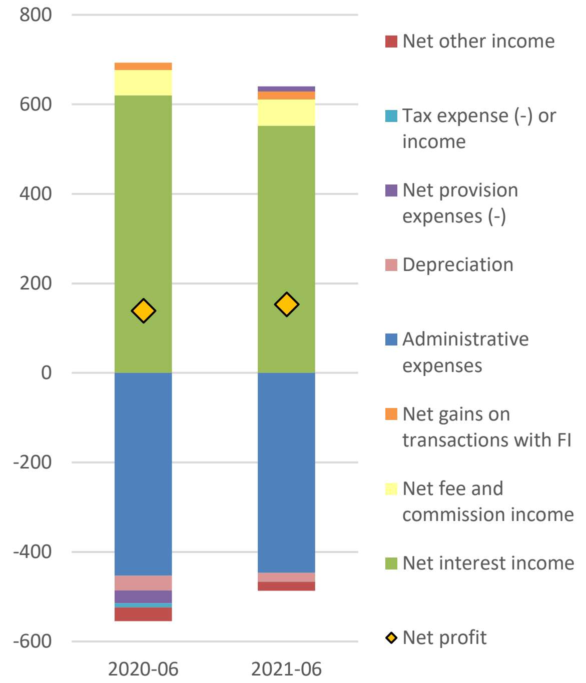


Deposits (million euro)

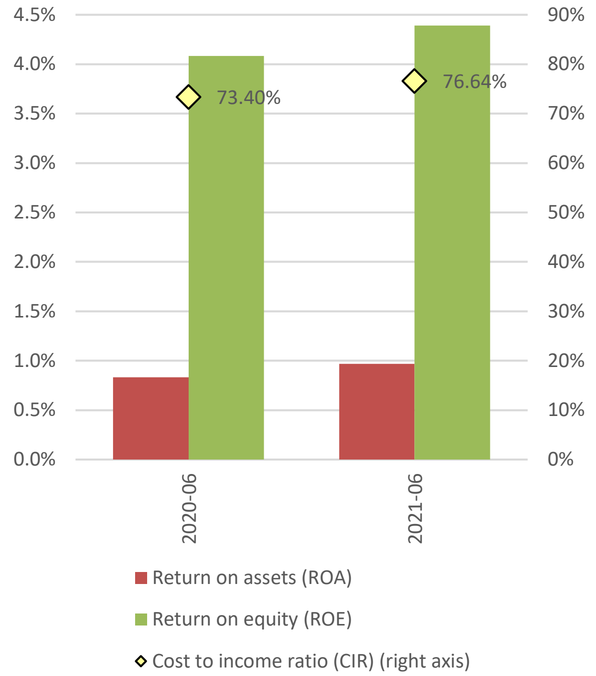


Profitability

Net profit structure, thousand euro

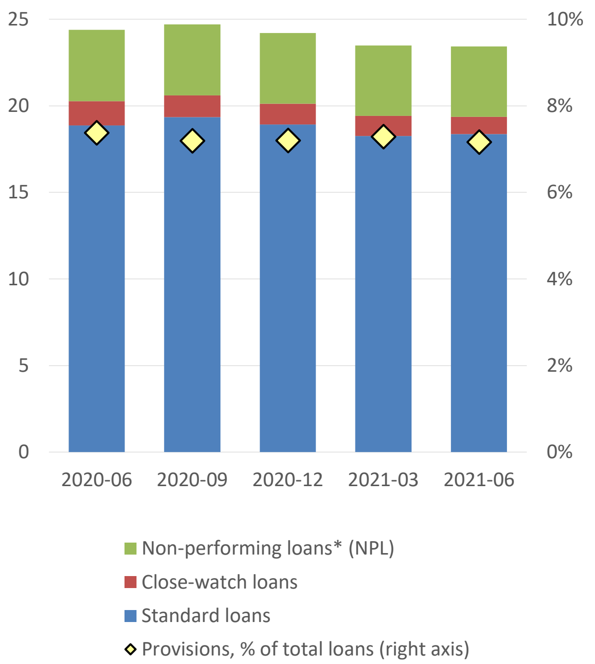


Profitability ratios, %

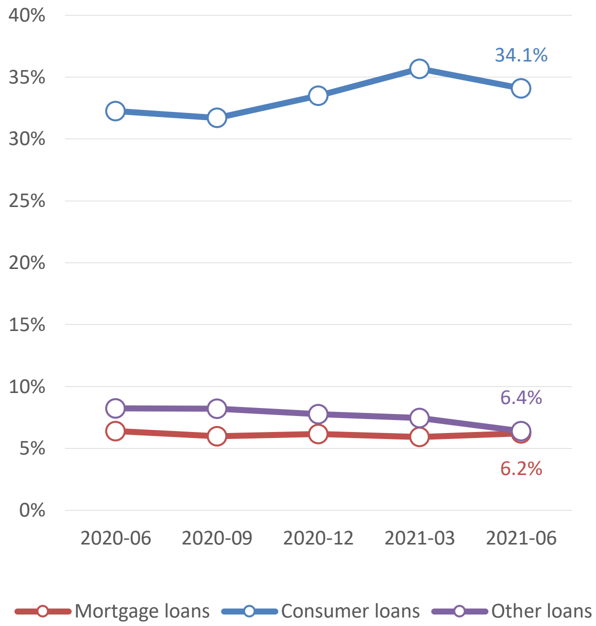


Quality of loans

Loan quality structure, million euro



Share of loans past due more than 90 days in the respective segment, %**



* Total substandard, doubtful and lost loans

*** Data source: Credit Register of the Bank of Latvia*

PAYMENT INSTITUTIONS AND ELECTRONIC MONEY INSTITUTIONS

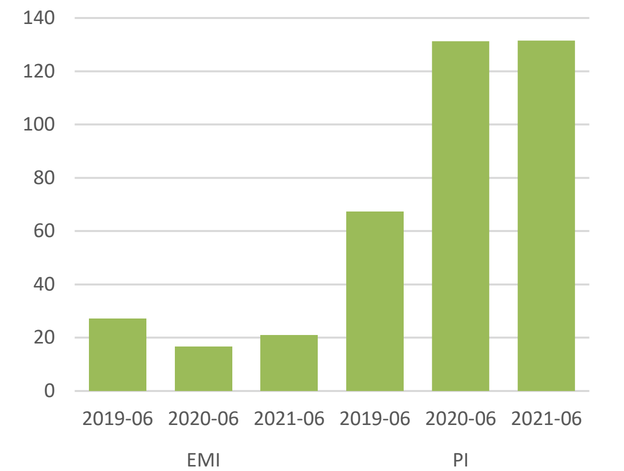
Key performance indicators

	H1 2020	H1 2021
Number of market participants:		
Payment institutions	7	7
Electronic money institutions	9	8
Amount of payment transactions, million euro:		
Payment institutions	131.3	131.5
Electronic money institutions	24.2	28.2
incl. payments in electronic money	7.6	7.2
Amount of electronic money repurchased, million euro	8.0	7.5
Gross revenue, million euro		
Payment institutions	3.6	3.2
Electronic money institutions	2.0	1.8

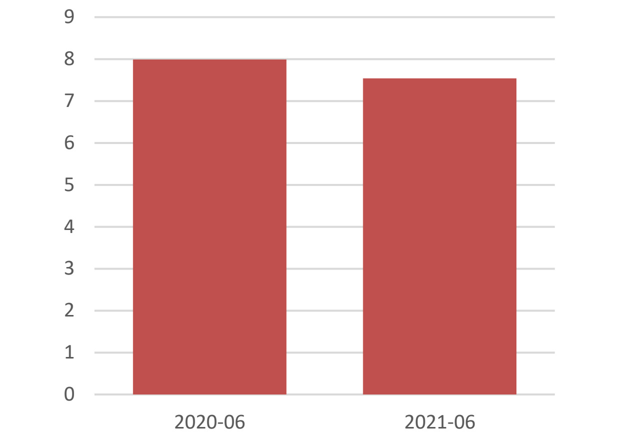
- **The total amount of payment transactions made by payment institutions (PI) and electronic money institutions (EMI) during the first half of 2021 increased by 2.7% compared to the corresponding period of the previous year and reached 159.7 million euro**; excluding the payments made in electronic money, – by 3.2% to 152.5 million euro. It should be noted that this increase was only 0.2% for PI, while for EMI the increase of 16.6% was due to the successful performance of one market participant.
- **The restrictions due to the COVID-19 pandemic during the first half of 2021 hindered the provision of payment and electronic money services, which led to an 11% reduction in total gross revenue for PI and EMI** compared to the first half of 2020, i.e., by 5.0 million euro (a decrease in revenues of PI was 10%, revenues of EMI – 12%); 65% of these revenues were resulting from the PI revenues. Three PI and two EMI made profits.
- **The total amount of repurchased electronic money, i.e., exchange of electronic money for non-cash, was also reduced by the COVID-19**. In the first half of 2021, compared to the first half of 2020, it decreased by 6%, amounting to 7.5 million euro at the end of June. While the amount of electronic money in circulation increased by 3% compared to the corresponding period of the previous year.
- **The total amount of liquid assets of PI and EMI increased, reaching 58.9 million euro at the end of June** (including claims against banks for the ensuring of payment and electronic money services – 57.6 million euro) or 12% more compared to the end of June of the previous year. This provided for covering obligations to customers (57.9 million euro). According to the requirements of the law, liquid assets must fully cover the obligations of market participants.
- **All licensed PI and EMI subject to the statutory own funds' requirements met the requirements at the end of June 2021**. At the end of June, seven PI continued operation in Latvia, including five licensed and two registered, as well as eight EMI, of which two licensed and six registered.

PAYMENT INSTITUTIONS AND ELECTRONIC MONEY INSTITUTIONS

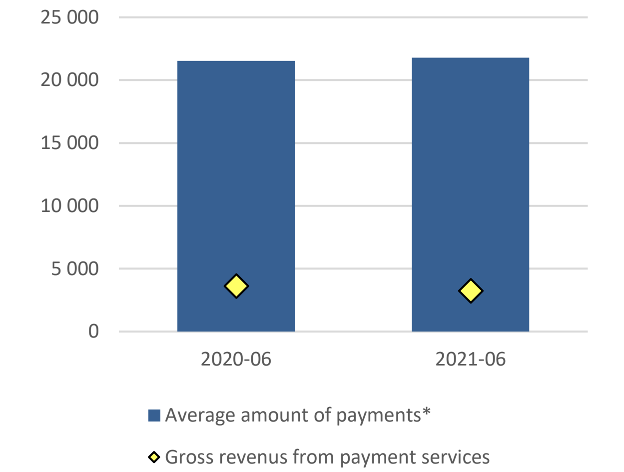
Amount of payments (excl. electronic money), million euro



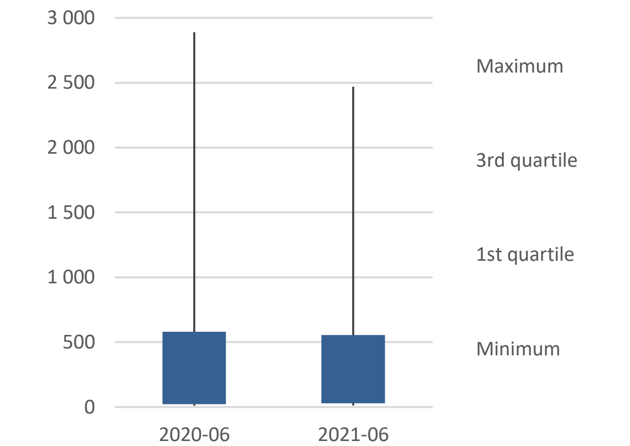
Amount of electronic money repurchased, million euro



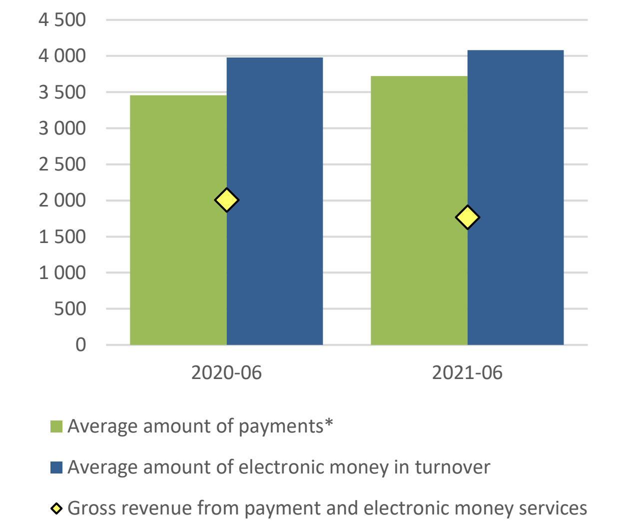
Payment institution services, thousand euro



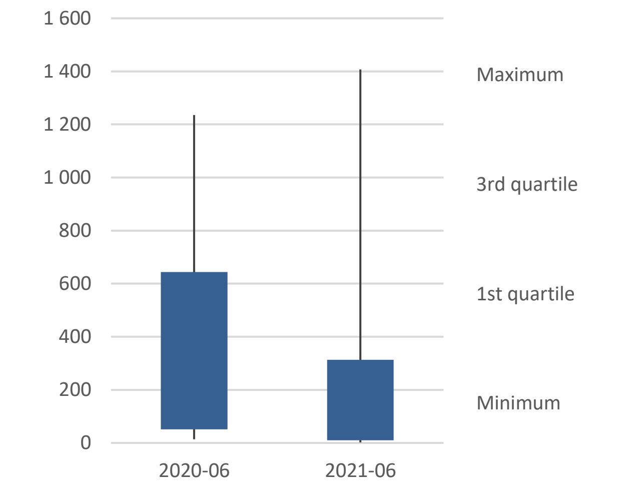
Dispersion of gross revenue of payment institutions, thousand euro



Electronic money institutions services, thousand euro



Dispersion of gross revenue of electronic money institutions, thousand euro



the value calculated by dividing the amount of payments made during the previous 12 calendar months by 12

STATE FUNDED PENSION SCHEME FUNDS

Key performance indicators

	Q2 2020	Q2 2021
Number of asset managers	8	7
Number of investment plans	31	32
Members	1 297 536	1 292 905
Net assets (billion euro)	4.6	5.6
Returns since the beginning of the year, %	-3.8	4.7
Management costs, %	0.47	0.57

- **In the second quarter of 2021, the number of investment plans increased,** with the entry of a new active investment plan - Luminor index plan "Ilgtspējīga nākotne". Whereas one asset manager IPAS "PNB Asset Management" left the market during the reporting period , and its three investment plans of second pillar pension were taken over by AS "Citadele banka's" subsidiary "CBL Asset Management".
- **The total number of participants decreased by 0.4% during the year,** mainly due to a reduction in the number of volunteers (-5%), while the number of mandatory participants representing 70% of the total participants continued to grow at a moderate pace (+2%).
- **Despite the reduction in the number of participants, contributions made by the participants increased by 2%.** There was a significant increase (+11%) in the contributions to active investment plans (75% of the contributions), offsetting reductions in contributions (-24%) to conservative plans (17% of the contributions) and reductions in contributions (-2%) to balanced plans (8% of the contributions). Given the shrinking number of participants, the increase in contributions was due to an increase in average contributions.
- **During the year, net assets increased by 21% or 1.0 billion euro,** reaching 5.6 billion euro. Of accumulated capital, 70.7% were invested in active plans, 9.6% - in balanced plans and 19.7% – in conservative plans. Whereas, compared to the pre-pandemic period (fourth quarter of 2019) net assets rose by 23%.
- **As financial markets gradually overcome the negative effects of the pandemic, the weighted average return on investments improved reaching 4.7%** (-3.8% in the corresponding period of previous year), however still being below the pre-pandemic level (+10.8%). Better results were reported by active plans with the return on investments ranging from 4.5% to 11.5%. This was due to the fact that debt securities, while performing poorly during the observed period, represented only 20.2% in the investment portfolio structure of active plans. Return on balanced plans ranged between 2.4% and 3.5%, while conservative plans showed worse results, with returns ranging from 1.6% to 0.4%, and only two of eight investment plans were able to achieve positive returns.
- **Management costs of investment plans increased slightly** but did not exceed statutory limits. The ratio of investment plan management costs to net assets for the first half of 2021 was 0.57%[10].
- **During the year, investments grew by 21.4%.** This was mainly affected by an increase in investments in shares (+77% or 48.5 million euro) and investment funds (+ 44% or 1.13 billion euro). The most significant decrease was observed in claims on demand (-31% or 102.9 million euro) and debt securities (-5% or 76.9 million euro).
- **Investments made in Latvia decreased during the year,** reaching 631.0 million euro or 11.3% of the total investments at the end of the second quarter of 2021. The increase in total investments was mainly affected by an increase in investments in other EEA countries of 34% or 1 billion euro. In this group of

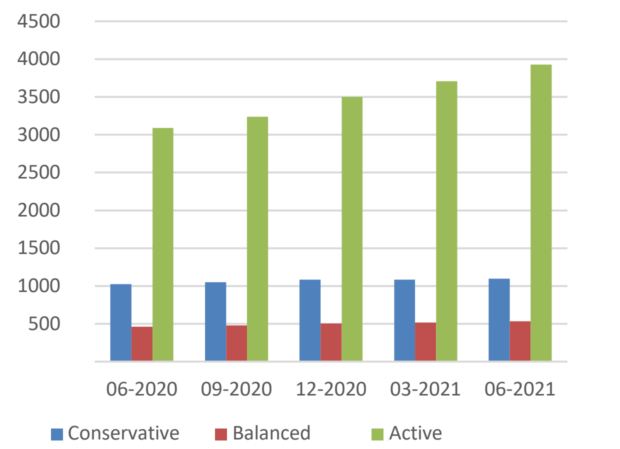
[10] The Law on State Funded Pensions provides that ka the manager of funds of the funded pension scheme shall ensure that the maximum amount of the fee for the management of the investment plan by including the permanent and variable part of the fee calculating it for the period of the last 12 months does not exceed: (1) 0.85 per cent of the average value of the investment plan assets in the investment plan prospectus of which the investments in the stocks of commercial companies, other capital securities and securities equivalent to them are not provided; (2) 1.1 per cent of the average value of the investment plan assets for the investment plan prospectus of which provide the investments in the stocks of commercial companies, other capital securities and securities equivalent to them.

countries, the majority of the investments consist of securities issued by Ireland (2 billion euro or 38%), which also had the most significant increase in investments during the year (+40% or 578 million euro). The increase in investments in other countries[11] by 21% was mainly due to the reclassification of Great Britain under the impact of BREXIT. Excluding Great Britain, investments in other countries fell by 2% or 7 million euro.

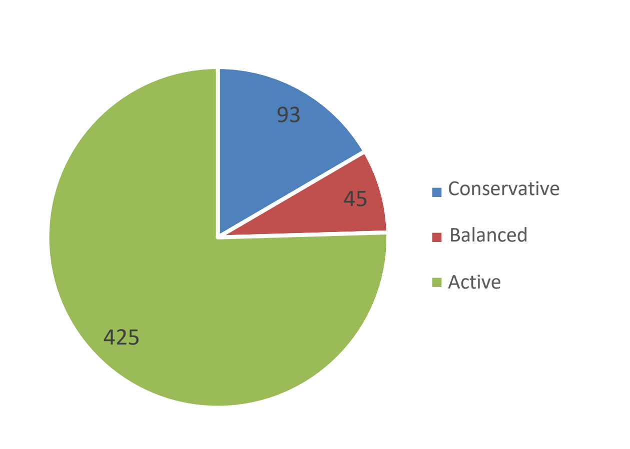
[11] The classification of instruments included in the investment portfolio by country group is used in the Overview as follows: Latvia, other Baltic States (Lithuania and Estonia), other EEA countries (except Latvia, Lithuania and Estonia) and other countries.

Management of State funded pension scheme assets

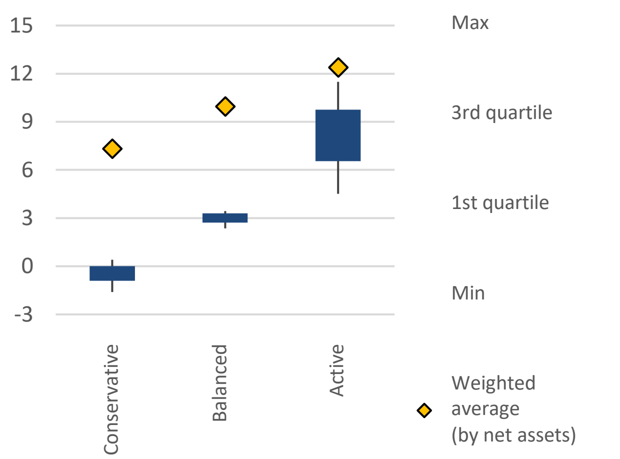
Net assets, million euro



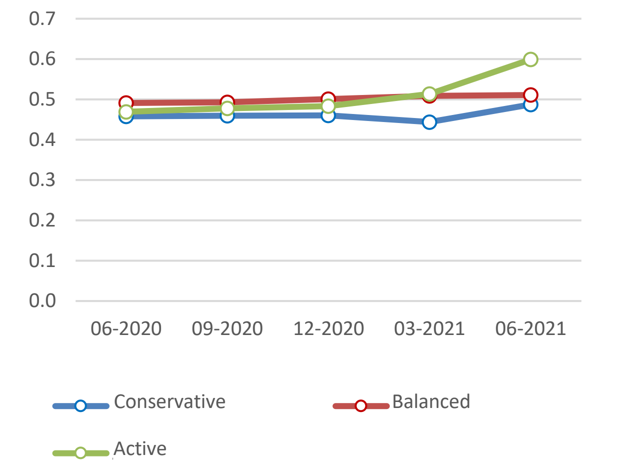
Contributions to investment plans since the beginning of the year, million euro



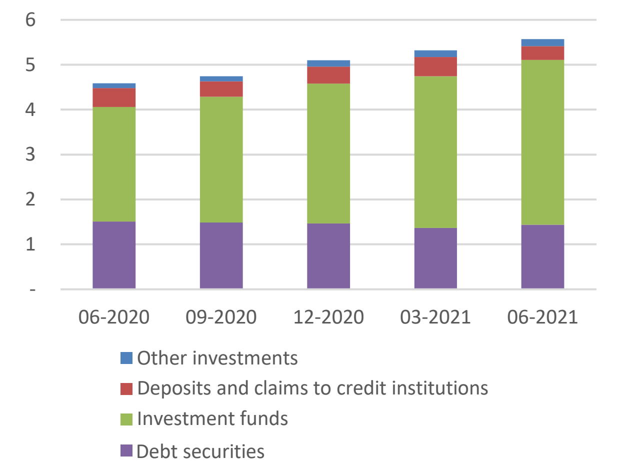
Return on investments since the beginning of the year (%)

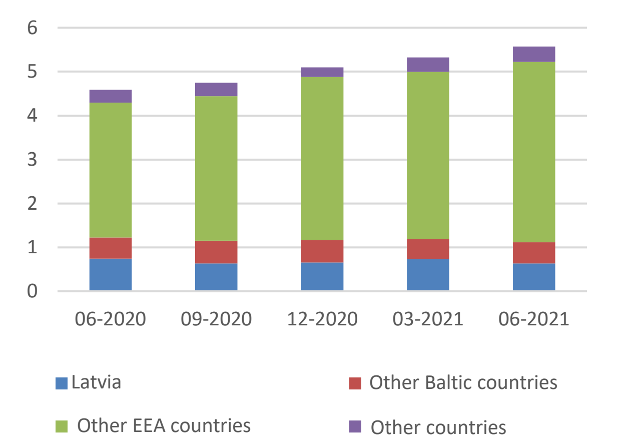


Management costs (annualized,% of net assets)



Structure of investment portfolio by financial instruments and groups of countries, billion euro





** by the country of issuer's registration, 2021 BREXIT adjusted*

PRIVATE PENSION FUNDS

Key performance indicators

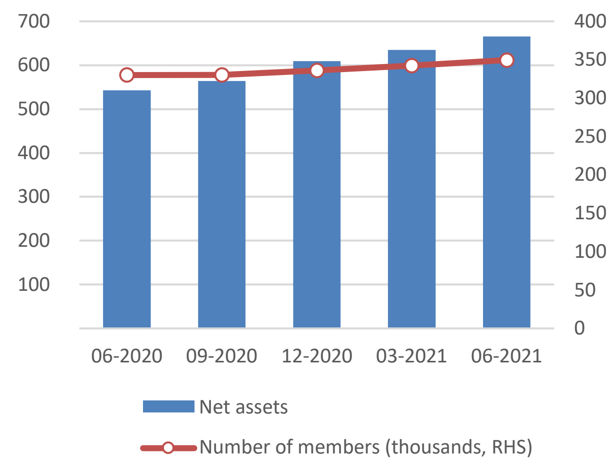
	Q2 2020	Q2 2021
Number of pension funds	6	7
Number of pension plans	16	20
Members	330 013	349 530
Contributions (million euro)	543.6	665.9
Returns since the beginning of the year, %	-4.2	4.2
Administrative and management costs, %	1.03	0.96

- **In the first half of 2021, there were structural changes:** "Indexo Atklātais Pensiju Fonds" obtained a licence and started with two pension plans: "Indexo Akciju plāns" and "Indexo Obligāciju plāns". With a new fund entering the market, the total number of private pension funds increased to seven. Also, the active pension plan "SEB indeksu plāns" of "SEB atklātā pensiju fonds" was launched, as well as new Luminor active pension plan "Ilgtspējīga nākotne", increasing the total number of pension plans from 16 to 20.
- **The number of private pension funds' members continued to grow gradually,** with an annual increase by 7% or 20 thousand. On the contrary, the number of participants whose contributions were made by employers decreased slightly (by 1%). At the end of the reporting period, individual members represented 86% of the total number of members.
- **The amount of contributions rose by 17%:** contributions to the active pension plans climbed by 23% (46% of total contributions) and contributions to the balanced pension plans increased by 13% (54% of total contributions).
- **The weighted average return on investments improved,** totalling 4.2% compared to -4.2% in the second quarter of 2020, indicating a gradual recovery in the financial market. When assessing the results of investment plans for private pension funds, the return on investments of active pension plans during the corresponding period ranged from 2.3% to 14.2%, while for balanced pension plans - from 0.6% to 5.5%.
- **For private pension plans, the level of management costs continued to fall:** the ratio of administrative and management costs to net assets in the first half of 2021 was 0.96%, while for individual plans it ranged from 0.04% to 2.8%.
- **Investments increased by 22.5%.** This was mainly due to an increase of investments in investment funds (by 38% or 117 million euro). Meanwhile, deposits and claims on demand decreased by 16%, or 8 million euro. The increase in total investment was mainly affected by an increase in the active plan investments of 33% or 68 million euro.
- **The amount of investments made in Latvia decreased during the year,** reaching 88.4 million euro or 13.3% of total investments in the second quarter of 2021. Consequently, the increase in total investments was mainly affected by the increase in other EEA countries (37% or 131 million euro). By countries, main investments were made in Ireland (236 million euro), with investments increasing by 38% or 65 million euro. In other countries[12], the 5% increase was affected by BREXIT (excluding the Great Britain, decreased by 4% or 0.9 million euro).

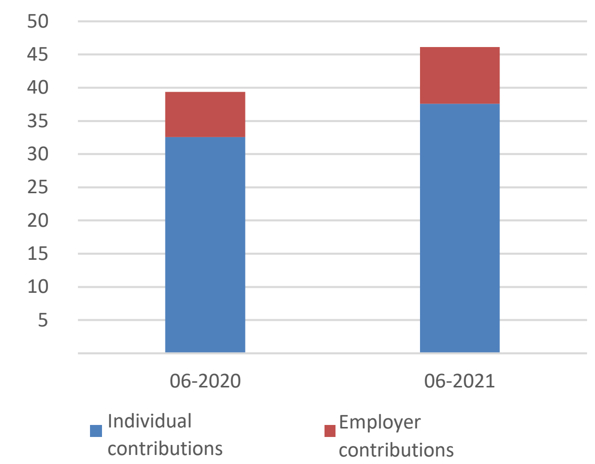
[12] The classification of instruments included in the investment portfolio by country group is used in the Overview as follows: Latvia, other Baltic States (Lithuania and Estonia), other EEA countries (except Latvia, Lithuania and Estonia) and other countries.

Private pension funds

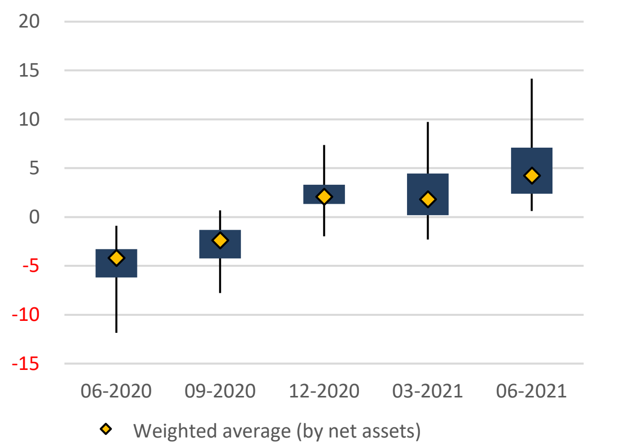
Net assets, million euro



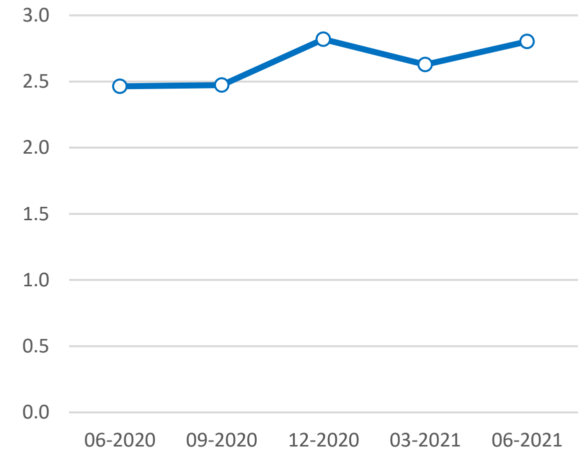
Contributions to pension plans, million euro



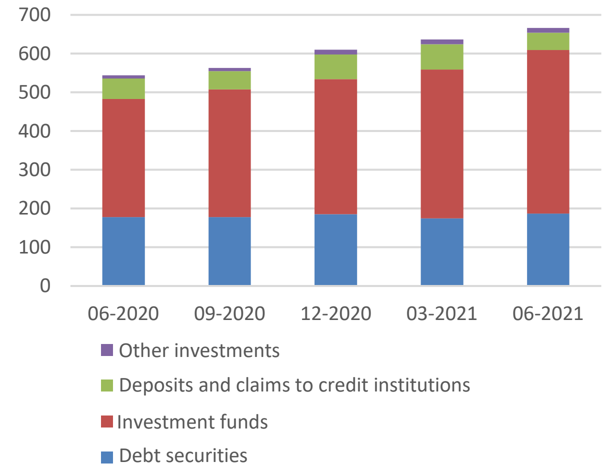
Returns on investments since the beginning of the year (%)

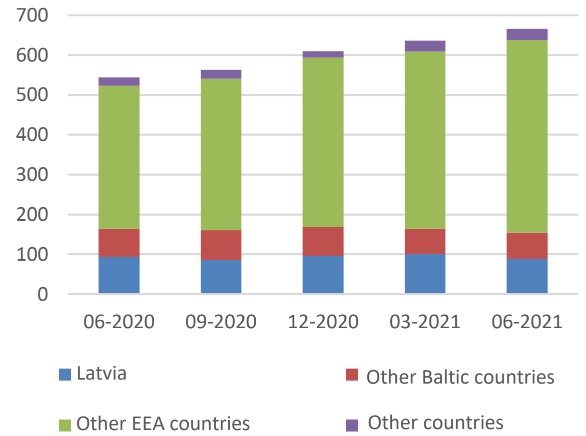


Administrative and management costs (annualized, % of net assets)



Structure of investment portfolio by financial instruments and by country*, million euro





** by the country of issuer's registration, 2021 BREXIT adjusted*

INVESTMENT FUNDS

Key performance indicators

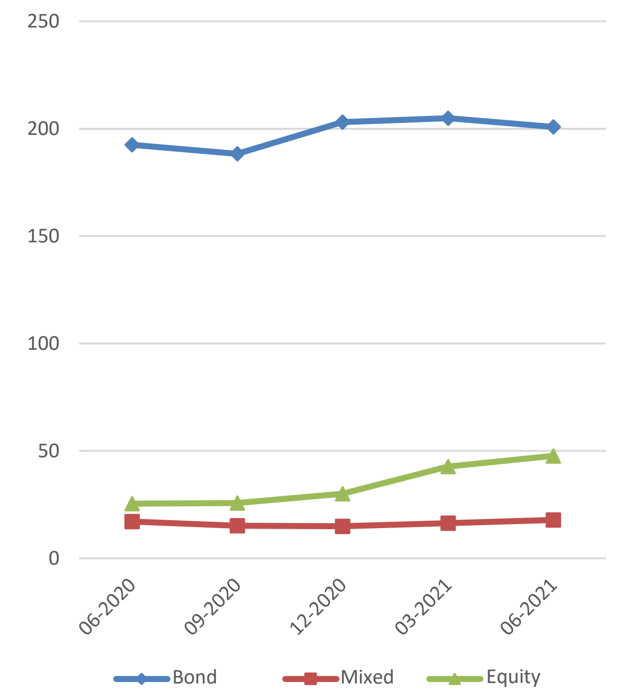
	Q2 2020	Q2 2021
Number of investment management companies	11	10
Number of investment funds	24	22
Investment fund assets (million euro)	235.1	266.4
Returns since the beginning of the year, %		
Bond funds	-2.2	2.9
Mixed funds	-1.3	7.1
Equity funds	-7.0	15.9
Management costs, %		
Bond funds	1.1	1.2
Mixed funds	1.3	1.4
Equity funds	1.7	1.7

- **During the year, the number of managers and the funds managed decreased:** in 2020, "PNB Asset Management" and two funds managed by it ceased operations. In the first quarter of 2021, two investment funds managed by "Rietumu asset management" ceased their activities, while one fund managed by "Signet Asset Management Latvia" was launched, as well as one new investment fund, "CBL US Leaders Equity Fund", managed by "CBL Asset Management" was registered. At the end of the reporting period, there were 10 licensed investment management companies in Latvia, of which 4 companies managed 22 investment funds.
- **Compared to the corresponding period of the previous year, the return in investments improved significantly,** gradually overcoming the negative effects of the pandemic. The yield of bond funds ranged from -0.2% to 6.2%[13], for mixed funds from 4.4% to 8.8%, while for stock funds – from 11.7% to 22.2%.
- **During the year, investment fund assets increased by 13.3% overall,** amounting to 266.4 million euro. The steepest increase in fund assets was for stock investment funds (by 87% or 22 million euro), reaching 48 million euro; the assets of bonds and mixed funds increased by 4%, totalling 201 million euro and 18 million euro, respectively.
- **During the year, the investment portfolio grew by 9%, while compared to 2019 results (pre-pandemic period) by 12%,** but there was no significant change in the structure of the investment portfolio. While the share of investments into debt securities decreased by 4 percentage points, it was still representing the largest share (80%) of the total investment portfolio, whereas investment funds accounted for 14%, which did not increase significantly during the year.
- **During the year, the amount of funds invested outside Latvia increased significantly:** by 1.5% in EEA countries, 9.8% in CIS countries and 16.4% in other countries[14] (11.6%, excluding Great Britain), while investments in Latvia dropped by 10%. The largest investments were made in the USA (38 million euro, or 16%), while within the European Union – in Ireland (24 million euro, or 10%).

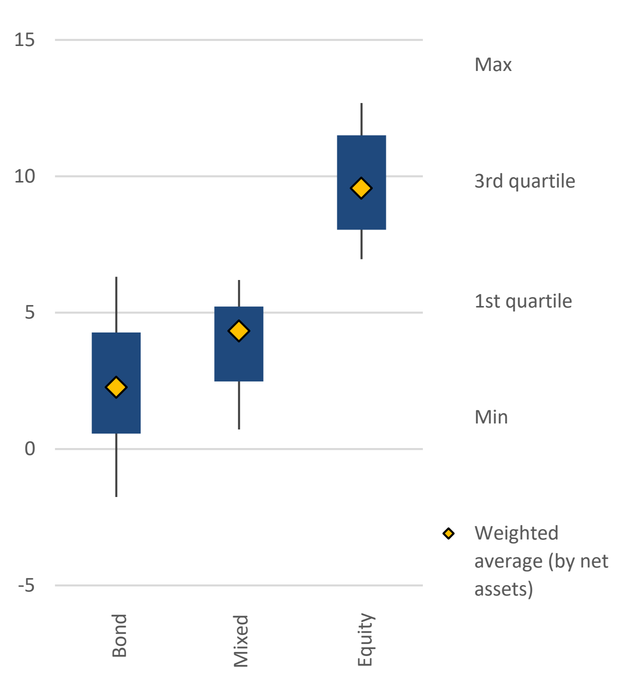
[13] Dispersion of return to all funds that exist for more than 1 year.
[14] The classification of instruments included in the investment portfolio by country group is used in the Overview as follows: Latvia, other Baltic States (Lithuania and Estonia), other EEA countries (except Latvia, Lithuania and Estonia) and other countries.

INVESTMENT FUNDS

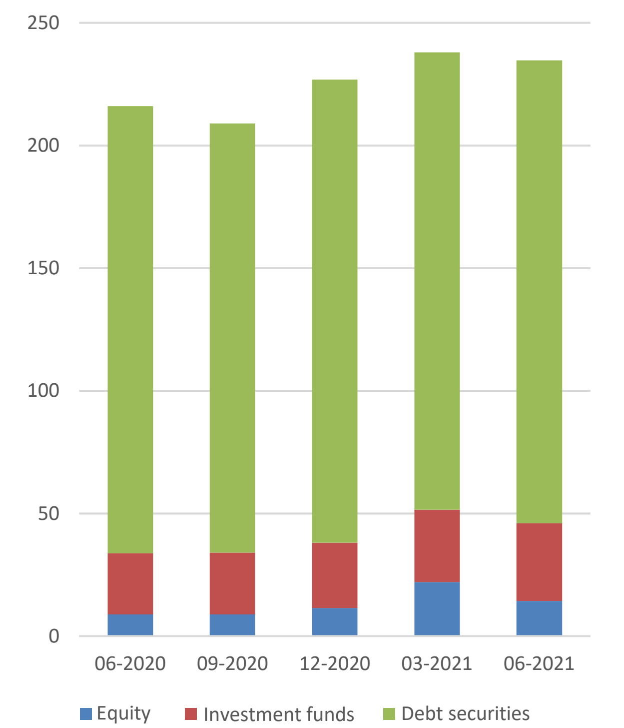
Asset dynamics, million euro

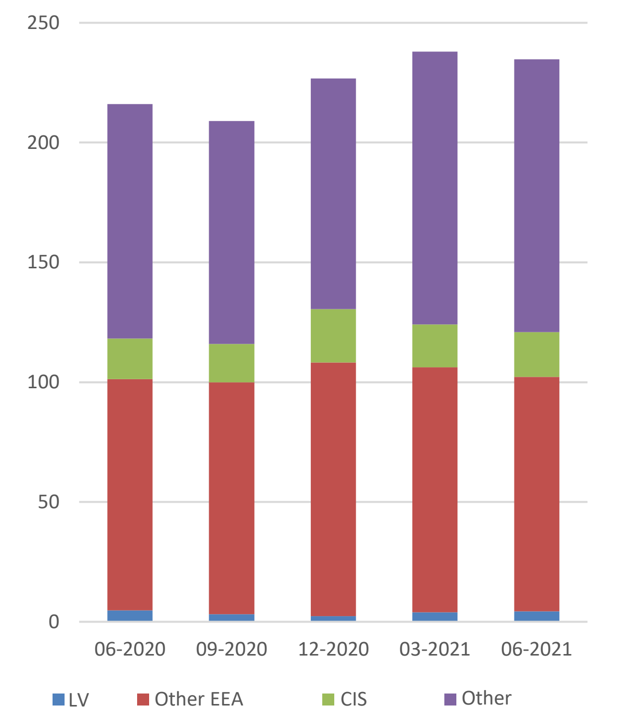


Returns by type of fund since the beginning of the year (%)



Structure of investment portfolio by financial instruments and by country*, million euro





** by the country of issuer's registration, 2021 BREXIT adjusted*