FINANŠU UN KAPITĀLA TIRGUS KOMISIJA

OVERVIEW OF FINANCIAL AND CAPITAL MARKETS

Quarter 4 2021

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BANKS

Key performance indicators

	2019	2020	2021
Number of market participants (banks and branches of foreign banks)	14+5	13+3	12+4
Assets (billion euro)	22.5	24.3	25.3
Non-bank deposits (billion euro)	17.5	18.8	20.1
Non-bank gross loan portfolio (billion euro)	13.6	13.1	14.6
Share of non-performing loans (NPLs) in the non-bank loan portfolio[1;2], %	5.2	4.7	3.6
Share of loans past due more than 90 days in the non-bank loan portfolio [1], %	3.2	2.3	1.5
Coverage ratio of non-bank NPLs[1;2], %	31.1	27.9	26.2
Share of domestic loan portfolio to deposits (household and non-financial corporations)	87.2	75.7	71.5
Return on Equity[1], % (ROE)	9.5	5.4	10.2
Cost-to-Income Ratio[1], % (CIR)	61.7	67.8	61.9
Common Equity Tier 1 capital ratio[1], % (CET1)	21.7	25.5	23.2
Total Capital Ratio[1], % (TCR)	23.1	26.7	24.3
Liquidity Coverage Ratio[1], % (LCR)	309.5	372.0	320.4

- **A number of structural changes took place in the Latvian banking sector during the reporting year.** In the first quarter of the year, the transaction started in December 2019 was concluded between Citadele Banka and UniCredit S. p. A, as a result AS Citadele Banka became the 100% owner of SIA UniCredit Leasing in the Baltics (hereinafter referred to as the strategic transaction). As the data published by the FCMC on banking activities are based on the supervisory financial statements (FINREP), they reflect the consolidated figures of the banking sector, including data on financial subsidiaries, the transaction had a significant impact on a number of banking sector performance indicators. In September TF Bank AB Latvian branch, registered in Sweden, started its activities, which until now provided consumer lending services from Sweden to customers in Latvia under the freedom to provide services. In October, Rigensis Bank AS carried out reorganization by re-registering it as a commercial company the activities of which are not related to the activities of credit institution, prior to reorganisation ensuring the protection of its customer interests and keeping them informed, as well as fulfilling its obligations to depositors. Later in October, following the consent of the European Central Bank and other supervisory authorities, the shares of the Swedbank Group banks in the Baltics were transferred to the holding company Swedbank Baltics AS registered in Latvia. Consequently, at the end of the reporting year, 12 banks and four branches of foreign banks of the European Union (EU) countries were operating in Latvia, as well as one financial holding company.

- **The increase in assets was further determined by the dynamics of deposits in the reporting year.** The total amount of assets in the Latvian banking sector grew by EUR 1.0 billion or 4.2% during the year, while excluding the impact from the closing of Rigensis Bank AS business, by 5.6%. This was primarily determined by a relatively rapid increase in deposits, but by the repayment of the ECB's targeted longer-term refinancing operation (TLTRO III) loan by individual credit institutions, the liabilities to the central banks decreased significantly, with a slowdown in asset growth. This also explains a significant decrease in the portfolio of securities (EUR 782 million or 20.6% in the year, including EUR 719 million in the last quarter of the year). On the other hand, the structure of the banking assets had also changed as a result of a significant increase in credit size affected by the strategic transaction, with the proportion of loans increasing from 53% to 57% during the year.

- **Deposits of non-bank customers continued to rise in 2021.** Total deposits increased by EUR 1.3 billion or 7.1% during the year, based on a significant increase in domestic deposits, which was EUR 1.6 billion at the end of the reporting year, or 10.5% higher than at the end of the previous year. This was mainly due to an even faster upsurge in household deposits than in the previous year, by EUR 1.3 billion or 15.2%, as well as by non-financial corporations whose deposits had increased by EUR 490 million or 8.8%. Meanwhile, general government deposits and financial corporations' deposits declined (by EUR 120 million or 29% and EUR 52 million or 6.3%, respectively). At the same

[1] Ratios calculated according to the EBA methodological guide (www.eba.europa.eu), including only the credit institutions active at the end of 2021 (ROE, CET1, TCR and LCR – only the banks active at the end of 2021).

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

time, the deposits of foreign customers continued to fall (by 8.4% or EUR 288 million), mainly due to the shrinking of non-financial corporations as well as household deposits, while the amount of deposits held by financial institutions increased substantially. In view of the opposite domestic and foreign deposit trends, the share of domestic deposits continued to grow in the geographic structure, reaching 84.3% at the end of the year, while the share of deposits held by customers outside the European Union continued to shrink (from 7.6% to 6.4%).

- **Although the liquidity coverage ratio decreased during the reporting year, it remained at a high level.** The average EU harmonised liquidity coverage rate (LCR) of Latvian banks, which represents short-term liquidity, reduced to 320.4% in the reporting quarter, which was 54 percentage points lower than at the end of the previous reporting year. For individual banks, it ranged from 137% to 590%, well above the minimum requirement of 100%. The decrease in the liquidity ratio was mainly affected by the reduction of claims against affiliated institutions, with the corresponding placement of balances in the central bank that had a negative impact on the indicator according to the LCR calculation methodology.
- **The stable funding ratio improved.** Since Q2 2021, banks have also been bound by the EU harmonised Net Stable Funding Indicator, which describes the long-term balance of assets and liabilities (the requirement is set at 100%). Since the end of Q2 of 2021, the average of the Latvian banking sector had climbed from 165.7% to 172.6%. For individual banks, it ranged from 120% to 292%. The majority of the required amount of stable funding was determined by loans granted to non-bank customers and the available stable funding - the deposits of individuals or small and medium-sized enterprises.
- **The total amount of loans granted to non-bank customers by the Latvian banking sector increased by 12.2% over the year**, including 7.5% for domestic customers. That rapid increase was mainly due to the strategic transaction carried out by AS Citadele Banka, as well as the purchase of the mortgage loan portfolio of ABLV Bank AS in liquidation. This resulted in an increase in the loan portfolios across all borrower segments, including households (12.9%) and non-financial corporations (9.4%). On the other hand, loans to foreign customers (mainly Estonian and Lithuanian) surged by 45.4% during the year.
- **By excluding the impact of AS Citadele Banka, the increase of customer loan portfolio was more moderate in the reporting year.** The total loan portfolio grew by 3.6% and was driven by 4.1% growth in the domestic portfolio. The amount of loans granted to domestic non-financial corporations did not change significantly during the year (-0.3%); however, the sector saw differences: lending in the construction, information and communications and agricultural sectors increased significantly (71.7%, 44.9% and 7.9%, respectively) while lending volumes reduced in sectors such as operations with real estate and electricity, gas and heating (11.6% and 9.6% respectively). At the same time, the domestic households' portfolio was gradually growing (up 4.7% year-on-year) with remaining high interest in financing the housing purchase. However, lending development was uneven among market participants: if the amount of loans granted to domestic customers in certain credit institutions did not change significantly or even shrank, some banks experienced a relatively rapid increase in lending to domestic customers, including less significant banks[3] where loans granted to domestic customers increased by 8.4% or EUR 62.5 million during the year. The market share of this banking group in the lending to domestic non-financial corporations exceeded 10% at the end of the reporting year, but the impact on the overall changes in the domestic loan portfolio of the sector was less significant, with market share remaining at the level of the previous year (~6%). During the reporting year, the foreign customers loan portfolio continued to decrease (by 3.6%), although the lending of Baltic customers increased significantly, the total amount of loans to customers from other EU countries declined by 37.6%.
- **The quality of loans to non-bank customers continued to improve, with the share of non-performing loans (NPL) in the non-bank loan portfolio reducing to 3.6% at the end of December.** During the year, asset quality improved in both domestic and foreign loan portfolios, with the share of NPL decreasing to 2.4% and 10.1%, respectively. In the domestic household segment, credit quality gradually improved, with the NPL ratio shrinking to 1.8%. Whereas in the segment of non-financial corporations, the last year had been more challenging - although overall, during the year, the share of NPL in loans issued by domestic non-financial corporations reduced rather significantly (by 1.1 percentage points to 3.1% at the end of the reporting period), the first half of the year showed a minor deterioration in the loan quality. However, despite the fact that the negative impact of the pandemic on asset quality has not been significant, its impact on the sectors was uneven – in the sector particularly affected by Covid-19, accommodation and food services, 18.2% of the loans were non-performing at the end of the reporting year. The non-banks' NPL structure showed a decrease in the proportion of both unlikely-to-pay loans and loans over 90 days past due, reaching 1.5% at the end of December (2.3% at the end of the previous year). Other asset quality

[3] Banks which are under the direct supervision of the FCMC according to the classification of the European Central Bank (ECB) Single Supervisory Mechanism (SSM).

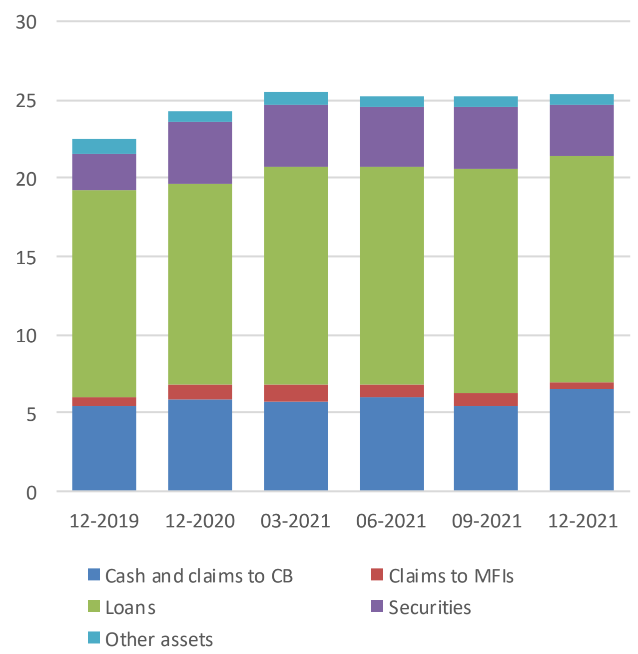
indicators also improved during the reporting year, including the share of forborne loans in the non-bank customer loan portfolio decreased to 6.6%, of which 66% were performing.

- **In the banking sector NPL coverage ratio improved to 26.2% in the last quarter,** but over the year diminished by 1.7 percentage points, mainly due to the non-financial corporation segment. The fall in the coverage ratio was affected by a decline in provisions, particularly in the second half of the year, which was more rapid than the fall in the NPL volume. However, when considering collateral value and the capital adjustments made by individual banks along with provisions, the amount of non-performing loans was fully covered (102.8%).
- **Improvements in the profitability of the banking sector was determined by a number of factors.** In 2021, the banking sector earned EUR 292 million, i.e., 94% above its profits in 2020. Profit growth was driven by factors such as the low base level of 2020, structural changes in the banking sector, individual one-off factors, as well as increased overall economic activity and business volumes. Consequently, the main impact on profit growth was directly on the growth of core operating income, which was EUR 120 million in 2021, or 17.1% higher than in 2020. At the same time, the improvement in return figures was also driven by significantly lower provision expenses (- 57.7 million euro or 88.5%). With earnings growth, the return on equity (ROE) also improved from 5.4% to 10.2%. Two less-significant banks closed the year 2021 with losses.
- **Growth was seen in all income groups.** The major impact on growth in core operating income in 2021 was the increase in net interest income (by EUR 48.7 million or 11.7%). The rapid rise in interest income was mainly due to the strategic transaction carried out by Citadele Banka, as well as the takeover of mortgage credit banks by ABLV Bank (in liquidation). Excluding the impact of this bank, the rise in net interest income was significantly lower (+2.2%). Opposite trends remained between significant banks[4], EU bank branches and less significant banks. If net interest income of significant banks and branches of EU banks decreased by 0.8%, the net interest income of the less significant banks continued to grow (by 14.9%), reflecting the increase in domestic credit portfolio. Although to a lesser extent, net commission income also increased in 2021 by EUR 28.0 million or 13.6%, with the increase in overall economic activity. Profits from financial instruments transactions and exchange rate fluctuations were EUR 25.6 million or 71.5% higher, but growth rates gradually decreased during the year due to the impact of the base effect. The contribution of other core operating income to the growth of core operating income in the reporting year was also significant (+18.0 million euro or 64%) and was determined by individual one-off factors. Given the rise in core operating income, the cost-to-income ratio improved from 67.8% to 61.9% during the year. However, the increase in administrative costs (by EUR 24.8 million or 6.1%) limited its rapid improvement.
- **Capital ratios remained stable at high levels.** Excluding the effects from the termination of business of Rigensis Bank AS, in the reporting quarter the bank sector's equity decreased by EUR 32.2 million or by 1.4%, including Common Equity Tier 1 capital by EUR 27.9 million and was mainly determined by the dividend payment to individual banks. However, since at the same time the value of exposures decreased by EUR 180.8 million or 2.2%, compensating for capital reductions, capital ratios remained unchanged, reaching 24.2% at the end of the reporting period, while the Common Equity Tier 1 (CET1) capital ratio was 23.2%, well above the EU average (19.7% and 15.7% respectively). However, compared with the end of the previous year, when figures were 26.7% and 24.3%, respectively, there was a decline in indicators. This was due to a relatively rapid decrease in capital ratios in the first quarter of the year, when the overall value of the exposures in the banking sector increased significantly (by 9.2% during the quarter) affected by the strategic transaction carried out by Citadele Banka, with a negative impact on the total capital ratios.

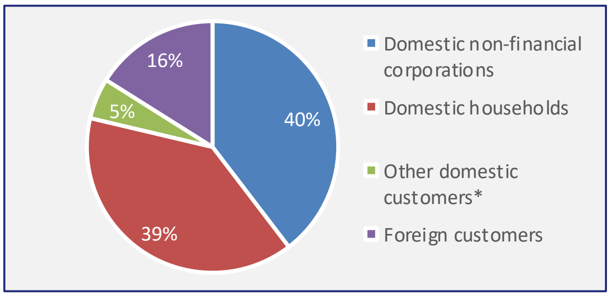
[4] Banks which are under the direct supervision of the ECB according to the classification of the European Central Bank (ECB) Single Supervisory Mechanism (SSM).

Balance sheet structure

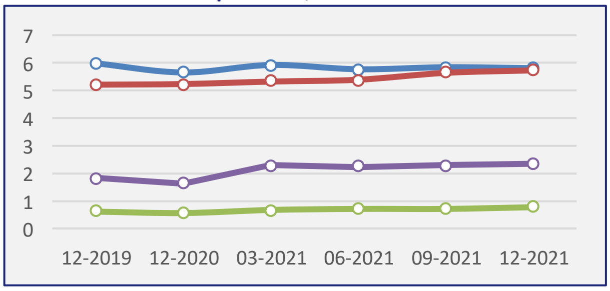
Asset structure, billion euro



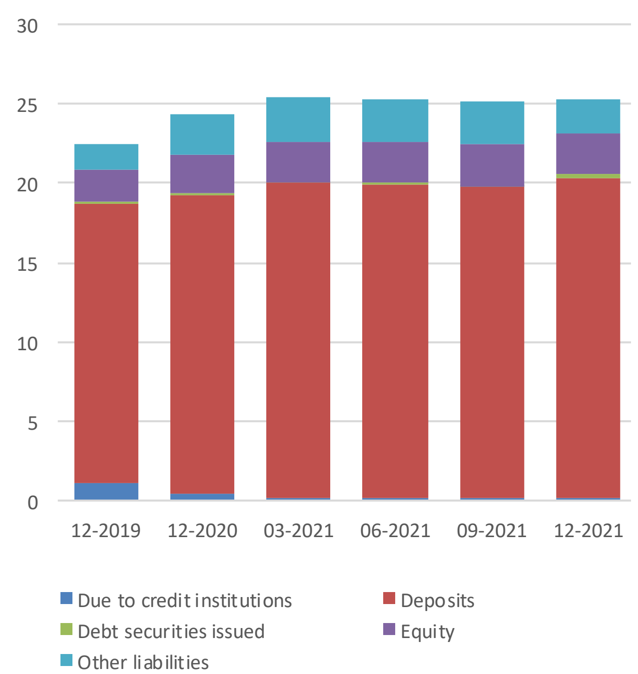
Structure of gross non-bank customer loan portfolio at the end of reporting period (%)



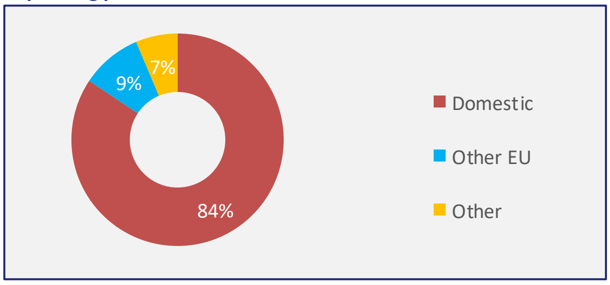
Gross non-bank loan portfolio, billion euro



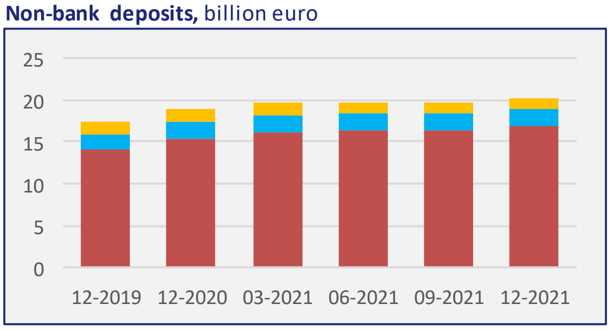
Liabilities structure, billion euro



Structure of non-bank customer deposits at the end of reporting period, %



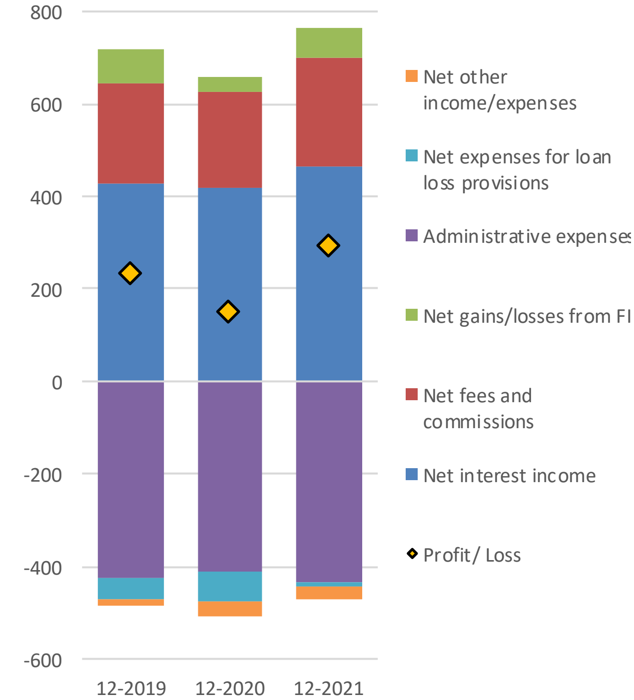
Non-bank deposits, billion euro



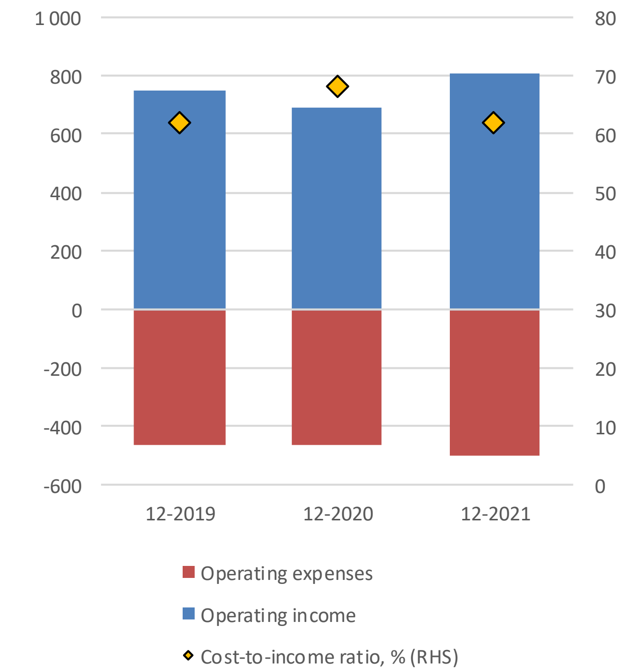
** Central government and financial corporations.*

Profitability

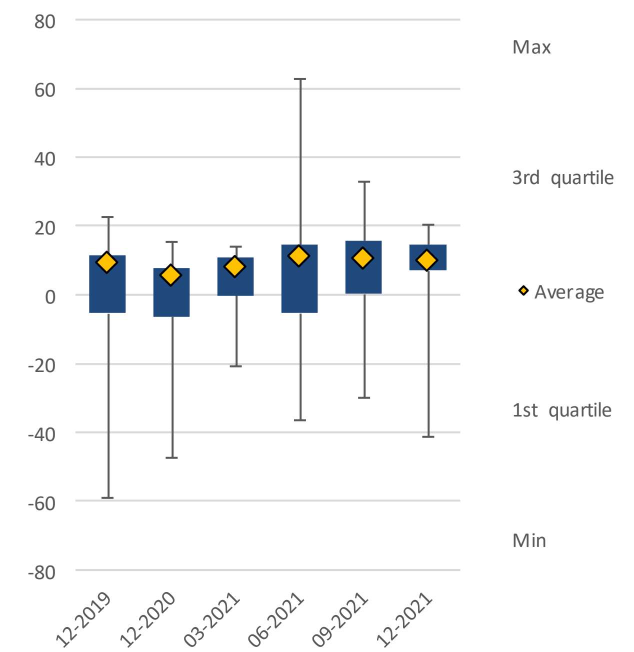
Profit structure, million euro



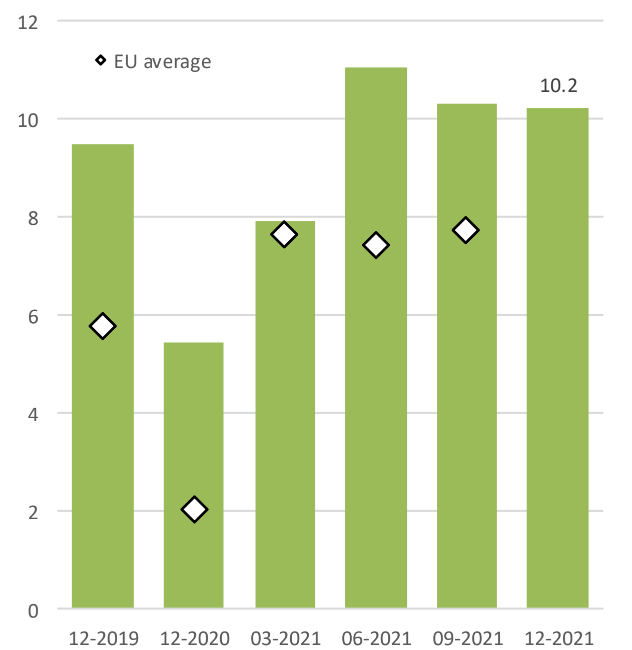
Cost-to-Income Ratio (CIR), %



ROE dispersion, %

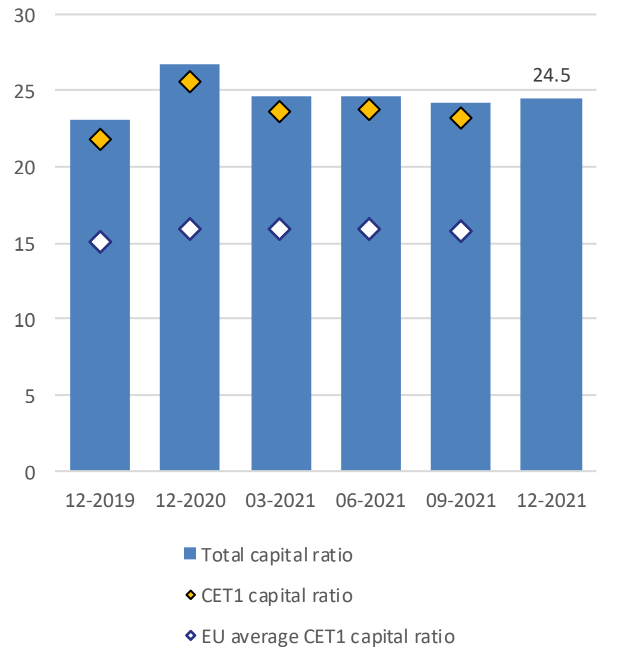


Return on Equity (ROE*), %

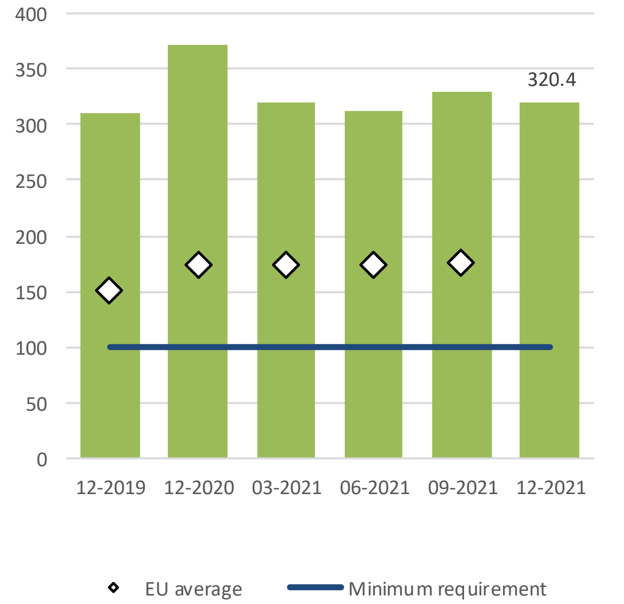


Capital adequacy and liquidity

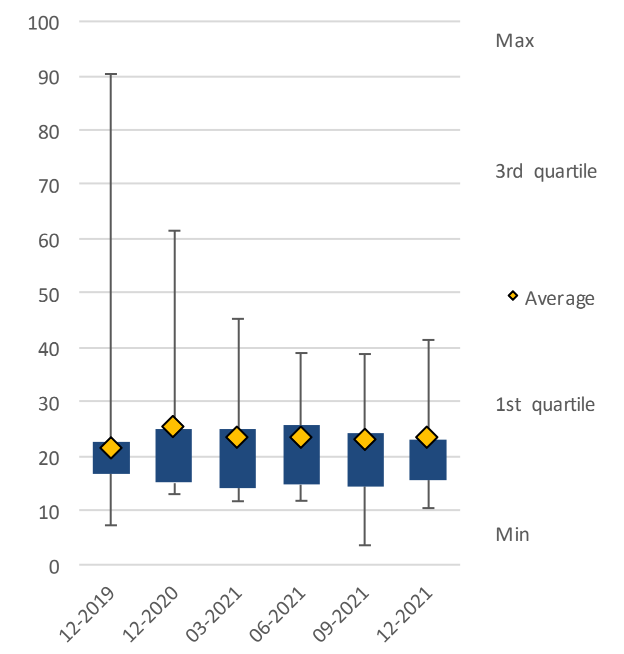
Capital ratios, %



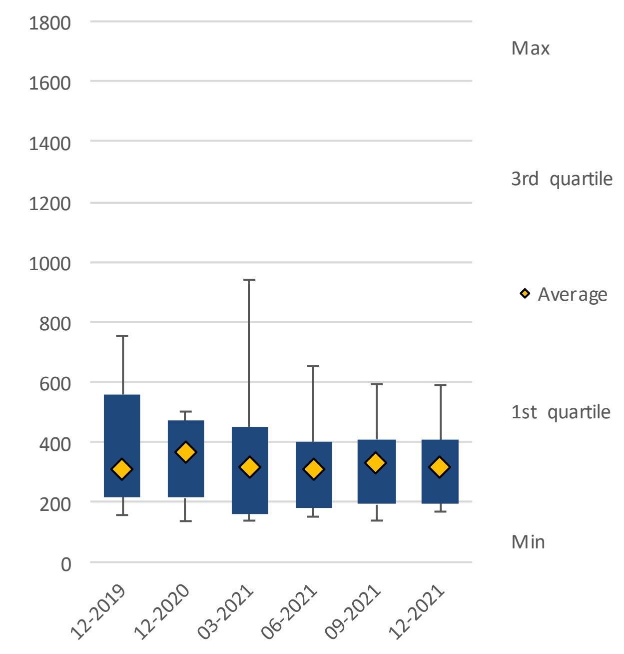
Liquidity coverage ratio (LCR), %



CET1 ratio dispersion, %

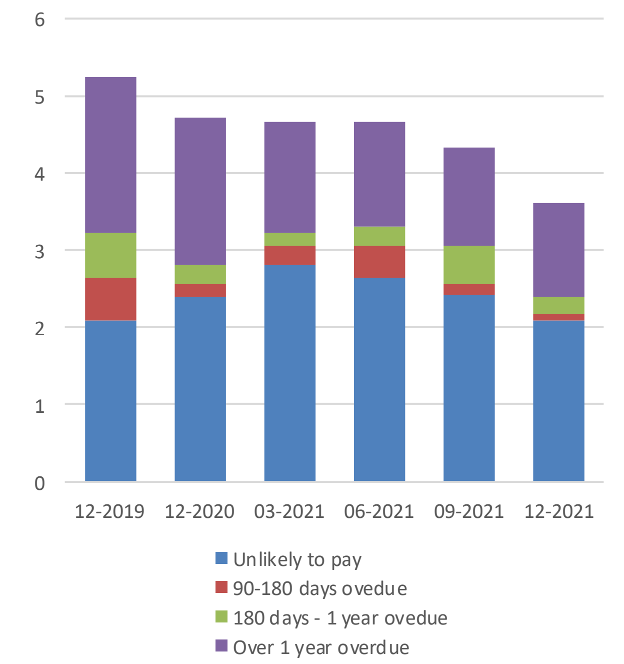


LCR ratio dispersion, %

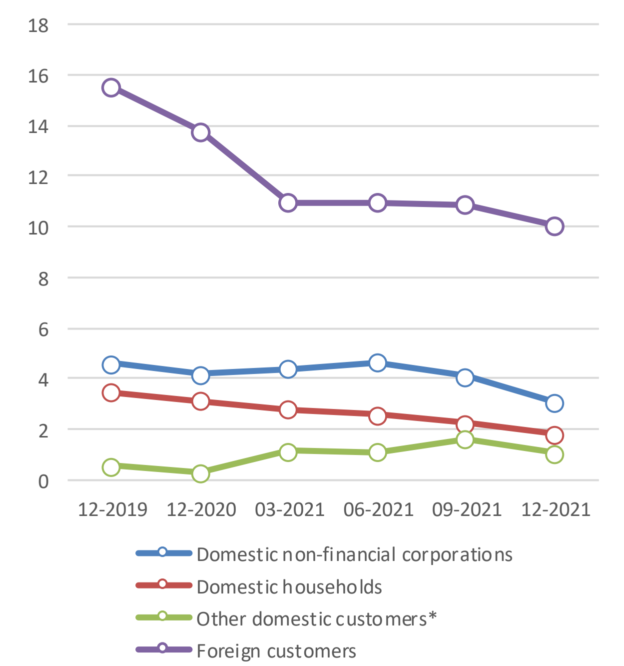


Non-bank customers' loan portfolio quality

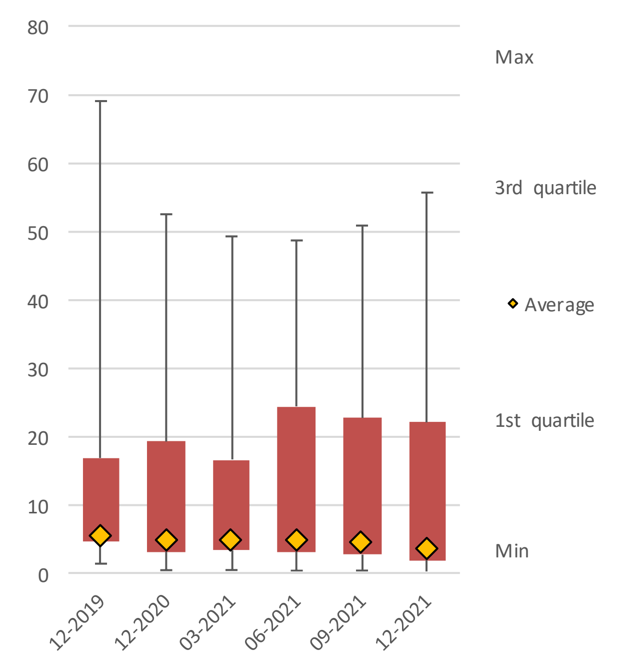
NPL structure, %



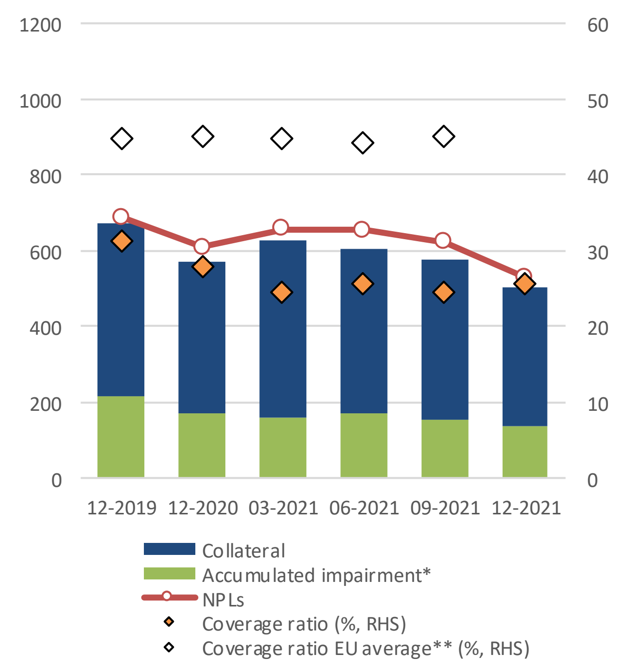
NPL (respective segment, %)



Dispersion of NPL, %



NPLs, collateral and provisions, million euro



* *Provisions for nonperforming loans*
** *Calculated for the entire portfolio in accordance with the EBA methodological guide, including claims on the central bank and credit institutions.*

CO-OPERATIVE CREDIT UNIONS

Key performance indicators

	2019	2020	2021
Number of market participants	35	34	33
Market concentration [5], %	83.6	82.6	82.1
Assets (million euro)	33.2	31.3	31.2
Deposits (million euro)	24.2	22.2	21.9
Loans (million euro)	25.1	24.2	23.8
Share of non-performing loans (NPL)[6], %	14.5	16.9	17.5
Savings / loan portfolio, %	6.8	7.2	7.3
Return on Equity (ROE), %	4.7	3.9	3.3
Capital Adequacy Ratio (%)	20.4	22.2	22.8
Profit / loss since the beginning of the year (thousand euro)	320	269	234

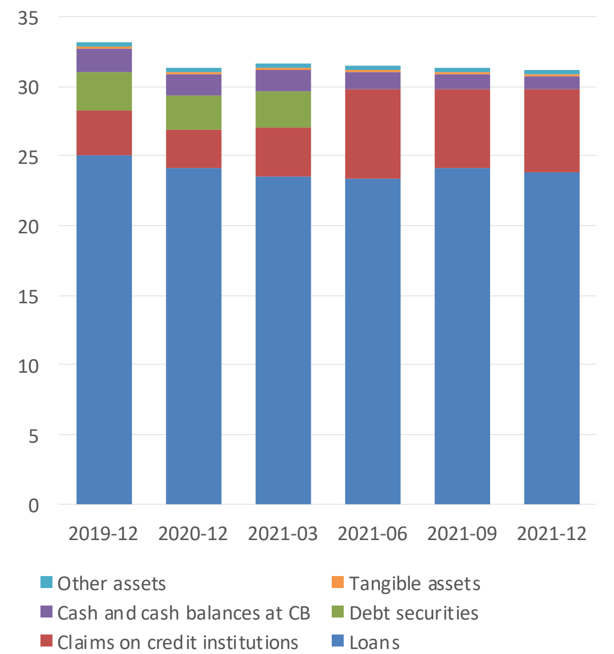
- **During 2021, the number of co-operative credit unions (CCU) shrank in Latvia.** In October, the new CCU VIDZEMES KAPITALS was registered in Riga, while operations of two market participants were terminated: in July, CCU "Nigrande" in Saldus regional community and in October Rucavas CCU in Dienvidkurzeme regional community. Consequently, at the end of the reporting year 33 cooperative co-operative credit unions were operating in Latvia.
- **The amounts of assets and deposits from participants remained almost unchanged.** Assets decreased by 0.3% and deposits by 1.0%. It was impacted mainly by one market participant whose activity was closely linked to a company that carried out internal restructuring and operated in a sector that had suffered significantly from the restrictions imposed by COVID-19. Participants' deposits were almost the only source of resources raised by the CCU sector (~100%), and most of them (88.7%) were household deposits.
- **The CCU loan portfolio declined in 2021.** The amount of cancelled and written-off loans exceeded the amount of loans newly issued, and over the course of the year, the loan portfolio decreased by 1.7%. Mortgage and consumer loans diminished by 1.9% and by 4.4%, respectively (their share in the CCU total loan portfolio was 51.9% and 37.0%, respectively). However, the decrease was mainly observed in the first half of the year, with uncertainty about the prospects for economic development under COVID-19 conditions and household prudence (households account for 98.8% of the total CCU loan portfolio). On the other hand, this uncertainty abated in the second half of the year, leading to a slight improvement in the sector's loan portfolio.
- **The share of standard loans in the loan portfolio of CCU sector remained unchanged in general during the year.** The share of NPL climbed from 16.9% to 17.5%, while the share of restructured loans stepped up from 0.8% to 1.3%. The ratio of loan provisions to the CCU total loan portfolio at the end of the year was 7.3%, while the ratio of NPL provisions to the amount of NPL was 38.1% (excluding the impact of one market participant it would be significantly higher, 81.7%).
- **The profitability ratios of CCU slightly deteriorated, with the return on equity (ROE) declining to 3.3%.** Net interest income decreased by 9.4% in 2021 compared to 2020, net commission income by 12.8%. Consequently, net profit for the reporting period decreased by 13.1% to EUR 233.6 thousand (EUR 268.8 thousand in 2020). Total administrative and depreciation expenses diminished by 5.8%, net other expenses by 36.0%. On the other hand, spending on loan provisions exceeded the income from reducing them by EUR 31.5 thousand. The CCU performance indicators also deteriorated: cost-to-income ratio (CIR) climbed from 77.4% to 78.2% compared to the end of 2020. In the reporting year, the profit represented less than half of CCU – 15 out of 33 (their total market share – 93.4%), together earning EUR 291.4 thousand.
- **The CCU had a high capital adequacy level in the reporting year.** The average ratio of total equity to the total amount of assets and off-balance sheet items, i.e., the total capital adequacy ratio, was 22.8% at the end of the year (minimum requirement of 10%), the second highest since 2018, affected by both the profit generated by CCU and a slight reduction in assets.

[5] Three largest cooperative savings and loan associations in terms of assets.

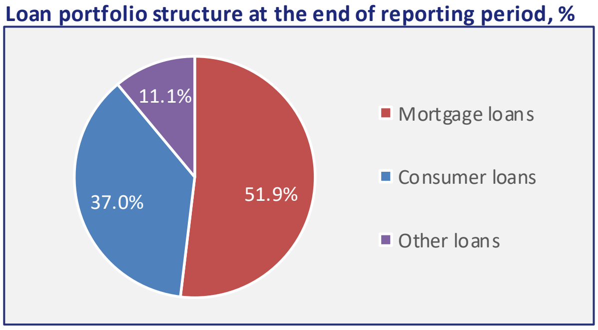
[6] Total substandard, doubtful and lost credits.

Balance sheet structure

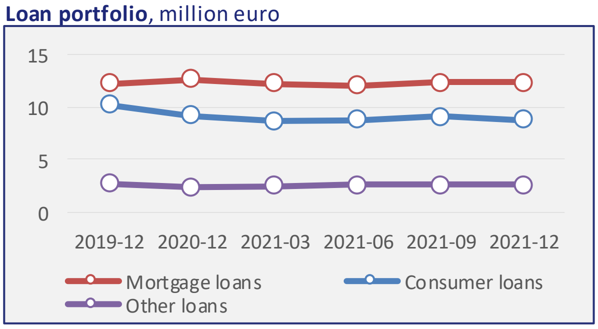
Asset structure, million euro



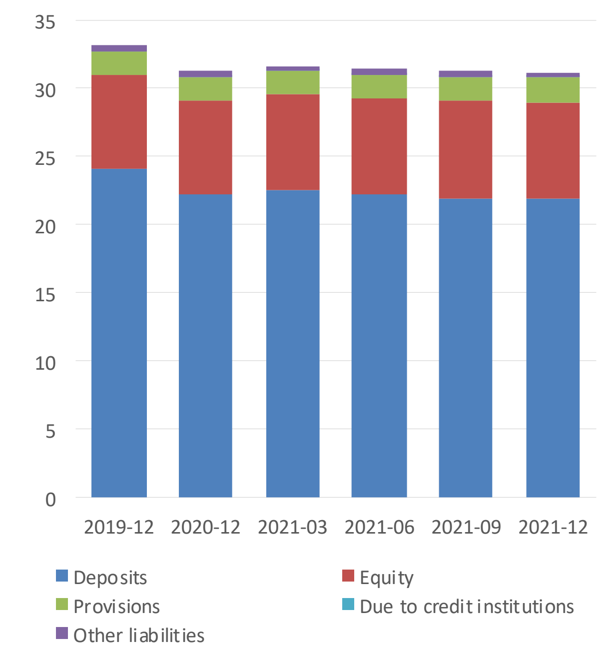
Loan portfolio structure at the end of reporting period, %



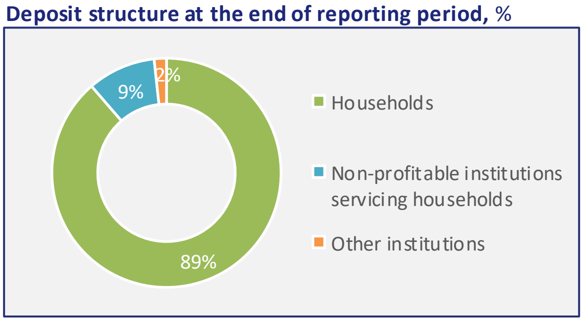
Loan portfolio, million euro



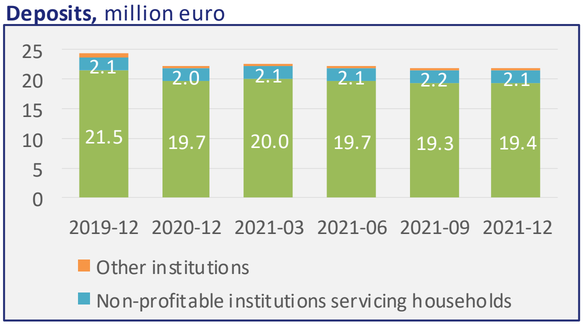
Liability structure, million euro



Deposit structure at the end of reporting period, %

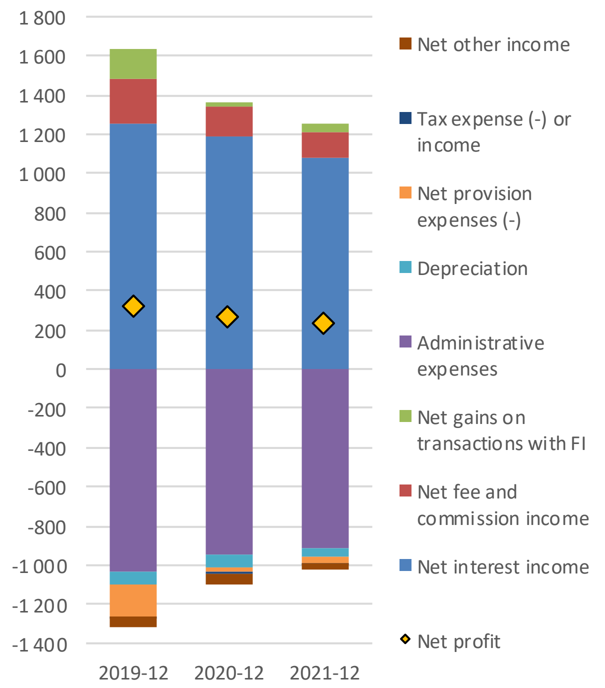


Deposits, million euro

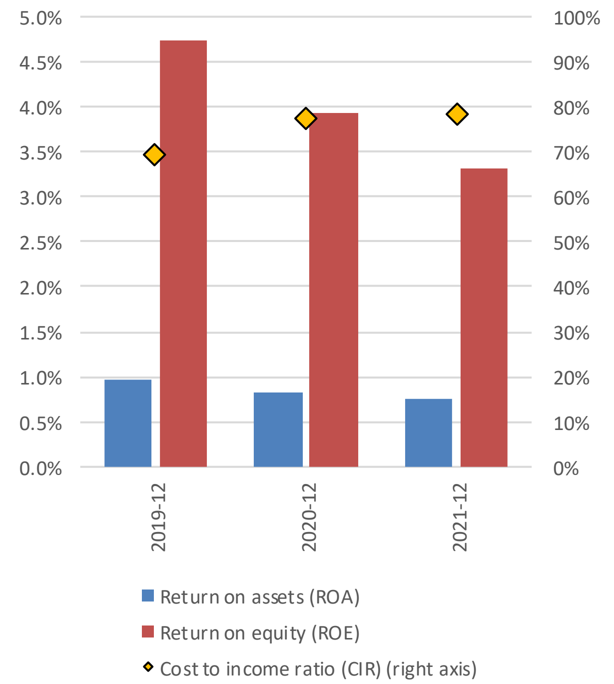


Profitability

Income structure, thousand euro

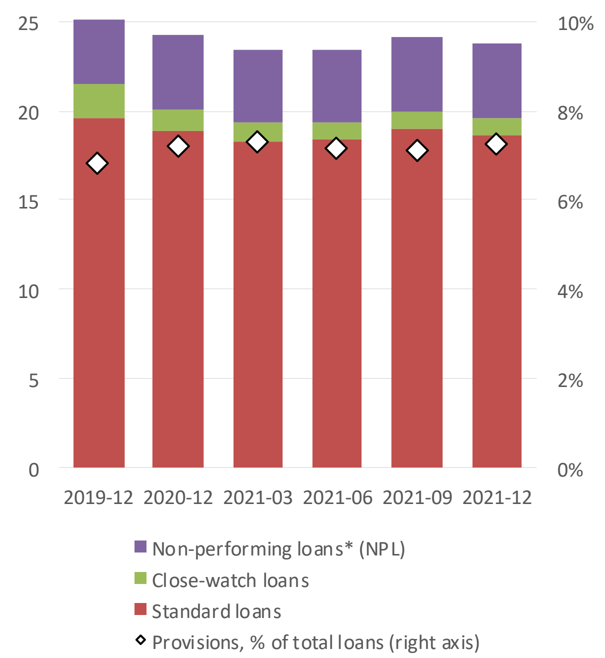


Profitability ratios, %

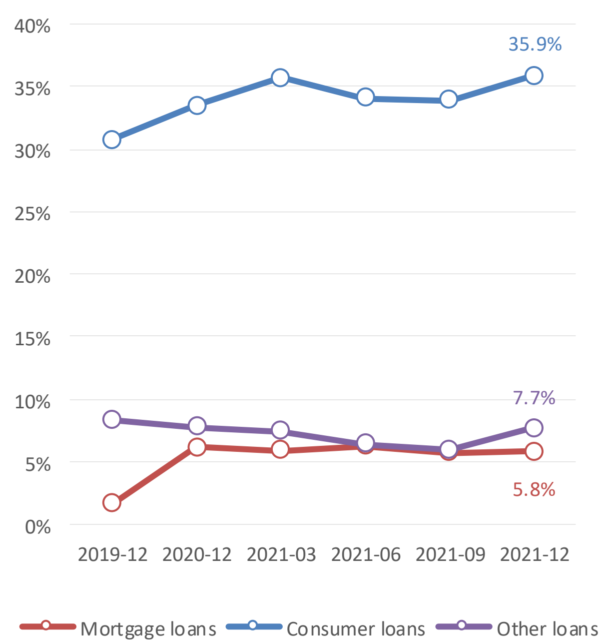


Loan portfolio quality

Credit quality structure, million euro



Loans past due more than 90 days (in respective segment),** %



** Total substandard, doubtful and lost loans.*

** Data source: Bank of Latvia' credit register.

INSURERS

Key performance indicators

	2019	2020	2021
Number of market participants (companies and EU insurers branches)	6+12	6+11	6+11
Gross premiums written (million euro)	856.7	799.3 (810.9)[7]	849.4
Gross claims paid since the (million euro)	549.4	501.3 (507.7)[7]	541.4
Profit/loss for the reporting period (million euro)	30.9	53.4	36.3
Loss ratio, %	66.9	62.8	66.6
Expenses ratio, %	26.6	26.9	28.7
Combined ratio, %	96.2	92.3	95.4
Solvency ratio, %	162	174	177

- **The volume of premiums written in Latvia increased faster than in other countries**. Total gross written premiums increased by 4.8%[7] during 2021, reaching EUR 849.4 million. Moreover, the increase in the amount of premiums written in Latvia was 6.6% or EUR 36.1 million, reaching EUR 587.0 million. In the total portfolio of written premiums, the majority (36.2%) was still covered by transport insurance premiums. Transport insurance (29.1%), as well as life insurance (25.5%, including annuity insurance 9.9%), health insurance (18.5%) and property insurance (16.7%) were also the most important types of insurance in Latvia.
- **The increase in premiums written by non-life insurers (3.7%[7]) was mainly influenced by property insurance,** with a significant increase in the number of insurance contracts entered into during the reporting year, gross written premiums in property insurance increased by EUR 20.3 million or 20.9%. High growth rates were also shown by the health insurance segment, where gross written premiums increased by EUR 18.0 million or 18.1%. During the pandemic, transport insurance experienced the largest negative change in premiums written during the non-life segment: in 2021 gross premiums written amounted to EUR 307.1 million, which was 4.8% less than in the previous year and 17.1% less compared to the results of the pandemic in 2019, mainly affected by the increasing competition and the price drop caused by the COVID-19 situation, as well as travel and movement restrictive measures.
- **In 2021, the amount of premiums written by life insurers grew even more rapidly, by 7.2%.** There was growing market interest in life insurance unit links, with gross written premiums growing by EUR 16.9 million or 17.4%. Due to low interest rates and increased uncertainty and volatility in the financial markets, insurers renounce investment products with guaranteed return interest, thereby reducing additional risk. The share of life insurance products with savings fell by 2.8 percentage points during the year and gross written premiums shrank by EUR 4.3 million or 17.1%.
- **The rise in economic activity and weakening of the constraints imposed by the pandemic resulted in an increase in claims paid by 6.5%[7],** reaching EUR 541.4 million. The amount of claims paid in Latvia only increased by 3.3% or EUR 11.3 million, reaching EUR 353.9 million. The largest share of the total amount of claims was paid in transport (40.1%) and life insurance (25.9%, including annuity insurance 6.5%) insurance.
- **In the reporting year, insurance companies earned a total of EUR 36.2 million,** which was 32.1% or EUR 17.1 million less than in the previous year. This reduction was mainly affected by an increase in claims paid. However, in 2021 insurance companies succeeded to earn between 17.2% or EUR 5.3 million more than before the pandemic, i.e., in 2019. For all insurance companies, both return on equity (ROE) and return on assets (ROA) ratios were positive in the reporting quarter, i.e., 8.8% and 1.8% respectively.
- **As the amount of claims incurred grew faster than the amount of premiums earned, the combined ratio slightly deteriorated, reaching 95.4% at the end of the year.** For individual insurance companies, the combined value ranged from 91.5% to 105.0%.
- **In the reporting year, the size of insurance companies' portfolio increased by** 3.2% or EUR 44.2 million, reaching EUR 1.4 billion at the end of December. Compared to the previous year, contributions to investment funds increased (15.1% or EUR 85.8 million), with their share in the investment portfolio structure rising to 46.0%. At the same time,

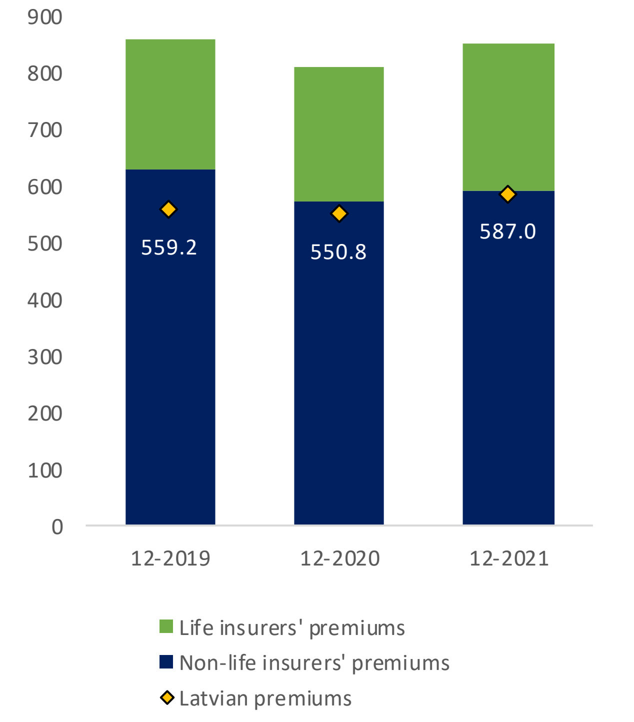
[7] Including data from a branch of a foreign insurance company that ceased its activity in Q3 2020.

the most significant decline was for investment in government bonds (13.0% or EUR 76.0 million), with the share in the investment portfolio decreasing to 31.4%, respectively.

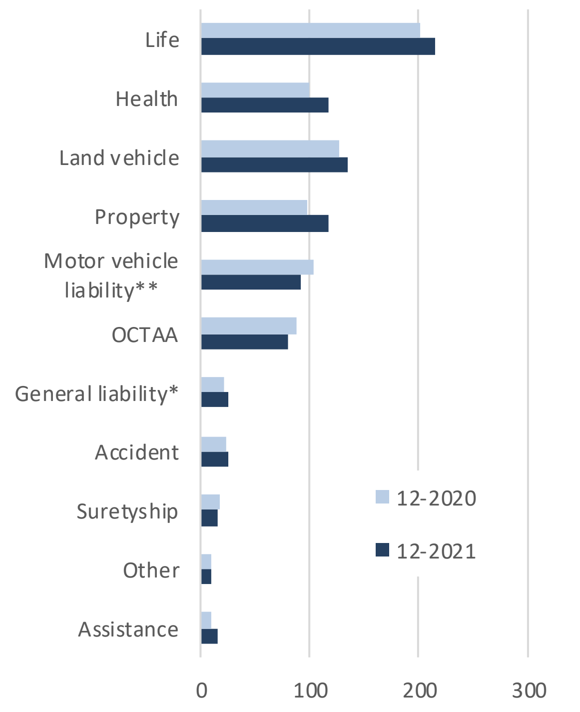
- **The solvency ratio of insurance companies[8] improved, reaching 177.2% at the end of December** and was still well above the minimum requirements (the minimum requirement is 100%), including 236% for life insurance companies and 148% for non-life insurance companies.

Premiums written

Gross premiums written by insurers, million euro



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

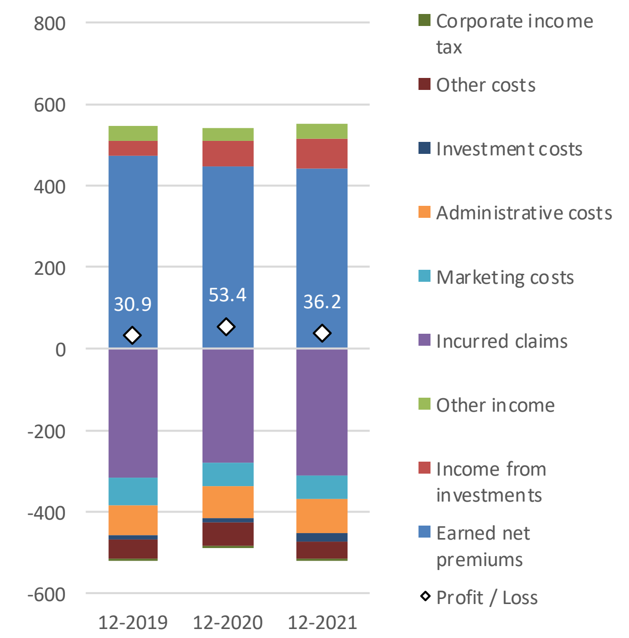


** Civil liability insurance*
*** Civil liability insurance for land vehicle owners.*

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

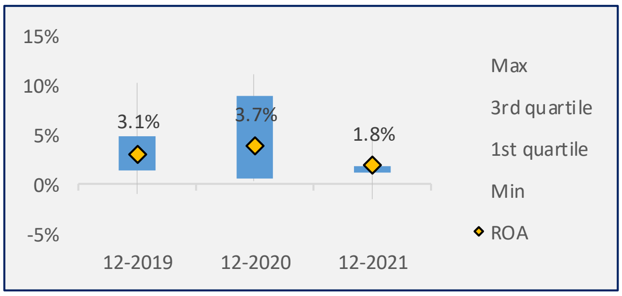
Profitability and solvency

Insurance companies: profit structure, million euro

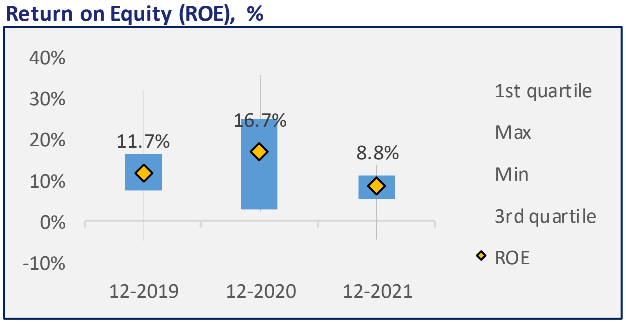


Insurance companies: return ratios (ROA, ROE), %

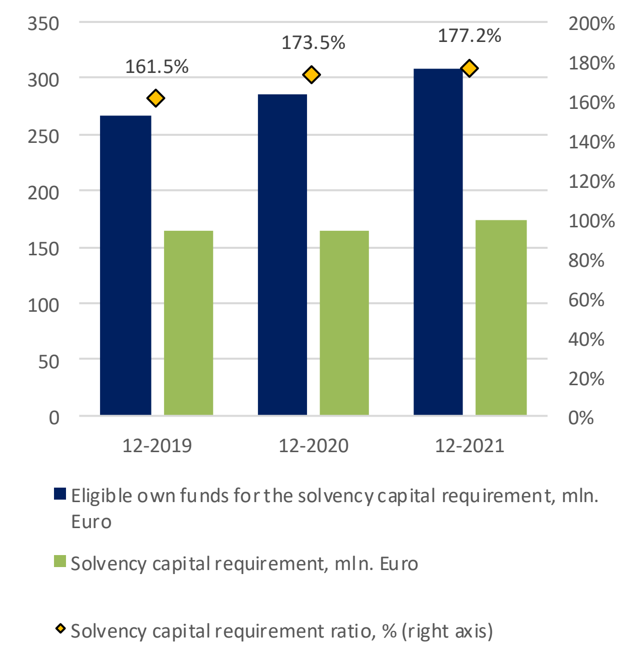
Return on Assets (ROA), %



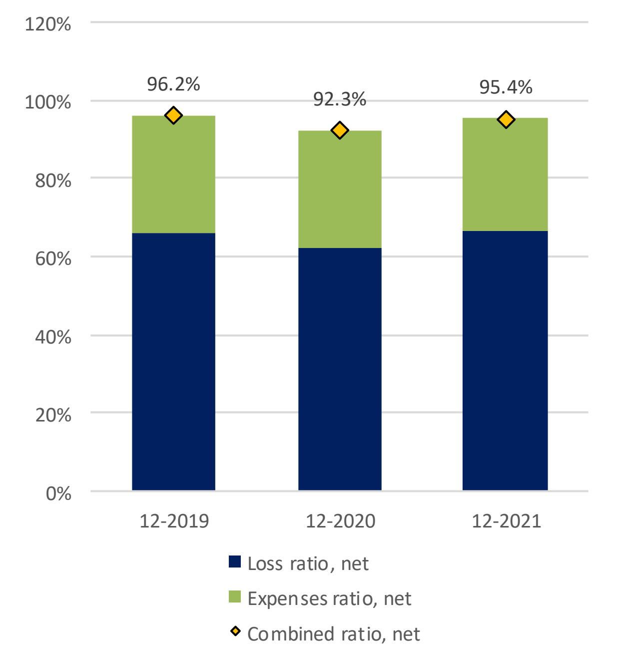
Return on Equity (ROE), %



Insurance companies: Solvency ratio, %



Combined ratio of non-life insurance companies, %



PAYMENT INSTITUTIONS AND ELECTRONIC MONEY INSTITUTIONS

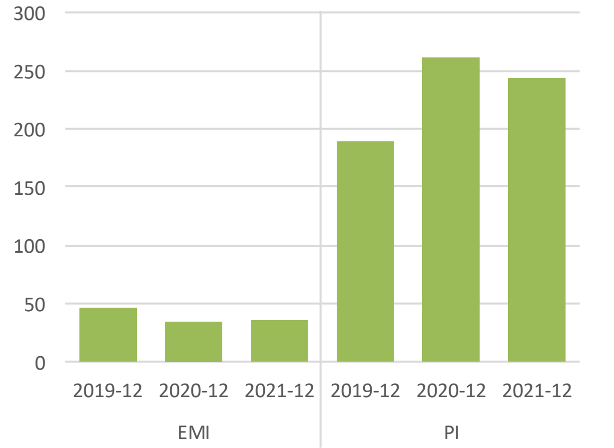
Key performance indicators

	2019	2020	2021
Number of market participants			
Payment institutions (including licensed)	10 (4)	7 (4)	6 (5)
Electronic money institutions (including licensed)	8 (1)	8 (2)	7 (3)
Amount of payments, million euro:			
Payment institutions	188.8	261.1	243.4
Electronic money institutions	61.1	50.7	52.2
including in electronic money	15.1	16.4	16.8
Amount of electronic money repurchased, million euro	22.7	17.2	17.4
Gross revenue from the provision of services, million euro			
Payment institutions	5.2	7.0	6.1
Electronic money institutions	5.3	2.6	2.5

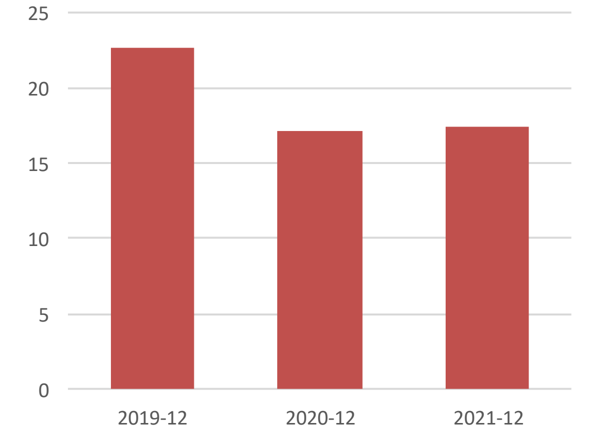
- **In 2021, the payment institution (PI) and electronic money institution (EMI) sector was characterised by the transition of market participants to the status of licensed institutions**, taking into account significantly wider business development opportunities compared to the status of a registered entity. At the end of December, there were six PI in Latvia, including five licensed, and seven EMI, including three licensed.
- **The total amount of payments made by PI and EMI during the year declined by 5.2% and totalled EUR 295.6 million**, excluding the payments made in electronic money, – by 5.6% to EUR 278.8 million. In fact, the decline referred only to PI for which it was 6.8%, while EMI had an increase of 3.0%.
- **Due to the circumstances created by the COVID-19 pandemic, the provision of payments and electronic money services provided by the PI and EMI in 2021 resulted in general of 10.3% lower gross revenue** than a year ago, i.e., EUR 8.6 million. The decrease in income of PI was 12.6%, EMI – 4.4%. 71% of the total revenue was from income generated by PI.
- **The conditions caused by COVID-19 also affected the amount of electronic money in circulation.** At the end of the reporting year, it was 9% lesser than in 2020. On the other hand, the total amount of electronic money repurchased, i.e., the activity of electronic money exchange against non-cash money issued, increased by 1% compared to 2020, reaching EUR 17.4 million.
- **Total liquid assets of PI and EMI increased, reaching EUR 61.6 million at the end of the year** – 7.5% more than a year ago. These were mainly claims against banks for ensuring the payment and electronic money services (EUR 61.4 million). These assets provided coverage of liabilities to customers amounting to EUR 61.3 million. According to the regulatory requirements, liquid assets must cover the full amount of PI and EMI's obligations to customers also secured by all market participants at the end of 2021, whose activities foresee the existence of balances of liquid assets.

PAYMENT INSTITUTIONS AND ELECTRONIC MONEY INSTITUTIONS

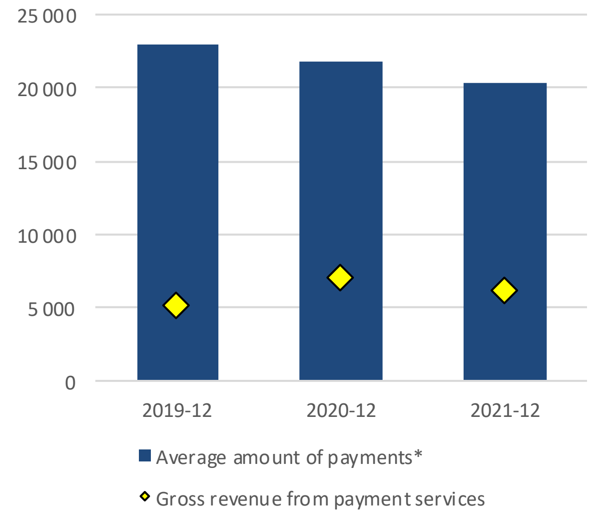
Amount of payments (except in e-money), million euro



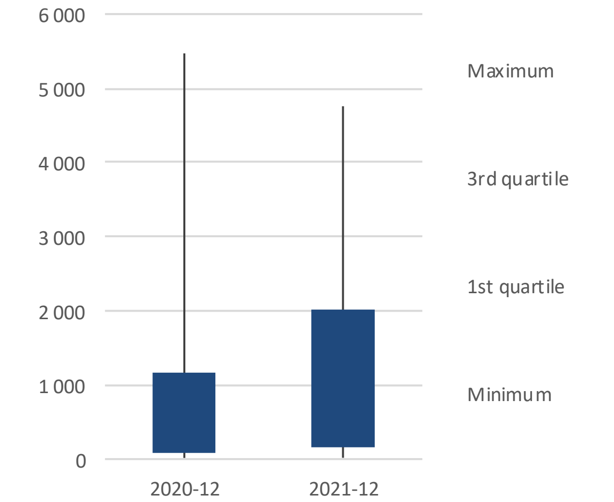
Amount of electronic money repurchased, million euro



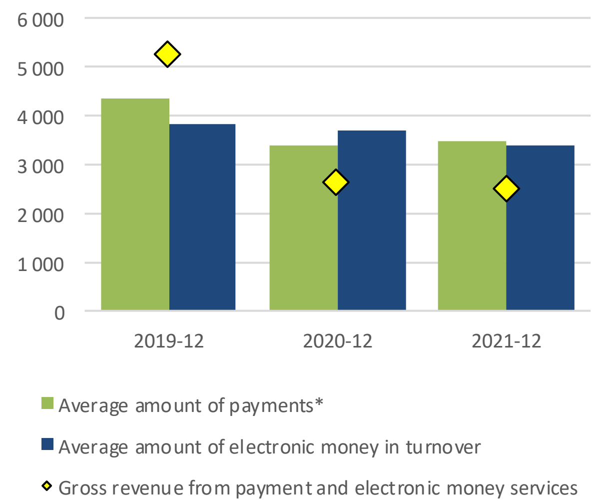
Provision of payment institution services, thousand euro



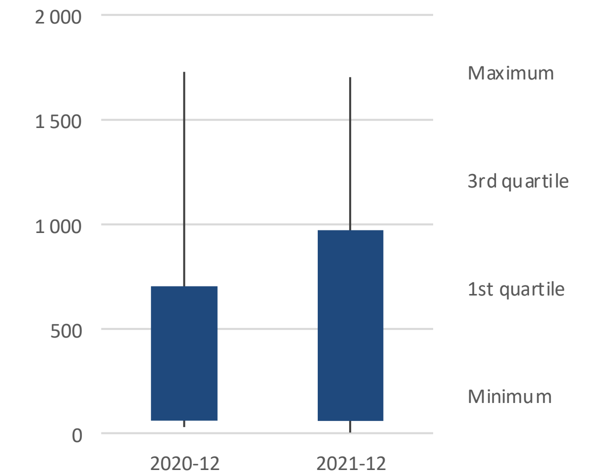
Dispersion of gross revenue of payment institutions, thousand euro



Provision of electronic money institution services, thousand euro



Dispersion of gross revenue of electronic money institutions, thousand euro



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

STATE FUNDED PENSION SCHEME

Key performance indicators

	2019	2020	2021
Number of asset managers	8	7	7
Number of investment plans	31	31	28
Number of participants	1 300 135	1 295 745	1 294 377
Net assets (billion euro)	4.51	5.09	6.00
Amount of money received from SSIA (million euro)	973.2	1 011.7	1380.5
Conservative investment plans	199.6	217.2	339.7
Balanced investment plans	95.7	86.4	83.2
Active investment plans	677.9	708.1	957.5
Returns, %	10.8	2.1	9.1
Management expenses, %	0.49	0.48	0.54

- **During 2021, the number of investment plans reduced to 28.** Three of the investment plans managed by CBL Asset Management ("Daugava", "Gauja" and "Venta") were added to other existing plans ("CBL Aktīvais" and "CBL Universālais"). Meanwhile, the number of fund managers remained unchanged, according to the shareholders' meeting decision, the name of ABLV Asset Management was changed to Integrum Asset Management.
- **The total number of state funded pension scheme participants had not changed significantly during the year.** The number of volunteers decreased (by 5.9%) while the number of mandatory participants (71% of the total members) increased (by 2.4%).
- **The increase in assets in 2021 was mainly affected by the increase in financial investment.** During the year net assets surged by 18.0%, or EUR 0.91 billion, to EUR 6.0 billion. Of the total accumulated capital, 72.8% was invested in active plans, 8.7% in balanced plans and 18.5% in conservative plans. Compared to the end of 2019 (period before Covid-19), net assets overall increased by 33.0%.
- **As the situation on the labour market improved, contributions made during the reporting year increased by 36.5%.** Given the dynamics of the number of participants, the increase in contributions could be due to an increase in average contributions (an increase in average monthly salary of 14.1%[9]) and a reduction in the number of unemployed people (16.3%[10] compared to 2020). There was a significant (35.2%) increase in participants' contributions to the active investment plans (i.e., 69.4% of the contribution) and conservative (56.4%) investment plans (i.e., 24.6% of the amount of contributions). On the other hand, the amount of contributions to the balanced plans, which represented 6.0% of total contributions, decreased (by 23.4%).
- **All active and balanced investment plans achieved a positive return in 2021.** The weighted average return on investment plans improved and reached 9.1% at the end of December, but remained below the level of 2019 or before the pandemic, i.e., 10.8% (whereas during the period considered in the previous year it was 2.1%). Better results were reported by active plans with a return of 12.3% (ranging from 8.0% to 24.1%), with debt securities representing only 18.7% in the investment portfolio structure. The return on balanced plans was 4.4% (ranging from 3.6% to 4.7%). Whereas conservative plans showed worse results, with a return of -1.3% (ranging from -2.3% to -0.2%), i.e., none of the conservative investment plans could achieve a positive return. In the investment portfolio structure of conservative plans, debt securities accounted for 46.9%, which raised the risk of retirement savings in the low interest rate environment. At the beginning of 2021, substantial amendments were made to the Law on State Funded Pensions, removing a limit (maximum 75% of the size of the investment plan assets) that could be invested in equities and similar securities, thereby boosting the return potential of long-term savings and mitigating the negative effects of low interest rates (increasing the possibilities for diversification of investment).

[9] CSB data for Q3 2021.
[10] SEA data for 2021.

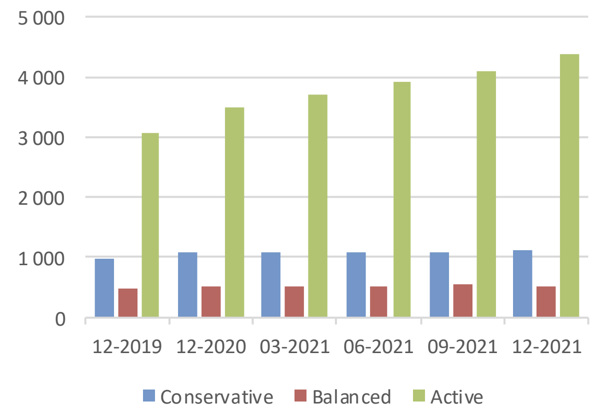
- **Investment plan management expenses did not exceed the statutory limits**[11], with individual plans reaching their value from 0.2% to 1.1%. The ratio of all investment plan management expenses to net assets rose slightly to 0.54% at the end of 2021.
- **During the reporting year, investment volume increased by 18.0%,** mainly due to an increase in investment in active plans (+24.9% or EUR 0.9 billion), with a share of total investment of 72.9%. Investment in investment funds (+ 35.5% or EUR 1.1 billion) and investment in shares (+30.2% or EUR 27.1 million) were the most significant increase in the type of investment instrument. On the other hand, the largest reduction was in deposits and claims against credit institutions (-55.2% or EUR -209.1 million) and debt securities (-1.4% or EUR -20.2 million). Investment made in Latvia decreased during the year (by 3.6%), reaching EUR 560.9 million at the end of December, or 9.3% of total investments. The increase in total investment was mainly due to investment in other EEA countries[12] (21.6%). In this group of countries, the majority of the investments consisted of securities issued by Ireland (38.8% or EUR 2.2 billion), with the most significant increase in investment during the year (27.2% or EUR 461.5 million).

[11] The Law on State Funded Pensions provides that 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.

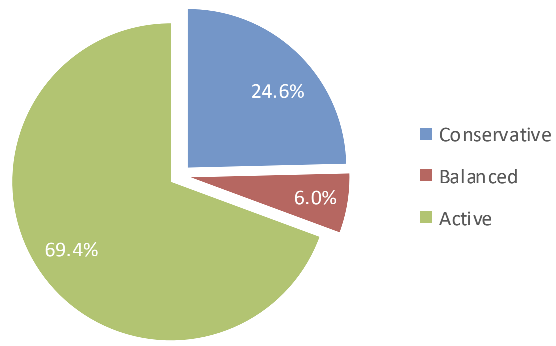
[12] The classification of instruments included in the investment portfolio by country group is used in the Overview as follows: Latvia, other Baltic atws (Lithuania and Estonia), other EEA countries (except Latvia, Lithuania and Estonia) and other countries.

Management of state funded pension scheme assets

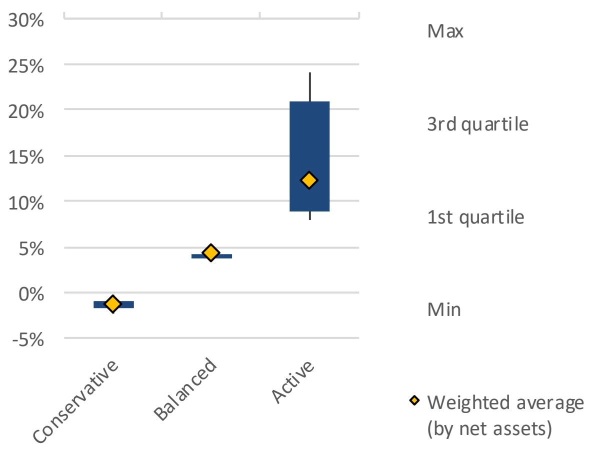
Net assets, million euro



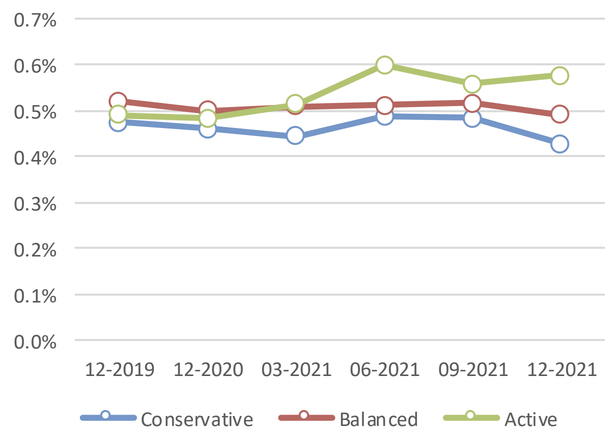
Contributions to investment plans in 2021, %



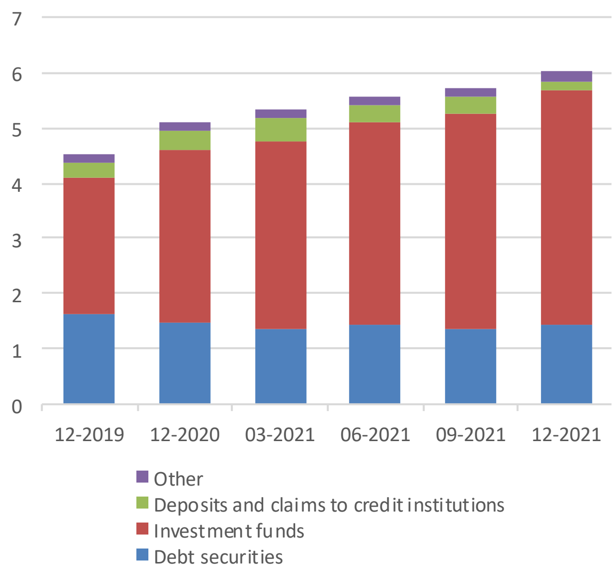
Return on investment plans in 2021, %

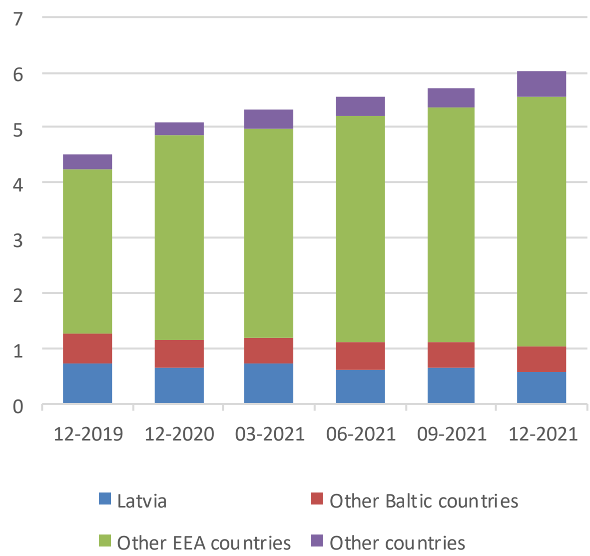


Management expenses, annualized % of net assets



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





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

PRIVATE PENSION FUNDS

Key performance indicators

	2019	2020	2021
Number of pension funds	6	6	7
Number of pension plans	16	16	21
Number of participants	324 829	336 036	363 410
Contributions made by participants or of whom contributions are made (million euro)	81.5	88.4	106.5
Returns, %[13]	10.1	2.0	6.9
Administrative and management expenses, %	1.2	1.0	0.9
Contributions (million euro)	559.7	609.9	730.2

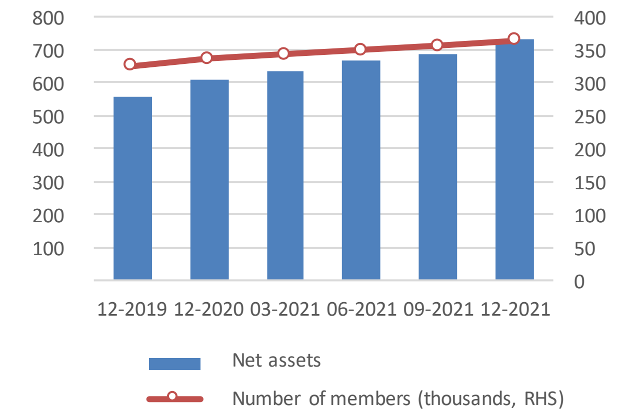
- **In 2021, there were structural changes:** Indexo Atklātais Pensiju Fonds obtained a licence and started operations with two pension plans: "Indexo Akciju plāns" and "Indexo Obligāciju plāns". With a new fund entering the market, the total number of private pension funds increased to seven. Also, the pension plan "SEB indeksu plāns" of "SEB atklātā pensiju fonds" and Luminor pension plan "Ilgtspējīga nākotne" were launched, as well as Swedbank pension fund pension plan "Swedbank pensiju plāns Dinamika Indekss" was registered, increasing the total number of pension plans from 16 to 21.
- **With improving financial literacy, increased the number of people making additional voluntary pension deposits.** The number of participants of private pension funds continued to grow gradually, increasing by 8.2% or 27.4 thousand during the year. The number of individual participants increased by 9.3% or 26.5 thousand, while the number of participants whose contributions were made by employers grew only by 1.8% or 0.9 thousand. At the end of the reporting period, individual participants accounted for 85.9% of the total number of participants.
- **In a low interest rate environment, active pension plans are becoming more and more popular.** Participants' contributions increased by 20.5% in 2021 compared to the previous year, including contributions from active pension plans increased by 28.7% and their share in total contributions reached 45.2%, while contributions to balanced and conservative pension plans increased by 14.4% and their share was 54.8%.
- **The weighted average return on pension plans reached 6.9%,** while in the previous year it was 2.0%, but the rate of return remained lower than the level of 2019 (10.1% in the period before Covid-19). When assessing the results of private pension fund investment plans, the return on active pension plans ranged from 2.0% to 24.2%, while the return on balanced and conservative pension plans ranged from -1.2% to 4.5%.
- **The level of pension plan management expenses continued to decline** – the rate of administrative expenses and investment management expenses to net assets was 0.9% in 2021, while for individual plans it ranged from 0.1% to 2.5%.
- **Investment increased by 19.7% or EUR 120.3 million during the year.** Investment made in Latvia increased by 5.1% or EUR 4.9 million, now reaching EUR 101.4 million or 13.9% of total investment. The increase in total investment was mainly affected by an increase in EEA countries[14], which grew by 20.4% or by EUR 86.7 million. This increase was mainly influenced by an increase in investment in Ireland of 33.3% or EUR 63.3 million, bringing the total to EUR 253.3 million, accounting for 34.7% of total investment. The increase in investment in instruments was mainly driven by an increase in investment funds (which grew by 34.3% or EUR 119.5 million). On the other hand, deposits and claims against credit institutions decreased by 40.1%, or EUR 25.9 million. The overall increase in investment was mainly influenced by an increase in investment in active plans of 31.8% or EUR 77.6 million.

[13] The weighted average return on net assets, %

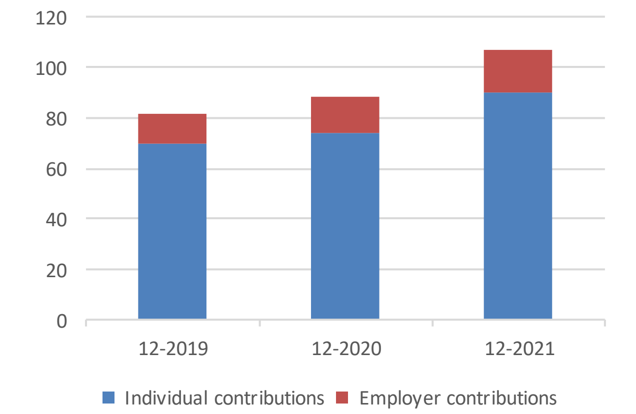
[14] The classification of instruments included in the investment portfolio by country group is used in the Overview as follows: Latvia, other Baltic States (Lithuania and Estonia), other EEA countries (except Latvia, Lithuania and Estonia) and other countries.

Private pension funds

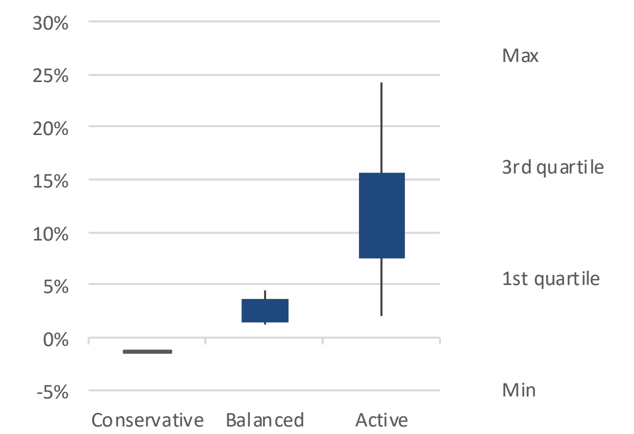
Net assets, million euro



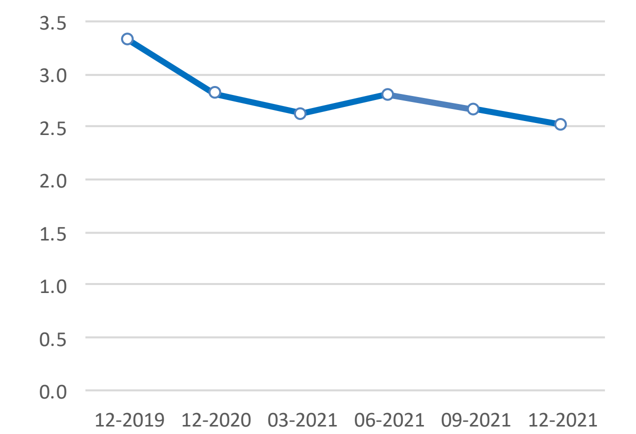
Contributions to pension plans, million euro



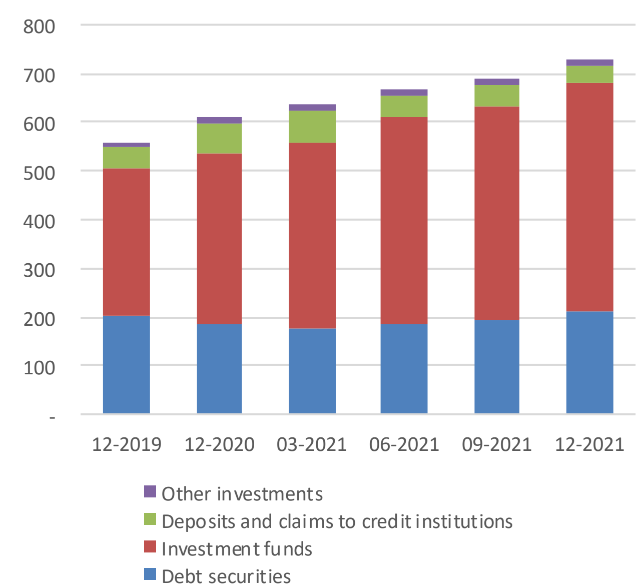
Returns on pension plans, %

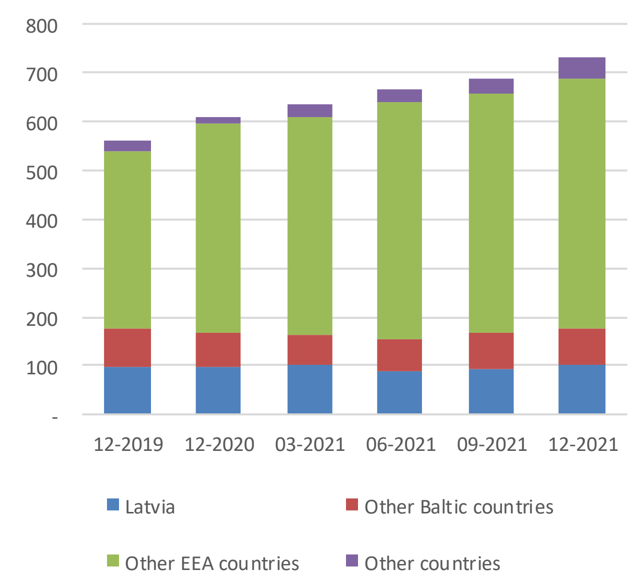


Administrative and management expenses, annualized % of net assets



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





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

INVESTMENT FUNDS

Key performance indicators

	2019	2020	2021
Number of investment management companies	11	11	10
Number of investment funds	24	23	22
Investment fund assets (million euro)	226.9	248.1	278.0
Returns, %			
Bond funds	12.7	-2.85	6.40
Mixed funds	14.7	1.48	11.35
Equity funds	24.8	4.51	25.85
Management expenses, %			
Bond funds	1.3	1.25	1.20
Mixed funds	1.4	1.35	1.40
Equity funds	1.9	1.73	1.56

- **The number of managers and investment funds managed by them decreased during the year:** PNB Asset Management ceased operations in 2020, while in 2021 two of its managed funds were taken over by CBL Asset Management. In Q1 2021, two investment funds managed by "Rietumu asset management" discontinued their activities, while one fund managed by Signet Asset Management Latvia was launched and one new investment fund, CBL US Leaders Equity Fund, managed by CBL Asset Management, was registered. At the end of 2021, there were 10 licensed investment management companies in Latvia, of which 4 companies managed 22 investment funds.

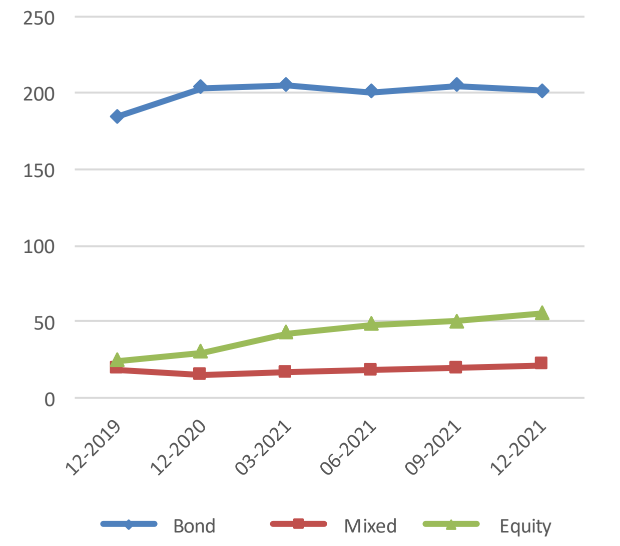
- **Compared to the corresponding period of the previous year, the return on investment funds improved significantly,** gradually overcoming the negative effects of the pandemic. The yield of bond funds ranged from - 1.6% to 11.3%[15], and for only one investment fund, yields were negative. The return on mixed funds ranged from 6.4% to 15.0%, while for equity funds - from 14.5% to 31.5%.

- **During the year, the amount of funds invested in securities did not change significantly, but the trends between different types of funds diverged.** Total investment volume decreased by 0.7% to EUR 225.2 million. For equity investment funds, investment volume increased by 74.8% or EUR 21.8 million (share of total investment of 22.5%), mixed fund investments increased by 30.0% or EUR 4.3 million (share of 8.3%), while bond fund investments declined by 15.0% or EUR 27.6 million (share of 69.2%). The largest investments were still made in other countries[16] (their share of total investment was 57.1%, given the effects of BREXIT and 54.2% without it), with an increase of 3.5% or EUR 4.4 million in 2021. In the group of other countries, the largest share was the securities issued by the US (33.9%), which increased by 67.0% in 2021 or EUR 17.5 million. Investments in other EEA countries[16] (share of 37.3%) decreased by 9.2% or EUR 8.5 million. The largest share of securities issued in Luxembourg and Ireland (28.3% and 27.0%) in the group of rest EEA countries increased by 15.2% or by EUR 3.1 million and 20.9% or EUR 3.9 million, respectively. Investment in Lithuania and Estonia (share of 3.4%) decreased by 2.1% or EUR 165.8 thousand. Meanwhile, investments in Latvia (share of 2.3%) increased more than twice, increasing by EUR 2.7 million. While the share of debt securities in total investments declined (by 12.3 percentage points), it still accounted for the largest share (70.9%), investment in investment funds was 14.8% (the share increased by 3 percentage points over the year) and 14.3% in shares (fastest growth of share by 9.3 percentage points).

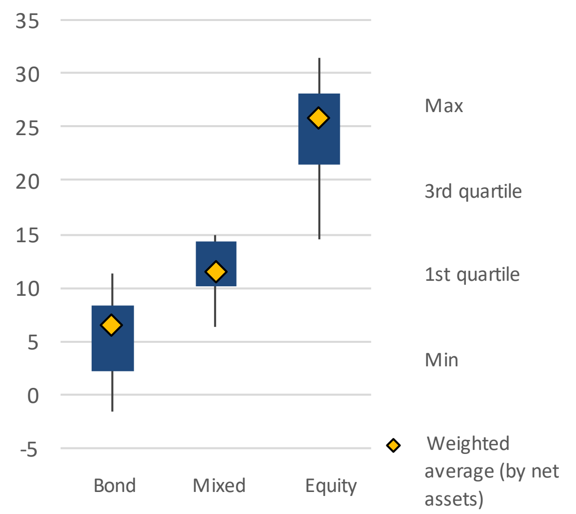
[15] Dispersion of return to all funds that exist for more than 1 year.
[16] The classification of instruments included in the investment portfolio by country group is used in the Overview as follows: Latvia, other Baltic States (Lithuania and Estonia), other EEA countries (except Latvia, Lithuania and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

Investment funds

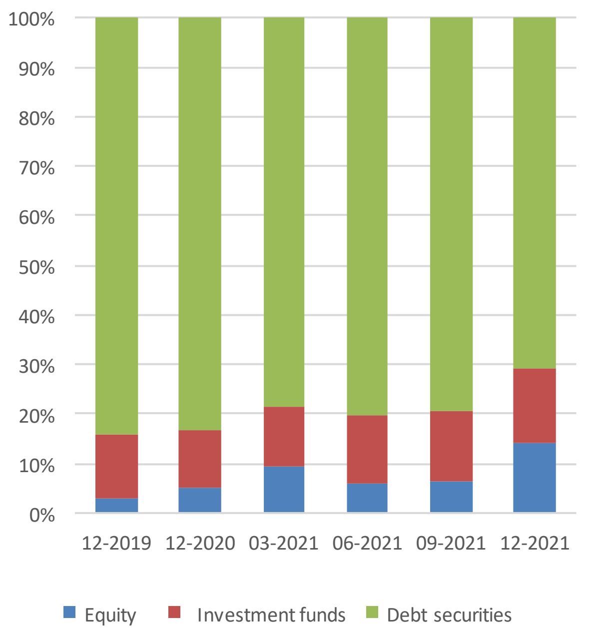
Asset dynamics, million euro

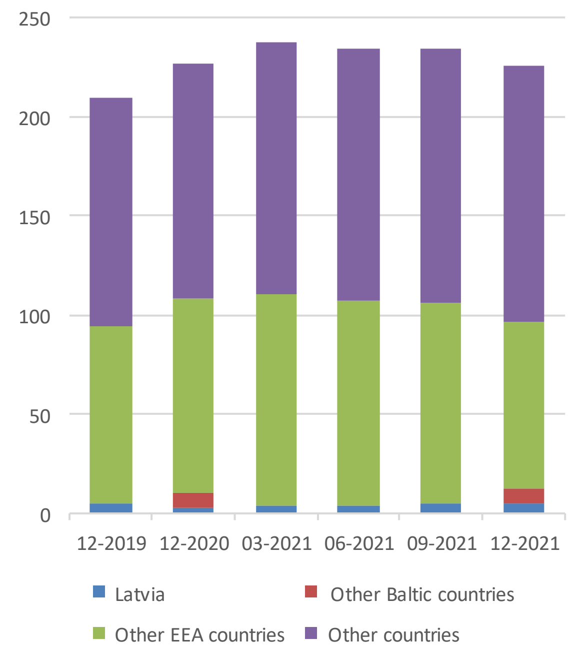


Returns by type of fund since the beginning of the year, %



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





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

CAPITAL MARKET

Key performance indicators

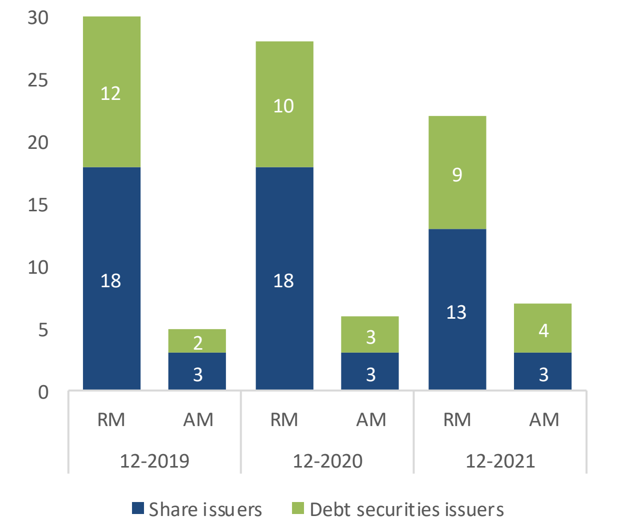
		2019	2020	2021
Number of issuers	**Regulated market**	**30**	**28**	**22**
	Share issuers	18	18	13
	Debt securities issuers	12	10	9
	Alternative market	**5**	**6**	**7**
	Share issuers	3	3	3
	Debt securities issuers	2	3	4
Market capitalisation (million euro)	**Regulated market**	**2 720.9**	**2 889.8**	**3 087.9**
	Stock market	810.6	867.9	810.2
	Debt securities market	1 910.3	2 019.9	2 277.8
	Alternative market	**31.6**	**83.3**	**180.9**
	Stock market	30.1	80.9	175.9
	Debt securities market	1.5	2.4	5.0
Turnover (million euro)	**Regulated market**	**34.9**	**42.6**	**36.5**
	Stock market	24.1	14.1	23.8
	Debt securities market	10.8	28.5	12.7
	Alternative market	**3.9**	**2.8**	**6.7**
	Stock market	0.73	0.75	4.64
	Debt securities market	3.21	2.05	2.10
Number of transactions	**Regulated market**	**14 422**	**29 109**	**52 536**
	Stock market	14 183	28 828	52 097
	Debt securities market	239	281	439
	Alternative market	**377**	**2 324**	**17 053**
	Stock market	321	2 105	16 892
	Debt securities market	56	219	161

- **During the reporting year, in Latvia there was one regulated market "Nasdaq Riga"** (hereinafter – the Exchange) operating along with one multilateral trading system or alternative market, First North Latvia. Both trading venues are organised by AS Nasdaq Riga.
- **During the reporting year, the number of share issuers listed on the regulated market (Stock Exchange) shrank**, and at the end of the year shares of 13 companies were listed on the Exchange, of which 4 were listed on primary list and 9 companies were presented on the additional list. At the end of 2021, 20 debt securities issued by 9 issuers were included in Baltic Bond list, 7 of which were Latvian government bonds, while 13 – corporate debt securities.
- **On the multilateral trading system First North Latvia,** at the end of the year there were 3 stock companies 4 bonds (of 4 issuers) listed for trading.
- **In 2021, trading activity on the Exchange increased with both shares and debt securities.** The total number of trades with shares on the Stock Exchange increased by 80.7% during the year, resulting over 52 thousand transactions, while turnover increased by EUR 9.7 million or 68.3%. During 2021, 6 share issuers were excluded from the regulated market, leading to a fall in stock market capitalisation of EUR 57.8 million or 6.7%. In the reporting year, investor interest also increased in debt securities, as the number of transactions on the Exchange increased by 56.2%. Most of the transactions were carried out with AS "mogo" corporate bond in Q1 of 2021. The market capitalisation of debt securities on the Exchange reached EUR 2.3 billion at the end of 2021, increasing by 12.8% compared to the end of 2020, but turnover dropped by more than 2 times.
- **Trading activity on the alternative market (First North Latvia) reached unprecedented levels in the reporting year.** The number of transactions with shares increased more than eight times during the year, which was largely driven by the AS Virši-A successful listing and trading of the shares. The share market capitalisation on the alternative market reached EUR 175.9 million at the end of 2021, compared to EUR 80.9 million at the end of 2020. Not only the issue of AS Virši-A shares contributed to the improvement, but also the significant increase (by 39.4%) in the share price of MADARA Cosmetics. On the other hand, the First North bond list experienced structural changes

during the reporting year – earlier existing bonds matured but 4 new corporate debt securities issues were added. The number of trades with bonds carried out by First North Latvia decreased by 26.5% during the year, but turnover climbed by 2.3%, reaching EUR 2.1 million, and capitalisation reached EUR 5 million at the end of 2021, more than 2 times exceeding the year 2020 figure.

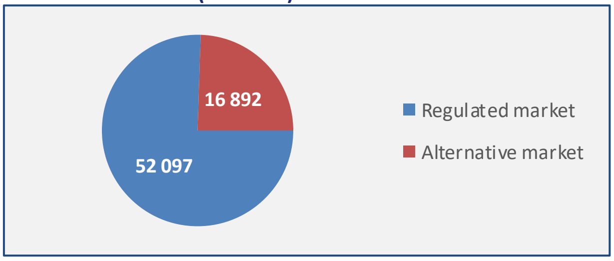
Capital market

Number of issuers

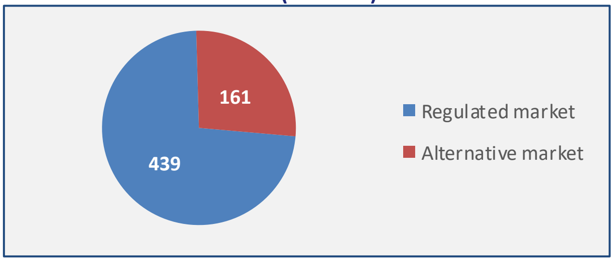


Number of transactions

Trades with shares (12-2021)

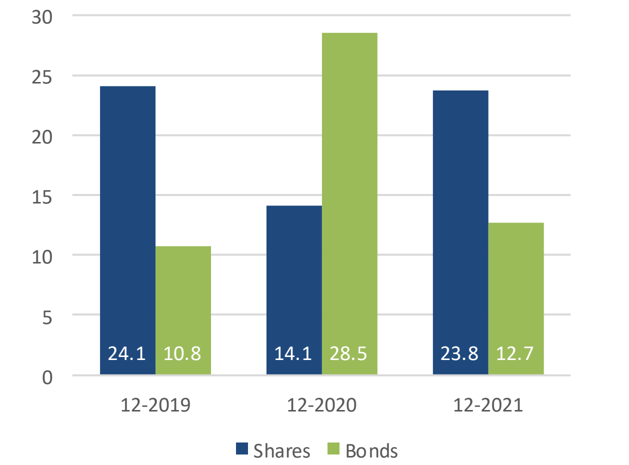


Trades with debt securities (12-2021)

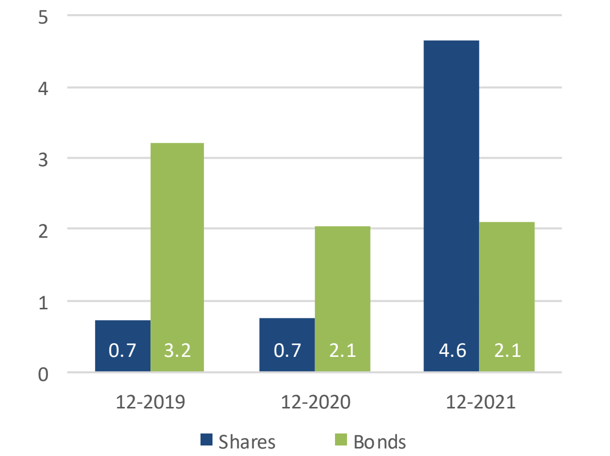


Turnover, million euro

Regulated market (RM)

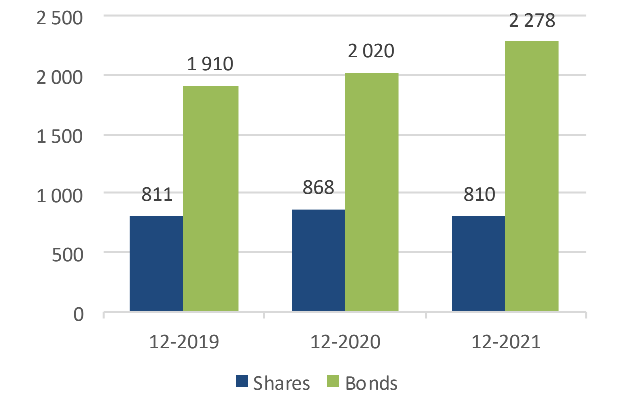


Alternative market (AM)



Market capitalisation, million euro

Regulated market (RT)



Alternative market (AT)