BlueOrange
20 years together

AS BlueOrange Bank

Group's Consolidated and Bank's Separate Annual Report for the year ended 31 December 2020

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Translation note: This version of financial statements is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

Report of the Council and the Board

AS BlueOrange Bank (Bank) is a joint–stock company established on 22 June 2001 and entered into the Register of Enterprises of the Republic of Latvia under uniform registration No. 40003551060. The bank's address is Smilšu iela 6, Rīga, LV–1050, Republic of Latvia. On 8 June 2001, the Bank received a license for conducting the activities of a credit institution, which was re-registered on 28 June 2011 and on 14 September 2017 – license No. 06.01.05.002/483 at the license register of the FCMC. The Bank operates in accordance with the applicable legislation of the Republic of Latvia and the European Union.

The Group consists of the Bank, which is a Parent company of the Group and a number of subsidiaries. The business operations of the subsidiaries are not related to the functions of the Bank and they were set up to manage repossessed collaterals and real estate property.

The worldwide economic challenges due to the pandemic COVID-19 have led to adjustments in the business environment and have affected the development and growth of the economy of Latvia. However, despite the difficulties experienced in many sectors, the Bank was successful in continuing its activities in 2020 in line with its strategy and business priorities.

According to audited data, the year 2020 was closed with a profit of EUR 3.7 million, which meets the expected level. The Bank's gross income amounted to EUR 30 million during the reporting period, and net operating income amounted to EUR 20.2 million. The Bank's equity amounted to EUR 70 million. The Bank's total assets under management have increased by 34% up to EUR 726 million as at the end of 2020.

At the end of 2020 the Bank's liquidity reached 80%. Other key financial performance indicators of the Bank were successful as well — return on capital (ROE) 5.5% and return on assets (ROA) 0.6%.

In 2020, the Bank continued further development of its strategic priority business line — servicing and financing of businesses, which was also demonstrated by the increase in BlueOrange lending: at the end of the year, the total loan portfolio reached EUR 308 million (gross), which represents a 20% increase compared to the previous year. Out of that, new loans issued in 2020 amounted to EUR 117 million, that resulted in a 21% increase of lending income compared to the previous year. 92% of loans issued furing the reporting period were granted to domestic companies, thus promoting both the development of individual sectors of economy and the acquisition of new export markets, as well as the use of new business opportunities during this difficult period for the economy of Latvia.

The role of small and medium-sized enterprises in the recovery and growth of the economy of Latvia will be particularly important in the wake of the crisis. The Bank has set up financing programme for the segment of small and medium-sized enterprises. SME lending accounted for nearly 90% of the Bank's total lending in 2020.

At the same time, during the last year the Bank focused on improving the financial services for legal entities, which resulted in an 18% increase of the number of domestic clients — legal entities. At the end of the reporting period, the share of clients based in Latvia, Baltic Countries and Europe in the total client portfolio accounted for 98%.

In order to make financial services more accessible and convenient, the Bank plans to introduce remote identification facilities for legal entities in 2021.
Last year, the Bank continued to cooperate with a number of European fintech companies, attracting deposits from countries such as Germany, Austria, the Netherlands, Spain, thereby providing additional funds for lending to local businesses. The Bank participated in the European Central Bank's TLTRO operations (Targeted longer-term refinancing operations) which allowed for the diversification of

funding sources and cheaper resources for lending to local businesses. In addition to raising funds, the Bank launched a new issue of uncollateralised subordinate bonds for EUR 10 million in 2020.

During the reporting period, the BlueOrange's API was upgraded to the NextGenPSD2 (Berlin Group) standard, which corresponds to the format established by the PSD2 Regulation, thus allowing the Bank's customers to unify their IT systems and reduce maintenance costs. The Bank also continued its technological development by automating its internal business processes and expanding the functionality of internet banking, with a view to ensuring an increasingly convenient access to banking products and services for clients in remote settings and ensuring the highest security of financial transactions in on-line environment.

In order to provide its clients with the latest payment and business opportunities, while continuing the development of digital services, BlueOrange joined Europe's instant payment system in the end of 2020. BlueOrange is the sixth bank in Latvia, which provides its clients with instant payments 24 hours a day, 7 days a week, 365 days a year, including holidays. To provide its customers with safe on-line purchasing environment meeting the standards of the European Union, the Bank has implemented all the required changes in addition to gradual implementation of safety regulations.

With a view to promoting business-to-business cooperation in order to overcome economic consequences and provide for new development opportunities, the Bank has engaged in active cooperation with representatives of several European trade organisations in Latvia.

In spring 2020, the BlueOrange Bank as a responsible financial institution joined the moratorium of Finance Latvia Association in supporting the Bank's clients in the circumstances of COVID-19. The Bank actively cooperated with various institutions in helping to select the best solutions on a national level for the support of both individuals and entrepreneurs.

In 2020, the Bank continued to prioritise the matters of risk management and operational compliance. The Bank continued improving its internal processes and information systems in the area of risk-management for the prevention of money laundering and terrorism financing and proliferation, meanwhile improving its client transaction monitoring and due diligence procedures.

In publishing the Annual Report, the Board of the Bank proposes to leave the profit for the last year in the amount of EUR 3.7 million undistributed for the strengthening of the Group's capital position.

Considering the fact that maintaining lending rates is an essential instrument for warming up the national economy, BlueOrange Bank, in line with its business strategy, will maintain funding of domestic businesses as a top priority also in 2021, with a particular focus on the sector of small and medium-sized enterprises.

On behalf of the Bank,

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

4 March 2021

Council and Board of the Bank

Council as of 31 December 2020

Name, Surname	Position	Date of Appointment
Aleksandrs Peškovs	Chairman of the Council	22 June 2001
Sergejs Peškovs	Member of the Council	22 June 2001
	Deputy Chairman of the Council	25 July 2002
Andrejs Kočetkovs	Member of the Council	22 June 2001

Board as of 31 December 2020

Name, Surname	Position	Date of Appointment
Dmitrijs Latiševs	Member of the Board	1 July 2002
	Deputy Chairman of the Board	25 April 2003
	Chairman of the Board	27 April 2011
Inga Preimane	Member of the Board	11 January 2016
Igors Petrovs	Member of the Board	31 May 2018
Dmitrijs Feldmans	Member of the Board	13 June 2019
Vadims Morozs	Member of the Board	12 August 2019

On behalf of the Bank,

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

4 March 2021

Statement of the Management's responsibility

The Management of AS BlueOrange Bank (hereinafter – the "Bank") is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the "Group") as well as for the preparation of the financial statements of the Bank.

The Group's consolidated and the Bank's separate financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the Group's consolidated and the Bank's separate financial statements.

The Group's consolidated and the Bank's separate financial statements on pages 13 to 101 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2020 and the consolidated results of its operations and cash flows for the year then ended, as well as the financial position of the Bank as at 31 December 2020 and the results of its operations and cash flows for the year ended 31 December 2020.

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

On behalf of the Bank,

Aleksandrs Peškovs	**Dmitrijs Latiševs**
Chairman of the Council	*Chairman of the Board*

4 March 2021

Independent Auditor's Report

To the Shareholder of AS BlueOrange Bank

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements set out on pages 13 to 101 of the annual report give a true and fair view of the separate and consolidated financial position of AS "BlueOrange Bank" (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2020, and their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 4 March 2021.

What we have audited

The financial statements, which consist of the separate financial statements of the Bank and the consolidated financial statements of the Group (together "the financial statements") comprise:

- the Group's Consolidated and the Bank's Separate Income Statements for the year ended 31 December 2020;
- the Group's Consolidated and the Bank's Separate Statements of Other Comprehensive Income for the year ended 31 December 2020;
- the Group's Consolidated and the Bank's Separate Statements of Financial Position as at 31 December 2020;
- the Group's Consolidated Statement of Changes in Shareholders' Equity for the year then ended;
- the Bank's Separate Statement of Changes in Shareholders' Equity for the year then ended;
- the Group's Consolidated and the Bank's Separate Statements of Cash Flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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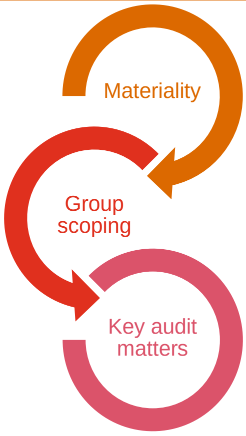
Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on Audit Services.

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

The non-audit services that we have provided to the Bank and the Group, in the period from 1 January 2020 to 31 December 2020, are disclosed in Note 11 to the financial statements.

Our audit approach

Overview



- Overall Bank and Group materiality: EUR 633 thousand, which represents 1% of net assets.

- We have audited the separate financial statements of the Bank.
- We have performed selected audit procedures over the significant balances and transactions of other subsidiaries.
- Our audit scope covered substantially all of the Group's revenue and substantially all of the Group's total assets.

Expected credit losses on loans (Group and Bank)

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

Materiality

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

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

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Overall materiality	Overall materiality applied to the Bank and the Group was EUR 663 thousand.
How we determined it	1% of the Bank's and the Group's net assets at 31 December 2020.
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because net assets, in our view, is the benchmark which is of primary focus by the users of the financial statements and forms the basis for capital adequacy for regulatory purposes. We chose the threshold of 1%, which is within the range of accepted quantitative materiality thresholds for this benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 66.3 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans (Group and Bank) Refer to Note 19 "Loans and receivables" to the financial statements. We focused on this area because application of IFRS 9 "Financial instruments" expected credit loss (ECL) model for loans impairment losses requires complex and subjective judgements over the estimation of the ECL. The key features of the ECL model include classification of loans to 3 stages, assessment of credit risk parameters and application of forward-looking information. The amount of impairment provision for the Group's and the Bank's loans is based on the model calculations taking into consideration the exposure at default, probability of default, changes in customer credit rating, other known risk factors impacting stage of each exposure, and taking into account estimated future cash flows from the loan repayments or sale of collateral (loss given default), and ECL adjustments by expected impact of future macroeconomic scenarios. For all loans in Stage 1 and 2 and insignificant loans in Stage 3 the expected credit losses are calculated using the ECL model, while for significant exposures in Stage 3 an expert credit judgement is applied to determine if the ECL calculated in accordance with the model needs to be adjusted. As at 31 December 2020 expected credit losses amounted to EUR 5 179 thousand at the Group and the Bank (refer to Note 19).	We assessed whether the Group's and the Bank's accounting policies in relation to the ECL of loans to customers are in compliance with IFRS 9 by assessing each significant model component: exposure at default, probability of default and loss given default, definitions of default and significant increase in credit risk, use of macroeconomic scenarios. We assessed the design and operating effectiveness of the controls over relevant loan data and ECL calculations. These controls included controls over authorization for loan origination, recording of loans data in the system, the non-retail loans credit file periodic review and related credit rating assessment, a timely transfer into overdue accounts and correctness overdue days calculation, appropriate classification into individual or collective assessment, staging assessment. We determined that we could rely on these controls for the purpose of our audit. We also reconciled of the source data used in the calculation PD. Further, we performed detailed testing over reliability of loan data, including contract dates, interest rates, collateral values and types, performing/ non-performing status and other inputs used in ECL calculation. For a sample of loans we evaluated reasonableness of assumptions made by credit expert in scenarios for individually assessed loans to legal entities. We have verified the rationale of these adjustments and also verified the reasonableness of the values of collaterals used in the assessment of the adjustments. On a sample basis we tested the collectively assessed credit loss allowance for loans to customers. We analysed PD and LGD applied by the Group and the Bank. We recalculated the final credit loss allowance for loans and advances to legal entities assessed on collective basis.

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We reviewed a selection of loans from COVID-19 affected industries to evaluate reasonableness of staging as at 31 December 2020. We also reviewed and assessed the post-model expert credit adjustments applied as at 31 December 2020.

Finally, we have reviewed the credit risk disclosures.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

The Group engagement team carried out audit work on the Bank's financial statements and performed selected audit procedures over the significant balances and transactions of other subsidiaries. Our audit work addressed substantially all of the Group's revenues and the Group's total assets. Audit services for separate and consolidated financial statements was performed by Group's auditors, component auditors were not engaged.

Reporting on other information including the Report of the Council and the Board

Management is responsible for the other information. The other information comprises:

- Report of the Council and the Board, as set out on pages 2 to 3 of the accompanying Annual Report;
- information on Council and Board of the Bank, as set out on page 4 of the accompanying Annual Report; and
- Statement of Management's Responsibility, as set out on page 5 of the accompanying Annual Report,

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

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

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

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

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures

are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors by the Bank shareholders' resolution on 28 November 2018. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of 3 years.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
4 March 2021

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The Group's Consolidated and the Bank's Separate Income Statements

	Note	2020		2019	
		Group EUR'000	Bank EUR'000	Group EUR'000 (Restated)	Bank EUR'000 (Restated)
Interest income		19 969	19 969	16 508	16 508
From those income at effective interest rate		*19 879*	*19 879*	*16 416*	*16 416*
Interest expenses		(7 817)	(8 179)	(7 329)	(7 706)
Net interest income	6	**12 152**	**11 790**	**9 179**	**8 802**
Fee and commission income		5 986	5 987	11 257	11 259
Fee and commission expense		(1 991)	(1 991)	(2 271)	(2 271)
Net fee and commission income	7	**3 995**	**3 996**	**8 986**	**8 988**
Net profit from trading and revaluation of financial instruments	8	1 440	1 440	1 428	1 428
Net foreign exchange income	9	1 799	1 800	1 501	1 501
Net profit from reclassification of debt instruments at fair value through other comprehensive income to debt instruments at fair value through profit or loss		-	-	397	397
Other operating income	10	1 108	1 102	878	751
Total operating income		**20 494**	**20 128**	**22 369**	**21 867**
Administrative expenses	11	(13 744)	(12 963)	(14 141)	(13 258)
Other operating expenses	12	(1 696)	(1 635)	(1 754)	(1 798)
Credit loss	18,19,20	(1 845)	(1 817)	(894)	(894)
Net impairment reversal	13	-	-	32	32
Total operating expenses		**(17 285)**	**(16 415)**	**(16 757)**	**(15 918)**
Profit before taxation		**3 209**	**3 713**	**5 612**	**5 949**
Corporate income tax	14	(8)	(8)	(4)	(3)
Profit for the year		**3 201**	**3 705**	**5 608**	**5 946**

The accompanying notes on pages 20 to 101 form an integral part of these financial statements. The Council and the Board of the Bank approved the issue of these financial statements as presented from page 13 to 101 on 4 March 2021. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

4 March 2021

The Group's Consolidated and the Bank's Separate Statements of Other Comprehensive Income

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000 (Restated)	Bank EUR'000 (Restated)
Profit for the year	**3 201**	**3 705**	**5 608**	**5 946**
Other comprehensive income				
Items that may be reclassified to profit or loss				
Foreign exchange revaluation reserve	1	-	19	-
Revaluation reserve – FVOCI (debt instruments)	410	410	57	57
Total items that may be reclassified to profit or loss	**411**	**410**	**76**	**57**
Items that will not be reclassified to profit or loss				
Revaluation reserve – FVOCI (equity instruments)	9	9	-	-
Total items that will not be reclassified to profit or loss	**9**	**9**	**-**	**-**
Other comprehensive income	**420**	**419**	**76**	**57**
Total comprehensive income	**3 621**	**4 124**	**5 684**	**6 003**

The accompanying notes on pages 20 to 101 form an integral part of these financial statements.
The Council and the Board of the Bank approved the issue of these financial statements as presented from page 13 to 101 on 4 March 2021. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

4 March 2021

The Group's Consolidated and the Bank's Separate Statements of Financial Position

Assets	Note	2020 Group EUR'000	2020 Bank EUR'000	2019 Group EUR'000 (Restated)	2019 Bank EUR'000 (Restated)
Cash and demand deposits with central bank	15	113 003	113 003	90 703	90 703
Loans and receivables from banks	16	24 561	24 528	24 870	24 835
Demand deposits with credit institutions		*24 561*	*24 528*	*24 870*	*24 835*
Trading assets		2 839	2 839	21 181	21 181
Fixed income securities	17	-	-	*14 910*	*14 910*
Non fixed income securities	17	*2 772*	*2 772*	*6 247*	*6 247*
Derivatives	32	*67*	*67*	*24*	*24*
Investment securities	18,20	224 656	224 656	88 702	88 702
Fixed income securities		*217 640*	*217 640*	*86 586*	*86 586*
Non fixed income securities		*7 016*	*7 016*	*2 116*	*2 116*
Loans and receivables	19	303 190	303 190	249 352	249 324
Investments in associates	21	827	-	827	-
Investments in subsidiary undertakings	21	-	31 099	-	31 101
Investment property	22	2 751	1 388	2 751	1 388
Property and equipment	23	27 314	4 215	28 669	4 605
Right-of-use assets	23	-	11 250	-	11 914
Intangible assets	24	551	550	860	860
Prepayments and accrued income	25	2 576	2 573	571	571
Other assets	26	6 836	6 818	13 032	13 005
Corporate income tax receivable		8	4	10	7
Total assets		**709 112**	**726 113**	**521 528**	**538 196**

The Group's Consolidated and the Bank's Separate Statements of Financial Position

Liabilities and Equity	Note	2020		2019	
		Group	Bank	Group	Bank
		EUR'000	EUR'000	EUR'000	EUR'000
				(Restated)	(Restated)
Due to central bank		74 900	74 900	-	-
Due to credit institutions on demand	27	8 681	8 681	3 099	3 099
Derivatives	32	80	80	160	160
Financial liabilities carried at amortized cost		557 028	558 590	453 332	454 547
Deposits and balances due to financial institutions	28	*204*	*204*	*187*	*187*
Deposits	29	*543 287*	*544 849*	*429 331*	*430 546*
Deposits (subordinated)	29	*2 219*	*2 219*	*2 836*	*2 836*
Additional Tier 1 Debt securities		*408*	*408*	-	-
Debt securities (subordinated)	30	*10 910*	*10 910*	*20 978*	*20 978*
Lease liabilities	23	-	11 557	-	12 074
Deferred income and accrued expenses		1 377	1 362	1 332	1 332
Provisions		196	197	95	96
Other liabilities	31	544	509	825	775
Total liabilities		**642 806**	**655 876**	**458 843**	**472 083**
Shareholders' equity					
Share capital	33	39 493	39 493	39 493	39 493
Statutory reserves	33	24	24	24	24
Revaluation reserve – FVOCI		471	471	52	52
Other reserves	33	(3 412)	(2 400)	(3 413)	(2 400)
Retained earnings		29 730	32 649	26 529	28 944
Total equity attributable to equity holders of the Bank		**66 306**	**70 237**	**62 685**	**66 113**
Total equity and liabilities		**709 112**	**726 113**	**521 528**	**538 196**
Contingent liabilities and commitments	35	73 768	73 774	53 272	53 278

The accompanying notes on pages 20 to 101 form an integral part of these financial statements.
The Council and the Board of the Bank approved the issue of these financial statements as presented from page 13 to 101 on 4 March 2021. The financial statements are signed on behalf of the Council and the Board of the Bank by:

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

4 March 2021

The Group's Consolidated Statements of Changes in the Shareholders' Equity

	Note	Share capital	Statutory reserves	Revaluation reserve – FVOCI	Other reserves	Retained earnings (Restated)	Total equity attributable to equity holders of the parent (Restated)	Total equity (Restated)
		EUR`000	EUR`000	EUR`000	EUR'000	EUR`000	EUR`000	EUR`000
Balance as at 31 December 2018		**39 493**	**24**	**202**	**(3 432)**	**26 581**	**62 868**	**62 868**
Adjustment (see Note 3(22))		-	-	-	-	533	**533**	**533**
Adjusted balance as at 31 December 2018		**39 493**	**24**	**202**	**(3 432)**	27 114	**63 401**	**63 401**
Comprehensive income for the reporting period:								
Transfer of revaluation reserve to retained earnings on reclassification of debt instruments at FVOCI to debt instruments at FVPL			-	(207)	-	207	-	-
Dividends paid		-	-	-	-	(6 400)	**(6 400)**	**(6 400)**
Comprehensive income for the reporting period:								
Revaluation reserve – financial assets		-	-	57	-	-	**57**	**57**
Foreign exchange revaluation reserve		-	-	-	19	-	**19**	**19**
Profit for the period		-	-	-	-	5 608	**5 608**	**5 608**
Total comprehensive income for the reporting period		-	-	**57**	**19**	**5 608**	**5 684**	**5 684**
Balance as at 31 December 2019		**39 493**	**24**	**52**	**(3 413)**	**26 529**	**62 685**	**62 685**
Comprehensive income for the reporting period:								
Revaluation reserve – financial assets		-	-	419	-	-	**419**	**419**
Foreign exchange revaluation reserve		-	-	-	1	-	**1**	**1**
Profit for the reporting period		-	-	-	-	3 201	**3 201**	**3 201**
Total comprehensive income for the reporting period		-	-	**419**	**1**	**3 201**	**3 621**	**3 621**
Balance as at 31 December 2020		**39 493**	**24**	**471**	**(3 412)**	**29 730**	**66 306**	**66 306**

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Chairman of the Board

4 March 2021

The Bank's Separate Statements of Changes in the Shareholders' Equity

	Note	Share capital EUR'000	Statutory reserves EUR'000	Other reserves EUR'000	Revaluation reserve – FVOCI EUR'000	Retained Earnings EUR'000 (Restated)	Total capital and reserves EUR'000 (Restated)
Balance as at 31 December 2018		**39 493**	**24**	**(2 400)**	**202**	**28 658**	**65 977**
Adjustments (see Note 3(22))		-	-	-	-	533	**533**
		-	-	-	-	**29 191**	**66 510**
Transfer of revaluation reserve to retained earnings on reclassification of debt instruments at FVOCI to debt instruments at FVPL		-	-	-	(207)	207	-
Dividends paid		-	-	-	-	(6 400)	**(6 400)**
Comprehensive income for the reporting period:							
Revaluation reserve – financial assets		-	-	-	57	-	**57**
Profit for the reporting period		-	-	-	-	5 946	**5 946**
Total comprehensive income for the reporting period		-	-	-	**57**	**5 946**	**6 003**
Balance at 31 December 2019		**39 493**	**24**	**(2 400)**	**52**	**28 944**	**66 113**
Comprehensive income for the reporting period:							
Revaluation reserve – financial assets		-	-	-	419	-	**419**
Profit for the reporting period		-	-	-	-	3 705	**3 705**
Total comprehensive income for the reporting period		-	-	-	**419**	**3 705**	**4 124**
Balance as at 31 December 2020		**39 493**	**24**	**(2 400)**	**471**	**32 649**	**70 237**

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4 March 2021

The Group's Consolidated and the Bank's Separate Statements of Cash Flows

	Note	2020 Group EUR'000	2020 Bank EUR'000	2019 Group EUR'000 (Restated)	2019 Bank EUR'000 (Restated)
Cash flow from operating activities					
Profit before taxation		**3 209**	**3 713**	**5 612**	**5 949**
Amortisation of intangible assets		362	362	397	397
Depreciation of property, equipment and right-of-use assets		1 451	1 151	1 489	1 192
Revaluation of financial assets		312	312	(397)	(397)
Impairment of assets		1 845	1 817	862	862
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**7 179**	**7 355**	**7 963**	**8 003**
(Increase) in loans and receivables		(55 138)	(55 138)	(56 379)	(56 351)
(Increase)/decrease in investment securities		(115 297)	(115 297)	5 823	5 823
(Decrease) in trading financial assets		(2 756)	(2 756)	(3 312)	(3 312)
(Increase) in prepayments and accrued income		(2 005)	(2 002)	(275)	(275)
(Increase)/ decrease in other assets		6 196	6 191	(2 682)	(3 101)
Increase in due to central banks		74 900	74 900	-	-
Increase in deposits and due to banks		113 152	113 499	46 029	45 967
(Decrease)/increase in held-for-trading financial liabilities		(80)	(80)	160	160
(Decrease)/increase in other liabilities and current tax liabilities		(180)	(165)	(99)	370
Increase/(decrease) in deferred income and accrued expenses		45	30	(588)	(588)
Net cash from/(used in) operating activities before tax and interest		**26 016**	**26 537**	**(3 360)**	**(3 304)**
Corporate income tax paid		(6)	(6)	(4)	(3)
Net cash from/(used in) operating activities		**26 010**	**26 531**	**(3 364)**	**(3 307)**
Cash flows from investment activities					
Purchase of fixed and intangible assets		(145)	(145)	(130)	(76)
Disposals of fixed and intangible assets		-	-	25	25
(Purchase) of investment property		-	-	(33)	(33)
Disposal of investment property		-	-	140	-
Capital increase in investment in subsidiaries	21	-	(83)	-	(271)
Capital decrease in investment in subsidiaries	21	-	81	-	800
Net cash (used in) investing activities		**(145)**	**(147)**	**2**	**445**
Cash flows from financing activities					
Lease liabilities repaid on right-of-use asset		**-**	(517)	**-**	(502)
Bonds (repaid)		(10 060)	(10 060)	(187)	(187)
Bonds issued		400	400	-	-
Dividends (paid)	33	-	-	(6 400)	(6 400)
Net cash (used in) financing activities		**(9 660)**	**(10 177)**	**(6 587)**	**(7 089)**
Net changes in cash and cash equivalents		**16 205**	**16 207**	**(9 949)**	**(9 951)**
Cash and cash equivalents at the beginning of the reporting year		**112 474**	**112 439**	**122 423**	**122 390**
Cash and cash equivalents at the end of the reporting period	34	**128 679**	**128 646**	**112 474**	**112 439**
Interest received		18 925	18 925	16 612	16 612
Interest paid		(8 076)	(8 076)	(6 744)	(7 121)

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4 March 2021

Notes to the Group's Consolidated and the Bank's Separate Annual Report

1. GENERAL INFORMATION

AS BlueOrange Bank (previous name – Baltikums Bank) ("the Bank") is a Joint Stock Company registered with the Enterprise Register of the Republic of Latvia on 22 June 2001. The address of the Bank is Smilšu iela 6, Riga,

LV 1050, Latvia. The Bank holds a banking license issued in Latvia and it acts in accordance with the legislation of Latvia and the European Union.

The primary lines of business of the Bank are servicing corporate customers and high net worth individuals, and managing investments and finances.

The sole shareholder of the Bank is a Joint Stock Company BBG that holds 100% of voting shares of the Bank. JSC BBG is a financial management company registered in Latvia and owned by four Latvian companies and two private individuals, none of the ultimate beneficial owners controls the Group as at 31 December 2019. The consolidated financial statements of the parent company AS BBG can be obtained from the Enterprise Register of Latvia.

The Bank has a number of subsidiaries in Latvia and foreign countries as well as investments in associated companies. The above entities form the Group which comprises the following:

Name of the company	Country of incorporation, address	Line of business	Holding 31.12.2020, %	Holding 31.12.2019, %
SIA BlueOrange International	M. Pils iela 13, Riga, Latvia,	Real estate development	100	100
SIA CityCap Service	Kr. Valdemara iela 149, Riga, Latvia	Real estate development	100	100
SIA Zapdvina Development	Kr. Valdemara iela 149, Riga, Latvia	Real estate development	100	100
Kamaly Development EOOD	Etiera k-s ½B – 18, Sveti Vlas, Burgas obl., Nesebier 8256, Bulgaria	Real estate development	100	100
UAB Kamaly Development	Klaipedos m. sav. Klaipedos m., Karklu g. 12, Lithuania	Management of collaterals overtaken by the bank	100	100
AS Pils Pakalpojumi	Smilšu iela, Riga, Latvia	Real estate development	100	100
Foxtran Management Ltd	Suite 102, Blake Building, Corner Eyre & Huston Str., Belize	Management of collaterals overtaken by the bank	100	100
SIA Jēkaba 2	Jēkaba iela, Riga, Latvia	Real estate development	100	100
Mateli Estate SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	-	100
Darzciems Entity SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100
Mazirbe Estate SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100
Lielie Zaķi SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100
Pulkarne Entity SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100

As BlueOrange Bank, as a parent company, is responsible for establishing the structure and corporate governance system of the Group with clearly defined duties and responsibilities and adequate supervision of subsidiaries. There is a Council (composed of two members of the Council) and a Board (composed of one member of the Board) established in AS Pils Pakalpojumi. The Boards of other subsidiaries of the Bank consist of one member of the Board or one elected director. No significant changes have occurred in the corporate governance structure and operations of the Group and its companies, compared to the previous reporting period.

Investments in associated companies (the Group):

Company	Country of incorporation, address	Line of business	Holding (%) 31.12.2020	Holding (%) 31.12.2019
AS Termo biznesa Centrs	Kr. Valdemāra iela 149, Riga, Latvia	Real estate development	26.15	26.15

2. BASIS OF PREPARATION

(1) Statement of Compliance

The financial statements of the Bank and the Group ("financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and regulations of the Financial and Capital Market Commission of the Republic of Latvia ('FCMC') in force as at 31 December 2020.

The Group's consolidated and the Bank's separate financial statements were authorized for issue by the Board on 4 March 2021. Shareholders have the power to reject the financial statements prepared and issued by the management and the right to request that new financial statements are issued.

(2) Functional and presentation currency

These consolidated and separate financial statements are presented in thousands of euros ('000 EUR), unless stated otherwise. Subsidiaries of the Group and the Bank operate in the functional currency of euro and bulgarian lev.

(3) Basis of measurement

The Group's consolidated financial statements and the Bank's separate financial statements are prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are stated at fair value;
- derivative financial instruments are stated at fair value;
- financial instruments at FVOCI are valued at fair value;
- repossessed collaterals are recognised at lower of its carrying amount and fair value less cost to sell.

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of these Group's Consolidated and the Bank's Separate Financial Statements. The accounting principles have been consistently applied, except for the changes in accounting policies.

(1) Basis for consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Investments in subsidiaries are carried in the Bank's separate financial statements at cost less impairment, if any.

(ii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured by the Group at fair value when control is lost.

(iii) Interest in equity-accounted investees

The Group's interests in equity accounted investees comprise interests in associates.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Investments in associates are accounted for in the Group's consolidated financial statements using the equity method. The Bank ensures the appropriate adjustments are made in the associate's financial information to align the accounting policies with those used by the Group before equity method of accounting is applied. They are initially recognised at cost, including transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI in equity-accounted investees, until the date on which significant influence or joint control ceases.

Investments in associates are carried in the Bank's separate financial statements at cost less impairment, if any.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(v) Group's unified accounting policy

In the preparation of the consolidated financial statements, the financial statements of those Group entities that use different accounting policies are adjusted to conform with the Group's accounting policy.

(2) Foreign currency

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in the income statement.

The exchange rates for the most significant currencies as set by the European Central Bank at reporting date are as follows:

	31 December 2020	31 December 2019
USD	1.2271	1.1234

Foreign operations

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

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

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

(3) Financial instruments

a) Classification

Financial instruments are classified into the following categories:

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

— It is held within a business model whose objective is to hold assets to collect contractual cash flows, and

— Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

— It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

— Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at **FVTPL**. IFRS 9 also allows entities to irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

On initial recognition, an equity instrument other than held for trading, may be irrevocably designated as FVOCI, with no subsequent reclassification of profit or losses to the income statement.

Financial liabilities carried at amortised cost represent financial liabilities of the Group and the Bank other than financial instruments designated at fair value through profit or loss. This category includes due to credit institutions on term, customer deposits, issued bonds and other financial liabilities.

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

Due from other credit institutions

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

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

Business model assessment

The Bank and the Group made an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information that is considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;

- how the performance of the portfolio is evaluated and reported to the Bank's and the Group's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's and the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

During the reporting year, the Bank changed its business model in respect of the management of the Bank's securities portfolios, and starting from 01.03.2020 certain securities from Trading portfolio were reclassified to Investment portfolio, incl. the investment in the fund "iShares J.P. Morgan USD EM Bonds" was reclassified to the category "Financial assets at fair value through other comprehensive income (FVOCI)", and investments in debt securities were reclassified to the category "Financial assets at amortised cost".

The reclassification of securities in the Bank's trading portfolio (change of the business model) complies with the Bank's development strategy. The Bank's strategy aims at developing long-term investments with a view to generating interest income, mainly by investing resources in the credit portfolio. Large share of the Bank's bonds in the trading portfolio after the reclassification, in terms of parameters, corresponds to the target parameters of the credit portfolio — yield based on credit risk exceeding 3% a year and maturity up to 10 years. Holding of securities until maturity will be considered as an alternative to increasing the interest-bearing assets.

SPPI assessment

Classification for debt instruments is driven by the group business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect cash flows and sells assets it may be classified as FVOCI.

Making SPPI assessment, the Group and the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

b) Recognition

The Group and the Bank initially recognize loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the settlement date at which the Group and the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group and the Bank becomes a party to the contractual provisions of the instrument.

c) Measurement

A financial asset or financial liability is initially measured at fair value plus transaction costs that are directly attributable to acquisition of the financial asset or liability, in the case of a financial asset or liability other than measured at fair value through profit or loss.

Subsequent to initial recognition, all financial assets and liabilities measured at fair value through profit or loss and all financial assets measured at FVOCI are measured at fair value.

All financial liabilities other than those measured at fair value through profit or loss and financial assets other than those measured at FVTPL or FVOCI are measured at amortized cost using the effective interest rate method.

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial asset classified as at fair value through profit or loss is recognised in profit or loss;

- a gain or loss on debt securities classified as at fair value through other comprehensive income is recognised in fair value reserve through other comprehensive income (except for impairment losses and foreign exchange gains or losses on monetary assets) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to debt securities classified as at fair value through other comprehensive income is recognised as earned in profit or loss (net interest income) calculated using the effective interest method.

- equity investments classified at fair value through other comprehensive income are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income and are never reclassified to profit or loss.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised including the instances where the terms change substantially or impaired.

d) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method, minus any reduction for impairment.

The effective interest rate is a method of calculating the amortized cost of a financial asset or liability, which is based on the recognition of interest income and expenses over a specific period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the management estimates cash flows considering all contractual terms of the financial instrument but does not consider future losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

e) Derecognition

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

- the rights to receive cash flows from the asset have expired; or

- the Group and the Bank have transferred the rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and

- the Group and the Bank either (a) have transferred substantially all the risks and rewards of the asset, or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

When the Group and the Bank has transferred the rights to receive cash flows from an asset or has entered into a pass-through arrangement and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's and the Bank's continuing involvement is the amount of the transferred asset that the Group and the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's and the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – modification. The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially (if cash flows differs more than 10%) affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

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

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

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

f) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group and the Bank have a legal right to set off the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the trading activity.

(4) Identification and measurement of impairment of financial assets

Identification and measurement of impairment:

The Group and the Bank recognize an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts.

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Bank and the Group recognize loss allowances at an amount equal to lifetime ECLs (Stage 2 and Stage 3 instruments), except financial instruments for which credit risk has not increased significantly since initial recognition, for which the amount recognized will be the 12-month ECLs (Stage 1 instruments).

Accordingly, the Bank and the Group have established a policy to perform an assessment at the end of each reporting period as to whether a given asset's credit risk has increased significantly since initial recognition. When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank and the Group consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's and the Group's historical experience and forward-looking information. The Bank and the Group primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime probability of default (PD) as at the reporting date, with the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Significant assets are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed. The collective assessment is based on probabilities of default (PD) obtained from the statistical data for the different type of loans and borrowers, adjusted by several macro factors in order to include forward-looking information. For the individual assessment the Bank and the Group estimate ECLs based on a probability-weighted estimate of the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e. the difference between: the contractual cash flows that are due to the Bank and the Group under the contract, and the cash flows that they expect to receive, discounted at the effective interest rate of the loan.

The Bank and the Group have grouped their loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

— Stage 1 – Performing loans: when loans are first recognized, the Bank and the Group recognize an allowance based on twelve months expected credit losses.

— Stage 2 – Loans with a significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the Bank and the Group recognize an allowance for the lifetime expected credit loss.

In addition, a significant increase in credit risk is assumed to have taken place, if an alarm signal is reported concerning the loan that indicates a significant increase in credit risk, the Bank and the Group expect to grant the borrower forbearance or when forbearance measures have already taken place, or the facility is included in watch list , and if the borrower falls more than 30 days past due in making its contractual payments. The Bank has joined the moratorium announced by the Finance Latvia Association on deferring principal loan payments for both legal and natural persons. The granting of relief under the conditions of the moratorium was not considered as a significant indication of an increased credit risk, unless other indications were identified.

— Stage 3 – Impaired loans: Financial assets are recognized in Stage 3 when there is objective evidence that the loan is impaired. This category includes non-performing loans (also defaulted) and loans in the process of recovery. A loan is considered as defaulted, if it is clear that borrower will not be able to fulfil his obligations to the Bank without any additional measures like realisation of collateral, or if the borrower falls more than 90 days past due in making its contractual payments. The lifetime expected credit losses are recognized for these loans and in addition, the Bank and the Group accrue interest income on the amortised cost of the loan net of allowances.

The Bank and the Group recognize impairment for FVOCI debt securities as applicable, depending on whether they are classified as Stage 1, 2 or 3, as explained above. However, the expected credit losses will not reduce the carrying amount of these financial assets in the statements of financial position, which shall remain to be stated at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost will be recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

For financial guarantee contracts, the Bank and the Group estimate their lifetime ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that is incurred less any amounts that the guarantor expect to recover from the holder, the debtor or any other party. For other off-balance sheet loan commitments (credit lines, overdrafts) ECL is estimated similarly to on-balance sheet instruments, applying the certain conversion factor, which is calculated based on historical data of usage of such facilities.

Limitation of estimation techniques

The models applied by the Bank and the Group may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to be needed until the base models are updated. Although the Bank and the Group use data that are as current as possible, models used to calculate ECLs are be based on data that are one year in arrears and adjustments will be made for significant events occurring prior to the reporting date. The Bank's management has developed an off-model estimate, taking into account the changes in the GDP during the first nine months of the year 2020, which increased the PD, respectively.

(5) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group and the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

The methods described below have been used for the determination of fair values.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in the profit and loss statement depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

When available, the Group and Bank measure the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If a market for a financial instrument is not active, the Group and the Bank determine fair value using a valuation technique. Valuation techniques include recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group and the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Group and the Bank assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

— Verifying that equity broker or pricing service is approved by the Group and Bank for use in pricing the relevant type of financial instrument;

— Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;

— When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;

Fair value is classified into different levels of the fair value hierarchy based on the inputs used in the measurement techniques:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group and the Bank recognize transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. The Group and the Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. For further analysis of the basis for fair value refer to Note 45.

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

Loans

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

Shares and other non-fixed income securities

The fair value of shares and other non-fixed income securities is determined by reference to their quoted bid price at the reporting date, if available. For a number of non-listed shares where disposal was limited, it was assumed that it was not possible to make a reliable estimate of fair value.

The fair value of S.W.I.F.T shares was determined based on the "transfer amount", approved for the respective year by the shareholders' meeting, representing the price for new share allocation and the participants' quit price.

Derivatives

The fair value of currency swaps is estimated by discounting the contractual cash flows to be received and to be paid in appropriate foreign currencies for the residual maturity, and translating the difference of the discounted cash flows into euro, applying the exchange rate published by the European Central Bank. EURIBOR and LIBOR interest rates are used for discounting purposes.

Liabilities to other credit institutions and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand, as they are largely due on demand. The estimated fair value of overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

(6) Derivatives

Derivatives include foreign currency swaps and forwards. As at 31 December 2020 and 2019 all derivatives of the Group and the Bank were classified as financial instruments held for trading.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in the income statement.

Although the Group and the Bank trades in derivative instruments for risk hedging purposes, the Group and the Bank does not apply hedge accounting.

(7) Repo transactions

Repo transactions are recognized as financing transactions. When the Bank or the Group is the seller of securities, securities continue to be recognized on the statement of financial position. Proceeds from the sale are recognized as a liability to the purchaser of the securities. When the Bank or the Group is the purchaser of securities, the purchased securities are not recognized in the statement of financial position. The amount paid for securities is recognized as a loan provided to the seller. The Group is involved in two types of such transactions – classic *repo* and *buy/sellback* transactions. The result of *repo* and *buy/sellback* transactions is recognized in the income statement on an accrual basis as interest income or expense.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

(8) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

If the use of the property has been changed, investment properties are reclassified to property and equipment.

Investment property is initially measured at cost. Subsequently investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

(9) Repossessed assets

In the normal course of business the Group and the Bank occasionally take title to property and other assets that originally were pledged as security for a loan. When the Group and the Bank acquires (i.e. gains a full title to) an asset in this way, the asset's classification follows the nature of its intended use by the Group and the Bank. When the Group or the Bank is uncertain of its intentions with respect to land and buildings that it has repossessed, those properties are classified as assets classified as held for sale.

(10) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Current repair and maintenance costs are charged to the income statement as incurred. Capital repairs of property and equipment are added to property and equipment at cost, and its useful life is extended. Upon increasing the carrying amount of an item of property and equipment by expenses incurred to replace a material component, the replaced component is derecognised according to the derecognition requirements.

Items of property and equipment are derecognised when disposed or when no economic benefits are expected from the use or disposal of these items in the future. Gains or losses from derecognition of items of property and equipment are determined as the difference between the proceeds from disposal and the net carrying amount of the asset at the date of disposal, and are recognised in the income statement.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation is calculated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Depreciation methods, useful lives and residual amounts are reviewed at each reporting date.

Land and buildings

The cost of land and buildings disclosed in the financial statements is their assumed fair value measured at the date of acquisition. Subsequent measurement is carried out on a cost basis similar to other items of property and equipment. Land is not depreciated.

Construction in progress and capital repairs of real estate properties include costs directly attributable to construction in progress, including a corresponding proportion of direct overheads incurred during the establishment of the item of property and equipment. Depreciation of such assets is calculated from the date when the assets are put into operation.

Real estate properties are depreciated over the useful life which is determined to be 20 years.

Leasehold improvements

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

Useful lives of vehicle and other property and equipment

The annual depreciation percentages are as follows:

Furniture and equipment	20%
Computers	25%
Mobile phones	50%
Others	20%
Vehicle (yaht)	10%

(11) Intangible assets

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

Intangible assets are recorded at cost less accumulated amortization and amortized to the profit or loss in equal amounts over the useful life of the intangible asset. The annual amortization rate for software is 20%.

(12) Recognition of income and expenses

All significant categories of income and expenses, including interest income and expenses, are recognized on an accrual basis.

Interest income and expenses are recognized in the income statement based on the effective interest rate of the asset/liability. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group and Bank estimate future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

Interest income and expenses include discount or premium amortization or other difference between the carrying amount of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method.

Fee and commission income and expense are recognised on an accrual basis. Fees earned from the provision of services over a period of time are recognised over that service period. Loan origination fees together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's and the Bank's performance. Such income includes fees for loan, lease or other credit enhancement contracts administration.

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

(13) Off-balance sheet items

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

The Group and the Bank measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This fee amount is then amortised on a straight-line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortized balance of the amount at initial recognition and (ii) Expected credit loss.

Documentary and commercial letters of credit represent written undertakings by the Bank and the Group on behalf of a customer authorising a third party to draw drafts on the Bank and the Group up to a stipulated amount under specific terms and conditions.

(14) Taxes

Corporate income tax is calculated on the basis of distributed profit (20/80 of the net amount payable to shareholders). Corporate tax on distributed profit will be recognized when the shareholders of the Company make a decision about profit distribution.

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

Deferred tax

According to the new Law on Enterprise Income Tax of the Republic of Latvia adopted on 28 July 2017, and effective from 1 January 2018, a 20% rate is only applied to distributed profits. Therefore, deferred tax assets and liabilities are recognisable at nil amount. This principle has been applied in the Group's and Bank's financial statements for the year ended 31 December 2019.

(15) Cash and cash equivalents

Cash and cash equivalents are cash on hand and amounts due from the Bank of Latvia and other credit institutions with initial maturities of up to 3 months, except liabilities towards the Bank of Latvia and other credit institutions with initial maturities of up to 3 months.

(16) Leases

the Group and Bank as a lessee

Where the Bank acts as a lessee, the standard requires that right-of-use (RoU) assets and lease liabilities arising from most leases are recognised on the balance sheet.

Depreciation of the RoU assets and interest expenses related to lease liabilities are recognised in the income statement. In the cash flow statement payments for the principal portion of the lease liability are presented within financing activities and payments for the interest portion are presented within operating activities. The lease liability is initially measured as the present value of lease payments that are not paid at the commencement date. Over time, the liability will increase with interest expense accruals and decrease with lease payments. The RoU asset is initially measured at cost i.e. the same amount as the initial measurement of the lease liability plus certain other costs, for example lease payments made at or before commencement date. The RoU asset is thereafter depreciated over the lease term. Lease payments are discounted using the incremental borrowing rate. The Bank applies a singlediscount rate to a portfolio of leases with reasonably similar characteristics.

the Group as lessor

When acting as a lessor all leases shall be classified as either an operating lease or a finance lease. Operating leases are those leases where the lessor bears the economic risks and benefits. No major changes in accounting occured after adoption IFRS 16

(17) Provisions

Provisions are recognized in the statement of financial position when the Group and the Bank have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

(18) Short-term employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operation expenses on an accrual bases. The Group and the Bank pay fixed security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and the Group and the Bank will have no obligations to pay further contributions relating to retired employees.

(19) Loans and advances to customers

Loans and advances to customers are recorded when the Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group classifies loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

(20) Assets under management

Assets managed by the Bank and the Group on behalf of customers are not treated as assets of the Bank and the Group. The Group and the Bank assume no risk in relation to these assets.

(21) I*nvestments in debt securities and Investments in equity securities*

Investment securities includes Investments in debt securities and Investments in equity securities.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group and the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group and the Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group. Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

(22) Correction of prior peirod errors

In 2020, an error was identified in the Bank's and the Group's financial statements.

The error relates to fair valuation of investments in equity securities and allowances for expected credit losses on loans. The Bank and the Group valued investments in Mastercard shares at cost while these shares had to be valued at fair value at the date of adoption of IFRS 9 that requires investments in equity instruments to be valued at fair value. The Bank did not establish sufficient provision for individually assessed Stage 3 loans as at 31 December 2019.

In order to correct the errors, restatement of comparative information was performed in accordance with requirements of IAS 8. The Group has not presented third balance sheet as there is no material impact of the restatement on the opening balances at 1 January 2019.

Detailed information on correction of errors is as follows:

- As at 31 December 2019 the Bank's and the Group's statement of financial position line item Investment securities was understated by EUR 863 thousand, Loans and advances to customers was overstated by EUR 429 thousand and Retained earnings were understated by EUR 433 thousand.
- The Bank's and the Group's income statement line items Net profit from trading and revaluation of financial instruments and Credit losses for the year ended 31 December 2019 was understated by EUR 330 thousand and EUR 429 thousand respectively.
- The above restatements did not have impact on the Net cash used in operating activities for the year ended 31 December 2019 of the Bank and the Group

Quantitative impact on financial statements:

Bank, 2019

Adjustments made to the income statement	Comment	2019 before adjustment EUR'000	Adjustment EUR'000	2019 after adjustment EUR'000
Net profit from trading and revaluation of financial instruments	Fair valuation of equity instruments	1 098	330	1 428
Credit loss	ECL recognised on Stage 3 loans	(465)	(429)	(894)
Profit before taxation		**6 048**	**(99)**	**5 949**
Profit for the year		**6 045**	**(99)**	**5 946**

Group, 2019

Adjustments made to the income statement	Comment	2019 before adjustment EUR'000	Adjustment EUR'000	2019 after adjustment EUR'000
Net profit from trading and revaluation of financial instruments	Fair valuation of equity instruments	1 098	330	1 428
Credit loss	ECL recognised on Stage 3 loans	(465)	(429)	(894)
Profit before taxation		**5 711**	**(99)**	**5 612**
Profit for the year		**5 707**	**(99)**	**5 608**

Bank, 2019

Adjustments made to statement of financial position	Comment	2019 before adjustment EUR'000	Adjustment EUR'000	2019 after adjustment EUR'000
Retained earnings	Fair valuation of equity instruments and increase in ECL	28 510	434	28 944
Equity		**65 679**	**434**	**66 113**
Investment securities	Fair valuation of equity instruments	87 839	863	88 702
Loans and advances	ECL recognised on Stage 3 loans	249 753	(429)	249 324
Total assets		**537 762**	**434**	**538 196**

Group, 2019

Adjustments made to statement of financial position	Comment	2019 before adjustment EUR'000	Adjustment EUR'000	2019 after adjustment EUR'000
Retained earnings	Fair valuation of equity instruments and increase in ECL	26 095	434	26 529
Equity		**62 251**	**434**	**62 685**
Investment securities	Fair valuation of equity instruments	87 839	863	88 702
Loans and advances	ECL recognised on Stage 3 loans	249 781	(429)	249 352
Total assets		**521 094**	**434**	**521 528**

Bank, 2019

Adjustments made to cash flow statement	Comment	2019 before adjustment EUR'000	Adjustment EUR'000	2019 after adjustment EUR'000
Profit before taxation	Fair valuation of equity instruments and increase in ECL	**6 048**	**(99)**	**5 949**
Impairment of assets	ECL recognised on Stage 3 loans	433	429	862
(Increase)/decrease in investment securities	Fair valuation of equity instruments	6 153	(330)	5 823
Net cash from/(used in) operating activities		**(3 307)**	**-**	**(3 307)**

Group, 2019. gads

Adjustments made to cash flow statement	Comment	2019 before adjustment EUR'000	Adjustment EUR'000	2019 after adjustment EUR'000
Profit before taxation	Fair valuation of equity instruments and increase in ECL	**5 711**	**(99)**	**5 612**
Impairment of assets	ECL recognised on Stage 3 loans	433	429	862
(Increase)/decrease in investment securities	Fair valuation of equity instruments	6 153	(330)	5 823
Net cash from/(used in) operating activities		**(3 364)**	**-**	**(3 364)**

Standards or interpretations effective for the first time for the annual periods beginning 1 January 2020

- **Amendments to the Conceptual Framework for Financial Reporting** (effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular, the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.
- **Definition of a business - Amendments to IFRS 3** (effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organized workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).
- **Definition of materiality – Amendments to IAS 1 and IAS** 8 (effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across

all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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

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

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

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

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

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

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

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

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

4. RISK MANAGEMENT

Within the framework of the internal control system, the Group and the Bank have developed and follow the risk management strategy and policies, approved by the Council, which in line with the volumes, complexity and specifics of the Group's and the Bank's operations, define the following:

1) General guidelines observed by the Group and the Bank in their activities aimed at decreasing risks associated with their activities which might lead to losses;
2) Description of risk transactions and other risks to which the Group and the Bank are exposed;
3) Identification and management of the significant risks, including measurement, evaluation, control, and preparation of risk reports;
4) The procedure for setting limits and restrictions for risk transactions together with regular control and development;
5) Measures for the regular assessment of capital adequacy and maintenance of sufficient capital to cover the inherent risks and risks to which the Bank might be exposed to;
6) Updating of normative documents regarding the risk management process according to market changes.

The risk management strategy and policies describe and determine the aggregate of measures to ensure that the possibility of suffering losses is minimized in the event the invested resources are not repaid in due time or the Bank or the Group suffers other losses.

The Board of the Bank ensures the development of the risk management system as described by the risk management normative documents; the Board, the Investment Committee, Credit Committee, Non-financial Risk Management Committee and Customer Activity Compliance Control Committee make the key decisions according to their regulations. Risk Officer is responsible for the overall control and monitoring of the risk management system. Independent risk management departments ensure risk management on a daily basis. The risk management system is monitored by the Internal Audit Service on a regular basis is being continuously developed pursuant to the development of the Group and the Bank and activities on financial markets. The Board and the Council regularly receive and review the information on risk management, implementation of the strategy and policies approved by the Council. Risk management is carried out both on the Group and Bank level.

(1) Credit risk

Credit risk is the risk of potential loss resulting from the inability or refusal to fulfil any contractual obligations by the Group's or the Bank's debtor or counterparty.

Credit risk is managed in accordance with the Risk management Strategy and the Credit Risk Management Policy, approved by the Council. This policy details the basic principles of credit risk management, identification, assessment, mitigation and control.

The management of risks associated with ordinary loans involves the assessment of the potential borrower's credit standing that is performed by the Financial Analysis and Risk Management Department. Decisions on granting of loans are made by the Credit Committee or the Board, based on the above analysis and evaluation of collateral. Subsequent to loan granting, the Financial Analysis and Risk Management Department performs a regular analysis of the borrower's financial position, which enables the Bank and the Group to take prompt action in the case of deterioration of the borrower's financial position.

Credit risk that is related to inter-bank operations (or operations with financial institutions), including the credit risk related to inter-bank settlements and the Bank's investments in debt securities, is controlled by the Bank's Investment Committee that sets limits for transactions with each counter party and issuer.

The Bank and the Group monitor the concentration of significant assets, liabilities, as well as contingent liabilities and commitments' credit risk by geographical regions, customer groups and types (i.e. central governments, local authorities, state enterprises, private enterprises, private individuals, etc.) and industries. Credit risks are presented in Note 43.

Impairment policies

An important part of the credit risk management is the estimation of provisions under IFRS9, which mostly is based on the assessment of credit risk of financial instruments. As a result of the assessment, all assets are divided into stages according to the level of credit risk and changes thereof.

The Group recognizes an allowance for expected credit losses on all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered in accounting judgements and estimates include:

- the criteria for assessing the significance of an increase in credit risk and the criteria for granting the Stage 1, Stage 2 or Stage 3 loans that meet the requirements of IFRS9, including the EBA guidelines for classification of loans due to the impact of COVID-19;

- assessing the accounting interpretations and modelling assumptions used to build the ECL calculation models, including various formulas and choice of inputs;

- modelling and calculation of key parameters of ECL model, including probability of default (PD), loss given default (LGD) and exposure at default (EAD);

- determining the macro-economic indicators and incorporating forward-looking information into the ECL model, as described below;

- estimating the above-mentioned indicators for individually assessed loans for a credible future period and for at least two different scenarios (baseline scenario and pessimistic scenario), and assigning probabilities to those scenarios.

In order to estimate the expected credit loss (ECL) for debt securities, inter-bank deposits, letters of credit and financing against securities portfolio, the statistics of historical defaults and recovery rates by Moody's is used. Historical PD is applied accordingly to instruments' or issuers' external credit ratings. If an instrument has not any external rating, it is conservatively assumed to apply historical data which is relevant for the rating B-. For the instruments with prime grades, where historical PD is equal to 0%, it is assumed to take PD=0.005%. PD under these scenario ranges from 0.005% for prime grade instruments to 30% for instruments with the lowest ratings. Significant increase in credit risk for such instruments is recognized, for example, if the instrument is downgraded and PD corresponding to the new rating increases by at least 100bp.

The approach for the ECL calculations for loan portfolio are based both on a collective and individual assessment. Criteria for the individual ECL assessment are the following:

- Outstanding amount of a loan or total amount of loans granted to one specific customer group exceeds 3 mio. EUR;

- Outstanding amount of a loan or total amount of loans granted to one specific customer group exceeds 0.5 mio. and internal credit rating "Weak"/"Hard to estimate" is assigned or the amount of the estimated potential losses exceeds 40%.

All other loans are assessed on a collective basis. Calculations of ECL in this case are based on different PD scenarios, taking into account forward looking macroeconomic information. Scenarios are based on Latvia's banking sector statistics about NPL, which is published by FCMC quarterly.

In the Bank's credit portfolio, the share of residents consists of companies with long history, previously credited by other credit institutions in Latvia, and the customer profile of resident loans does not differ significantly from credit customers of other banks. The portfolio of residents-individuals was established recently (2018–2020), and it consists of simple products (payment card overdrafts, mortgage loans and consumer loans), with a customer profile similar to that of other retail banks, thus forming the basis for statistics in this segment. The non-resident credit portfolio statistics of the banking sector of Latvia mainly (89%) consist of banks that historically have been focusing on servicing non-residents. Credit portfolios of these banks historically have had a high exposure to CIS countries (or business risks associated with CIS countries). The Bank has large number of loans in its credit portfolio, which can be affected by the economic situation of the region. Based on these statistics, the following groups of loans are established:

- Residential corporate loans;
- Non-residential loans;
- Residential private individuals: mortgages, card loans, consumer loans and other loans.

For Stage 1 loans, PD scenarios are adjusted by the following macroeconomic factors:

- for corporate loans and non-residential loans annual change in real increase/decrease of GDP is applied;
- For private individuals loans annual change in labour costs is applied.

In order to take into account the cyclical nature of the economy, the lifetime ECL for Stage 2 loans was calculated by applying a 5-year maximum NPL proportion of the respective group of loans in the total of the loans within the respective loan group, which includes the effects of the crisis period. This allows obtaining a forward-looking credit PD, taking into account a set of macro factors that are typical of a crisis period that may be relevant during the life of the loan. As a result, PD ranges from 1.1% to 13.9% (for Stage 1 loans) and from 5.97% to 26.4% (for Stage 2 loans). The PD scenarios described herein are updated on an annual basis, using the most recent available FCMC statistics on the activity of the banking sector and the data from the database of the Central Statistical Bureau. These data are applied with the deviation of one year, assuming that the actual impact of macroeconomic factors on the PD is reflected in one year. Considering the fact that the macroeconomic indicators for the year 2020 were non-typical and there is still a great deal of uncertainty, these data were not directly used in the model.

For Stage 3 loans the PD is conservatively assumed to be equal to 100% in all loan groups.

The loans, collectively assessed by volume, represent 20% of the Bank's total credit portfolio. Out of them, 88% are classified as Stage 1 loans, 10.5% as Stage 2 loans, and 1.5% as Stage 3 loans.

The loss given default (LGD) ratio is calculated as the total of the gross book value of the loan and the estimated outstanding amount of the off-balance sheet items minus the carrying amount of collateral. The estimated outstanding amount of the off-balance sheet items is calculated by multiplying the actual outstanding amount of the off-balance sheet items by the expected conversion factor. This ratio is derived based on the Bank's historical data on the use of the outstanding amount of the off-balance sheet items for the last two years, by calculating the average use of the outstanding amounts of the off-balance sheet items for overdrafts and credit lines. If a loan is fully collateralised, LGD is calculated as 0.5% of the total sum of the gross book value of the loan and the estimated outstanding amount of the off-balance sheet items.

The modelled PD scenarios were compared with the actual default cases in the Bank's credit portfolio during the period 2018–2020. The actual PDs are comparable to those applicable in the model and do not exceed them. Consequently, the allowance created is considered to be appropriate for the Bank's credit portfolio.

For individually assessed loans at least two scenarios are developed: base case scenario and negative one. Depending on loan quality, history and all other necessary information, Bank's credit analysts estimate the probability for each scenario. ECL is calculated as a probability weighted difference between the PV of cash flow under each scenario and the present value of contractual cash flow.

Impairments for different financial instruments are recognized based on calculated ECL coefficients and these coefficients dynamically change depending on outstanding amount of each instrument.

(2) Currency risk

Foreign exchange risk is the risk of potential loss as a result of the revaluation of assets, liabilities, as well as contingent liabilities and commitments denominated in foreign currencies due to change in exchange rates.

The Bank and the Group continuously monitor the open positions of foreign currencies and regularly assesses the structure of assets and liabilities by currency.

An analysis of sensitivity of the Bank's net profit or loss for the year and comprehensive income to changes in the foreign currency exchange rates based on positions existing as at 31 December 2020 and 31 December 2019 and a simplified scenario of a 5% change in the USD to EUR exchange rates is as follows:

	2020		2019	
EUR'000	Profit or loss	Shareholders' equity	Profit or loss	Shareholders' equity
5% appreciation of USD against EUR	(11)	(11)	50	50
5% depreciation of USD against EUR	11	11	(50)	(50)

An analysis of the foreign currency position is presented in Note 41.

(3) Interest rate risk

Interest rate risk is related to potential losses incurred by the Group and the Bank due to movements in interest rates.

For controlling the interest rate risk, the Investment Committee performs regular analyses of assets and liabilities by maturity and type of interest. A change of interest rates by 100 basis points would result in the following changes in profit or loss and capital and reserves:

	2020 EUR'000	2019 EUR'000
EUR	644	527
USD	(99)	(37)

The interest reprising analysis is disclosed in Note 42.

(4) Debt securities price risk

Debt securities price risk is the potential loss that may arise to the debt securities included in the trading portfolio due to the decline in market prices as a result of changes in market factors.

The debt securities price risk is managed by the Bank by setting limits on the total amount of the trading portfolio, as well as purchasing debt securities with relatively short maturities that are less sensitive to price risk.

	2020		2019	
EUR'000	Profit or loss	OCI	Profit or loss	OCI
10% increase in securities prices	-	5 308	1 591	3 182
10% decrease in securities prices	-	(5 308)	(1 591)	(3 182)

(5) Liquidity risk

Liquidity risk is the risk of potential loss as a result of sales of assets or acquisition of resources at unfavourable prices in order for the Group and the Bank to fulfil its liabilities to creditors and depositors.

The Bank focuses on a conservative approach to liquidity management. The Bank allocates funds (attracted mainly from deposits) to assets in order to maintain an asset structure that is appropriate to support the Bank's operations (executing of customers' transactions) and comply with regulatory requirements concerning the liquidity ratio even in case of a significant outflow of customer deposits or a significant decrease in liquidity on the securities market.

The procedures for the management of the liquidity risk are described in the Liquidity Management Policy and consist of several components: liquidity risk indicator system, balance sheet planning, stress testing, and limits for investments in assets of limited liquidity.

The purpose of liquidity risk indicators is to reflect the actual level of the Bank's liquidity risk and quickly identify any increase in liquidity risk. The Bank's Liquidity Risk Management Policy determines specific actions to improve the Bank's liquidity position when liquidity risk indicators reach certain levels.

The aim of liquidity risk stress testing is to measure the deficit or surplus of the Bank's liquid assets that may occur due to significant outflows of customer deposits or a significant decrease in liquidity on the securities market. Based on the results of stress testing, the Bank's Investment Committee sets limits on investments in assets of limited liquidity.

The reported ratio of net liquid assets versus current liabilities at the reporting date were as follows:

	2020	2019
As at 31 December	76.92%	79.53%

Net liquid assets include cash and cash equivalents, bonds and receivables from credit institutions net of current liabilities.

Liquidity Coverage Ratio (LCR) at the reporting date was as follows:

	2020	2019
As at 31 December	135.06%	225.28%

In accordance with 'Normative regulations on establishing a capital and liquidity adequacy assessment process' No. 209 of the FCMC, the Bank carries out the assessment of the liquidity reserve adequacy necessary for its operations within the liquidity adequacy assessment process (ILAAP). Liquidity analysis is presented in Note 40.

(6) Country risk

Country risk is the risk of potential losses arising from transactions with residents of foreign countries (or their securities) due to changes in the economic, political, and legal environment of the respective countries.

Before entering into transactions with residents of foreign countries, the Group and the Bank perform an assessment of the influence of economic, social, political and legal circumstances on the residents' ability to fulfil their obligations.

The Group and the Bank, pursuant to the State risk management policy, set the limits on placement of assets for the respective country.

(7) Operational risk

Operational risk is the risk of incurring losses from inadequate or improper internal processes, human errors and errors in the operation of systems, or from external events, including legal risk, but excluding strategic and reputation risk.

The principles of the operational risk management at the Group and the Bank are established in the internal regulations of the Bank, by setting:

- Organizational structure, division of powers and the principles of delegation, functional duties, procedure for the exchange of information among the structural units and employees;
- Rules, regulations and procedures for operations and other transactions, the accounting procedure and the organisation of internal processes;
- Control over the compliance with the limits set for bank operations and other transactions;
- Rules, regulations and procedures for the functioning of information systems (technical, informational, etc.);
- Procedure for granting rights of access to information and material assets;
- Procedure for preparing and issuing reports and other information;
- Procedure for motivating employees, and other matters.

To ensure efficient conditions for the identification and assessment of the operational risk at the Group and the Bank, the Bank has established the Operational Risk Management Department, responsible for personnel training on the matters of operational risk. The Operational Risk Management Department has an operational event database in place, which ensures receiving information about operational risk events, thus enabling proper recording, management and addressing of risks.

A systemic approach is applied in the identification and management of risks characteristic to new financial services and products as part of the approval process of the new services and products. This process involves all the structural units providing control and support functions together with structural units of the relevant business lines in order to ensure the assessment of the new financial services or products.

The Bank has also developed Action plans for various crisis situations. The Bank and the Group have set up an independent Internal Audit Service (IAS), whose primary function is to ensure that the activities of the Bank and the Group comply with the applicable laws and regulations, approved plans, policies and other internal documents of the Bank, and with the internal control procedures governing the functions of the Group's and the Bank's structural units.

(8) Management of money laundering and terrorist financing risk and the Customer Policy

(a) General Policy

The main goal of the Group's and the Bank's existing business model is to provide financial services to clients, thus involving the money laundering and terrorist and proliferation financing risk and sanction risk. Accordingly, the Group and the Bank devote significant efforts to ensure compliance with the laws and regulations of the Republic of Latvia, recommendations of international organisations, other binding regulations in the area of prevention of money laundering and terrorist and proliferation financing (hereinafter — AML/CFTP), as well as the regulations governing the area of prevention of violation or circumvention of national, International sanctions and OFAC sanctions or such attempts.

The Bank has approved the AML/CFTP Policy, which establishes:

- The key principles of customer due diligence, client transaction monitoring, enhanced due diligence, including the analysis of personal or business activities of clients and their counterparties;
- The key principles of identification and due diligence on true beneficiaries of clients;

- The key principles of client risk assessment, identification and management. Based on the information generated during the client's initial due diligence, the client's initial risk is established, which is assigned automatically by the client risk scoring system based on a number of risk factors. Client risk is regularly reviewed in the light of changes in risk factors.

The Bank has approved the Sanction risk management policy, which defines the tasks and procedures of the Bank's structural units in the area of client acquisition and servicing, the general terms for initiating business relationship with clients, carrying out the client due diligence and client risk identification measures, including the general procedure for terminating business relationship with clients that do not meet the requirements of the Sanction risk management policy.

Throughout the business relationship between the client and the Bank, the Bank continues to collect information on the client's economic activities and personal activities as far as it is necessary to meet the requirements laid down in the legislation. Client files are supplemented and updated on a regular basis with client due diligence results and supporting documents of transactions. In the opinion of the Bank's management, through gaining the understanding about the client business activities and their geographical coverage, monitoring their transactions and refraining from the execution of suspicious financial transactions, the Group and the Bank minimize the risk of being involved in potential money laundering and terrorism and proliferation financing activities, as well as reduce the risk of being involved in violation or circumvention of sanctions or such attempts.

The Bank has approved the Money laundering and counter terrorist and proliferation financing risk and sanction risk management strategy, that sets the key principles of management of the money laundering and terrorist and proliferation financing risk and sanction risk (hereinafter — ML/FTP risk and sanction risk), development of internal control system, risk identification measures, and risk mitigation and control mechanisms. Taking into account the Bank's strategy, the ability of the Bank to manage the ML/TFP risk and the available resources, the AML/CFTP and Sanction risk management strategies set the ML/FTP risk exposure rates and their maximum permissible limits.

The ML/FTP risk and sanction risk management strategy, the AML/CFT policy and the Sanction risk management policy introduce a set of requirements setting an organisational structure based on the following three-tiers of principles of protection and control:

- Tier 1 controls — employees of structural units in charge of acquiring and servicing customers, ensuring the compliance with the Know Your Customer (KYC) principle both at the customer acceptance stage and during business relationship; Each employee of the Bank's structural units is required to know and follow the AML/CFTP and sanction risk requirements in cooperation with clients, as well as promote and observe the requirements of professional internal culture in accordance with the Corporate Ethics Standards Code.

- Tier 2 controls — structural units in charge of client acceptance and client due diligence prior to establishing business relationship, monitoring of client transactions and providing the support function, provide for an independent analysis of client information, monitoring of client acceptance and servicing, analysis of client transactions, issue of opinions on planned client transactions, and, through the use of automated tools, ensure transaction monitoring, reporting (Financial Intelligence Unit, the State Revenue Service, the State Security Service, the Finance and Capital Market Commission), as well as the responsible directors and heads of structural units in the area of risk management and compliance. In addition to monitoring the sanction risk, the Bank has appointed a responsible employee in charge of the analysis of matters related to the International, OFAC and National sanctions at the Bank, consulting other Bank employees and issuing opinions on sanction matters.

- Tier 3 controls are implemented by the Internal Audit Service through independent and regular management of ML/FTP risk and sanction risk and assessment of controls.

The Bank has appointed a Board member in charge of the management of ML/FTP risk and sanction risk, and has appointed the responsible employee for the compliance with AML/CFTP requirements.

The Bank's internal control system in the area of ML/FTP and sanction risk management is based on the principle of segregation of duties and responsibilities between the structural units and employees; it forms the basis for the decision-making, client activity monitoring and the activities of compliance units. The Bank's Client Activity Compliance Committee was established with the goal to ensure the organisation and control over general internal control measures in the area of client compliance.

(b) Improvement of the AML/CFTP internal control system

In the second half of 2017, the FCMC conducted the AML/CFT review at the Bank in order to evaluate the Bank's compliance with the AML/CFT Law of the Republic of Latvia and to verify whether the Bank's practice is compliant with the FCMC regulations and requirements set by other supervisory authorities.

The key findings of the review by the FCMC relate to the following aspects of the internal control system in the area of AML/CFT, which require significant improvements:

- Gathering documents and information on the source of wealth of the client true beneficiaries and documenting the process of assessment;
- Client risk scoring;
- Client due diligence and documenting;
- Client transaction monitoring and documenting the decisions.

Following the receipt of the final opinion on the review from the FCMC, the Bank approved the Action plan for the elimination of the deficiencies. Already in 2018, the Bank made substantial efforts to improve its client risk scoring system, and introduced new client risk scoring factors in the client risk scoring system.

On 21 December 2018, the FCMC and the Bank signed an Administrative Agreement, agreeing on implementation of a specific set of measures aimed at improving the Bank's system of internal control. By signing the Administrative Agreement, the Bank committed to introduce improvements within a specified period in its internal system of control over client transactions.

At the beginning of 2019, the Board of the Bank approved the Action plan, within the framework of which measures were implemented during 2019 and 2020 aimed at introducing improvements in the area of AML/CFTP, namely updating the internal regulatory documents, developing a client scoring system, auditing the client base at the result of which clients posing a disproportionately high reputational risk or ML/FTP risk were identified and decisions were taken to terminate business relationship with respective clients.

In addition, in 2019, an independent audit of the AML/CFTP internal control system was carried out and a number of recommendations were received for the development of the internal control system:

- Systematic update of information in client files;
- Improvement of client risk scoring by detailing the geographical risk factors;
- Providing enhanced due diligence on groups of mutually related clients simultaneously for each individual client included in the group and the group as a whole.

The implementation of the recommendations of the independent auditor was completed in 2020. The recommendations of the independent auditor were implemented in due time. In 2020, the Bank, under the supervision of the Financial and Capital Market Commission, continues its work on the development of the AML/CFTP internal control system by introducing the “Regulations on the establishment of customer due diligence, enhanced customer due diligence and risk scoring system” of the Financial and Capital Market Commission, which entered into force at the end of 2019.

(9) Management of compliance risk

Compliance risk — a risk that the Group or the Bank may incur losses or may be subject to legal obligations or sanctions, or its reputation as an institution may be damaged due to non-compliance of its operations or violation of the requirements of laws, rules and standards in the area of compliance.

The Bank has introduced the compliance control system, which is based on the principle that the function of compliance control in the Bank is provided by an organisationally separated unit — the Compliance Control Department, which acts under the direct authority of the Chief Compliance Officer. In order to ensure the compliance function, the Bank has appointed compliance experts, — employees of the Bank's structural units, experts in the field concerned.

The Bank has appointed a personal data protection officer in charge of organising, controlling and supervising the compliance of personal data processing at the Bank as a Controller with the requirements of the regulatory enactments in the area of personal data protection of the European Union and the Republic of Latvia. The main goal of the Compliance Control Department is to ensure the identification, assessment and management of the compliance risk. The purpose of the compliance function is to ensure the identification, documentation, assessment of the compliance risk, by ensuring that prior to the initiation of any new activity, the compliance risk associated with the respective activity is identified, and the Bank's compliance with compliance laws, rules and standards is assessed.

Compliance of the activities of the Bank characterises the Bank's ability to act pursuant to the applicable laws, regulations and standards in the area of compliance, which can further be subdivided in 2 levels:

- Compliance with external requirements in general (requirements integrated in the internal regulatory documents and processes);
- Appropriate internal control system capable of ensuring continued compliance with the relevant requirements.

Pursuant to the changes in regulatory enactments, an internal whistleblowing system was introduced providing for reporting on deficiencies and other violations of the internal control system and ensuring the protection guarantees for whistleblowers pursuant to the Whistleblowing Law.

In scope of corporate governance, the process of identifying and managing situations of conflict of interest was improved, and a systematic approach to collecting information on situations that may create conflicts of interest for the Bank was developed.

The system for reporting and providing information to internal and external information requests is continuously reviewed and updated.

(10) Capital management

The Bank's Capital Adequacy Management Policy requires maintenance of a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business as well as to ensure the Bank's capital at an adequate level for covering potential risks arising from current and future operations.

Under the capital requirements introduced by Regulation (EU) No 575/2013 of the European Parliament and of the Council and the FCMC banks need to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. Although the minimum required level as at 31 December 2020 was 8%, according to a special request by the FCMC, starting from 21 April 2020 the Bank was required to ensure a higher capital adequacy ratio of 10.20%. In addition to the above-mentioned capital requirement for the overall risk coverage, the Bank is required to ensure compliance with the total capital reserve requirement calculated in accordance with Section 35^{22}, 35^{23}, 35^{24} or 35^{25} of the Credit Institution Law, which is 2.51% (Capital conservation buffer: 2.50%, Institution-specific countercyclical capital buffer: 0.01% (as at 31.12.2020).

The requirements of the total capital reserve must be met using Tier 1 capital.

During the years 2020 and 2019 as of 31 December of these years the Bank and the Group were in compliance with the capital adequacy and the minimum capital requirement specified in the Law On Credit Institutions and the rules of the FCMC, as well as in compliance with the higher ratio required by the FCMC.

For the calculation of capital adequacy as at 31 December 2020 refer to Note 44.

In addition to the calculation of the capital adequacy ratio in accordance with 'Normative regulations on establishing a capital and liquidity adequacy assessment process' No. 209 of the FCMC, the Bank regularly conducts its own internal capital adequacy assessment in order to ensure that it covers all the risks assumed by the Bank and whether they are covered by the capital.

5. USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS as adopted by EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, the actual results ultimately may differ from those estimates.

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

The Bank's management makes significant estimates and judgements in respect of expected credit losses on loans and receivables.

6. NET INTEREST INCOME

	2020		2019	
Interest income	**Group EUR'000**	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Interest income on assets at amortized cost (loans):	16 318	16 318	13 438	13 438
Deposits with credit institutions	*67*	*67*	*110*	*110*
Loans and receivables	*16 251*	*16 251*	*13 328*	*13 328*
including interest income on impaired loans	*463*	*463*	*203*	*203*
Interest income from financial assets at fair value through profit or loss	172	172	607	607
Interest income from financial assets measured at fair value through other comprehensive income	108	108	31	31
Interest income from financial assets measured at amortised cost (fixed income securities)	2 236	2 236	1 067	1 067
Other interest income	1 135	1 135	1 365	1 365
Total interest income	**19 969**	**19 969**	**16 508**	**16 508**
Interest expense				
Interest expense from liabilities measured at amortized cost:	3 539	3 539	2 944	2 944
Deposits	*3 539*	*3 539*	*2 944*	*2 944*
Interest expense on issued bonds	870	870	1 240	1 240
Payments to the Deposit Guarantee Fund and other funds	1 095	1 095	974	974
Other interest expense	2 313	2 675	2 171	2 548
Total interest expense	**7 817**	**8 179**	**7 329**	**7 706**
Net interest income	**12 152**	**11 790**	**9 179**	**8 802**

7. NET FEE AND COMMISSION INCOME

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Fee and commission income				
Money transfers	1 062	1 063	1 496	1 498
Commissions on loans monitoring and service	449	449	397	397
Securities transactions	858	858	1 850	1 850
Assets management	471	471	1 064	1 064
Client service	1 947	1 947	4 766	4 766
Payment card service	1 199	1 199	1 684	1 684
Total fee and commission income	**5 986**	**5 987**	**11 257**	**11 259**
Fee and commission expense				
Money transfers	105	105	159	159
Payment card service	1 616	1 616	1 833	1 833
Securities transactions	261	261	259	259
Other	9	9	20	20
Total fee and commission expenses	**1 991**	**1 991**	**2 271**	**2 271**
Net fee and commission income	**3 995**	**3 996**	**8 986**	**8 988**

During the reporting year, commission fee income from servicing of customer payment operations and client service decreased significantly. The key reasons for this are strict AML requirements introduced by the Bank with regard to international customers.

8. NET PROFIT FROM TRADING AND REVALUATION OF FINANCIAL INSTRUMENTS

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000 (Restated)	Bank EUR'000 (Restated)
Net profit from trading with financial assets at fair value through profit or loss	2 504	2 504	383	383
Net profit from trading with debt financial assets at fair value through other comprehensive income	5	5	-	-
Net profit/(loss) from revaluation of financial assets and liabilities	(1 069)	1 069)	1 045	1 045
Net profit from trading and revaluation of financial instruments	**1 440**	**1 440**	**1 428**	**1 428**

9. NET FOREIGN EXCHANGE INCOME

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Net profit from foreign exchange transactions	1 991	1 991	1 576	1 576
Netloss from revaluation of foreign exchange	(192)	(191)	(75)	(75)
Net foreign exchange income	**1 799**	**1 800**	**1 501**	**1 501**

10. OTHER OPERATING INCOME

	Note	2020		2019	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Fines received		153	153	146	146
Dividends received		267	267	258	258
Other		688	682	474	347
Total other operating income		**1 108**	**1 102**	**878**	**751**

11. ADMINISTRATIVE EXPENSES

		2020		2019	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Salaries to the members of the Board and Council		768	768	615	615
Staff remuneration		5 923	5 761	5 712	5 552
Compulsory state social security contributions (Board and Council)		185	185	148	148
Compulsory state social security contributions		1 419	1 394	1 537	1 513
Other staff costs		19	17	55	54
Communications and transport		232	226	270	267
Professional services		1 138	1 123	1 228	1 205
Rent, public utilities and maintenance		706	647	676	617
Depreciation costs	24	1 451	1 151	1 489	1 192
Amortization costs	25	362	362	397	397
Computer network		467	467	503	503
Advertisement and marketing expenses		49	48	61	61
Other taxes		523	335	745	573
Insurance		105	87	93	91
Audit fee		276	276	350	350
Other		121	116	262	120
Total administrative expenses		**13 744**	**12 963**	**14 141**	**13 258**

The average number of employees in the Group in 2020 was 213 (2019 – 229) and that in the Bank was 208 (2019 – 224).

In 2020, the auditor received a fee of EUR 271 thousand, of which EUR 190 thousand was for the audit of the financial statements (consolidated annual report) and EUR 81 thousand for other audit related engagements - Independent Assessment of the BlueOrange Bank AS AML/CTF and SRM ICS including assessment of related IT provisions Assistance with review of the criteria for convertible bond in accordance with requirements for additional Tier 1 instruments.

In 2019, the fee amounted to EUR 303 thousand, of which EUR 290 thousand was for the audit of the financial statements (consolidated annual report) and EUR 13 thousand for other audit related engagements.

12. OTHER OPERATING EXPENSES

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Membership fees	333	333	299	299
Fees for real estate management	3	4	1	2
Fines	-	-	4	4
Royalties for the use of a trademark	1 151	1 151	1 188	1 188
Other	209	147	262	305
Total other operating expenses	**1 696**	**1 635**	**1 754**	**1 798**

In 2020, as part of its operating activities the Bank made payments of EUR 1 151 thousand (2019: EUR 1 188 thousand) for the use of the registered trademarks BlueOrange and Baltikums to the owner of this trademark (licensor).

13. NET IMPAIRMENT REVERSAL

Impairment of assets for the Group

	2020 EUR'000	2019 EUR'000
Total allowances as at the beginning of the reporting period	**3 772**	**7 324**
Increase in the impairment allowance for other assets	-	*15*
Release of allowances for other assets	-	*(47)*
(Reversal)/change for the year	**-**	**(32)**
Repossessed collaterals written off during the reporting year	-	*(3 505)*
Other assets written off during the year	-	*(15)*
Total allowance as at the end of the reporting period*	**3 772**	**3 772**

*_ including impairment for Repossessed collaterals 2,740 thousand EUR (Note Nr 22) and investments in subsidiaries 1,032 thousand EUR.

Impairment of assets for the Bank

	2020 EUR'000	2019 EUR'000
Total allowances as at the beginning of the reporting period	**5 474**	**9 026**
Increase in the impairment allowance for other assets	-	*15*
Release of allowances for other assets	-	*(47)*
(Reversal)/change for the year	**-**	**(32)**
Repossessed collaterals written off during the reporting year	-	*(3 505)*
Other assets written off during the year	-	*(15)*
Total allowance as at the end of the reporting period*	**5 474**	**5 474**

*_ including impairment for Repossessed collaterals 1,607 thousand EUR (Note Nr 22) and investments in subsidiaries 3,867 thousand EUR.

14. CORPORATE INCOME TAX

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Corporate income tax for the conditionally distributed profit	(8)	(8)	(4)	(3)
Total corporate income tax	**(8)**	**(8)**	**(4)**	**(3)**

According to the new Law on Corporate Income Tax of the Republic of Latvia adopted on 28 July 2017, and effective as of 1 January 2018, a 20% rate is only applied to distributed profits while a 0% rate is expected to be applied to undistributed profits. Therefore, deferred tax assets and liabilities are recognisable at nil amount as of 31 December 2020.

15. CASH AND DEMAND DEPOSITS WITH CENTRAL BANK

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash	688	688	775	775
Balance with the Bank of Latvia (including the minimum reserve deposit)	112 315	112 315	89 928	89 928
Total	**113 003**	**113 003**	**90 703**	**90 703**

According to the regulations of the Financial and Capital Markets Commission, the total amount of funds on the account with the Central Bank should not be less than the amount of the obligatory reserves calculated from the average amount of customer deposits during the month. The obligatory reserve as at 31 December 2020 was EUR 5 231 thousand (2019: EUR 4 115 thousand).

Cash and balances with the Bank of Latvia are available on demand, thus, taking into account very low probabilities of default of these balances, expected credit loss is immaterial.

16. LOANS AND RECEIVABLES FROM BANKS

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Demand deposits with credit institutions				
Credit institutions registered in Latvia	77	77	24	24
Credit institutions registered in OECD countries	19 170	19 137	18 828	18 827
Credit institutions of other countries	5 314	5 314	6 018	5 984
Total demand deposits with credit institutions	**24 561**	**24 528**	**24 870**	**24 835**
Total deposits with credit institutions	**24 561**	**24 528**	**24 870**	**24 835**

Deposits with credit institutions 2020

Group, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	24 561	-	-	24 561
(Less) allowance for impairment	-	-	-	-
Net	**24 561**	**-**	**-**	**24 561**

Deposits with credit institutions 2020

Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	24 528	-	-	24 528
(Less) allowance for impairment	-	-	-	-
Net	**24 528**	-	-	**24 528**

Deposits with credit institutions 2019

Group, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	24 870	-	-	24 870
(Less) allowance for impairment	-	-	-	-
Net	**24 870**	**-**	**-**	**24 870**

Deposits with credit institutions 2019

Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	24 835	-	-	24 835
(Less) allowance for impairment	-	-	-	-
Net	**24 835**	-	-	**24 835**

Information about credit loss allowances 2019

Group and Bank EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2019	**16**	**-**	**-**	**16**
Transfers due to change in credit risk:				
-remaining credit risk changes	-	-	-	-
New originated or purchased	9	-	-	9
Derecognised	(25)	-	-	(25)
Change for the year	**(16)**	**-**	**-**	**(16)**
FX and other movements	-	-	-	-
Closing balance at 31 December 2019	**-**	**-**	**-**	**-**

The Bank's demand deposits with credit institutions based on rating agency ratings are as follows:

	2020 EUR'000	2019 EUR'000
Rated from AAA to A-	5 890	5 656
Rated from BBB+ to BBB-	1 857	4 217
Rated from BB+ to BB-	1 089	637
Rated below BB-	86	1 035
Not rated	15 606	13 290
Total deposits with credit institutions	**24 528**	**24 835**

As at 31 December 2020, the Bank had correspondent accounts with 15 banks (2019: 19). The largest account balances exceeding 10% of total deposits with credit institutions were with STONEX FINANCIAL LTD (FORMERLY INTL FCSTONE LTD) – 5 199 thousand EUR (2019 – 2 508 thousand EUR), DUKASCOPY BANK SA – 4 793 thousand EUR (2019 – 6 223 thousand EUR) and EUROCLEAR BANK – 3 520 thousand EUR (2019 – 2 808 thousand EUR)

As 31 December 2020, EUR 266 thousand was pledged with ED AND F MAN CAPITAL MARKETS LIMITED, EUR 24 thousand was pledged with R.J. O"BRIEN LIMITED and 13 thousand was pledged with STONEX FINANCIAL LTD (FORMERLY INTL FCSTONE LTD).

17. TRADING ASSETS

Financial assets at fair value through profit or loss (IFRS 9)

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Investment funds (OECD)	1 669	1 669	6 247	6 247
Investment funds (non-OECD)	417	417	-	-
Non-fixed income securities issued by companies of OECD countries	686	686	-	-
Fixed income securities issued by other financial institutions in Latvia	-	-	9 230	9 230
Fixed income securities issued by companies and credit institutions of OECD countries	-	-	2 439	2 439
Fixed income securities issued by companies and credit institutions of non-OECD countries	-	-	3 241	3 241
Derivatives	67	67	24	24
Total	**2 839**	**2 839**	**21 181**	**21 181**

An analysis of the credit quality of trading financial assets based on rating agency ratings where applicable, is as follows:

	2020 EUR'000	2019 EUR'000
Fixed income securities		
Rated from BB+ to BB-	-	3 915
Rated below BB-	-	2 502
Not rated	-	8 493
Total fixed income securities	**-**	**14 910**
Non-fixed income securities		
Rated from AAA to A-	401	-
Rated from BBB+ to BBB-	105	-
Rated from BB+ to BB-	181	-
Not rated	2 085	6 247
Total non-fixed income securities	**2 772**	**6 247**
Derivatives	**67**	**24**
Total	**2 839**	**21 181**

18. INVESTMENT SECURITIES

Financial assets measured at fair value through other comprehensive income

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Fixed income securities - Debt securities				
Fixed income securities issued by central governments of Latvia	13 973	13 973	9 438	9 438
Fixed income securities issued by financial institutions of Latvia	3 175	3 175	-	-
Fixed income securities issued by central governments of OECD countries	19 457	19 457	22 384	22 384
Fixed income securities issued by corporates of OECD countries	15 292	15 292	-	-
Fixed income securities issued by corporates of non-OECD countries	1 183	1 183	-	-
Total fixed income securities - Debt securities*	**53 080**	**53 080**	**31 822**	**31 822**
Shares and other non-fixed income securities – Equity securities				
Shares of Viduskurzemes AAO SIA	218	218	218	218
SWIFT shares	46	46	37	37
iShares J.P. Morgan USD EM Bonds*	6 179	6 179	-	-
Total of shares and other securities with non-fixed income – Equity securities	**6 443**	**6 443**	**255**	**255**
Total	**59 523**	**59 523**	**32 077**	**32 077**
Impairment allowance	**-121**	**-121**	**-15**	**-15**

*As of 01.03.2020, securities in the carrying amount of EUR 14 919 were reclassified from the Trading Portfolio to the Investment Portfolio and, due to the changes in the Business model, in future these will be measured at the amortised purchase value.

As of 01.03.2020, securities in the carrying amount of EUR 6 179 were reclassified from the Trading Portfolio to the Investment Portfolio and, due to the changes in the Business model, in future these will be measured as Financial assets at fair value represented with other comprehensive income (PVPVI).

Financial assets measured at fair value through profit and loss

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000 (Restated)	Bank EUR'000 (Restated)
Shares and other non-fixed income securities				
Shares in VISA INC	573	573	998	998
Shares in Masrtercard	-	-	863	863
Total of shares and other securities with non-fixed income	**573**	**573**	**1 861**	**1 861**

Investment securities

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Non- fixed income securities				
iShares J.P. Morgan USD EM Bonds	6 179	6 179	-	-
Viduskurzemes AAO SIA	218	218	218	218
SWIFT	46	46	37	37
VISA INC	573	573	998	998
Mastercard	-	-	863	863
Non- fixed income securities	**7 016**	**7 016**	**2 116**	**2 116**
Fixed income securities				
measured at fair value through other comprehensive income	53 080	53 080	31 822	31 822
at amortised cost	164 560	164 560	54 764	54 764
Fixed income securities	**217 640**	**217 640**	**85 586**	**86 586**
Investment securities total	**224 656**	**224 656**	**88 702**	**88 702**

Financial assets measured at fair value through other comprehensive income (fixed income securities), 2020

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	**53 080**	**-**	**-**	**53 080**
Allowance for impairment	(121)	-	-	(121)
Net	**52 959**	**-**	**-**	**52 959**

Financial assets measured at fair value through other comprehensive income (fixed income securities), 2019

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	**31 822**	**-**	**-**	**31 822**
Allowance for impairment	(15)	-	-	(15)
Net	**31 807**	**-**	**-**	**31 807**

Information about credit loss allowances, 2020

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2019	**15**	**-**	**-**	**15**
Transfers due to change in credit risk:				
-remaining credit risk changes	(3)	-	-	(3)
New originated or purchased	216	-	-	216
Derecognised	(106)	-	-	(106)
Change for the year	**107**	**-**	**-**	**107**
FX and other movements	14	-	-	14
Closing balance at 31 December 2019	**121**	**-**	**-**	**121**

Information about credit loss allowances, 2019

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2018	**23**	**-**	**-**	**23**
Transfers due to change in credit risk:				
-remaining credit risk changes	5	-	-	5
New originated or purchased	2	-	-	2
Derecognised	(15)	-	-	(15)
Change for the year	**(8)**	**-**	**-**	**(8)**
FX and other movements	-	-	-	-
Closing balance at 31 December 2018	**15**	**-**	**-**	**15**

Investment securities measured at fair value through other comprehensive income based on rating agency ratings are as follows:

Fixed income securities	2020 EUR'000	2019 EUR'000
- Fixed income securities issued by central governments of OECD countries		
Rated from AAA to A-	17 440	20 366
Rated from BBB+ to BBB-	2 017	2 018
Total fixed income securities issued by central governments of OECD countries	**19 457**	**22 384**
- Fixed income securities issued by corporates of OECD countries		
Rated from AAA to A-	14 859	-
Rated below BB-	433	-
Total fixed income securities issued by corporates of OECD countries	**15 292**	**-**
- Fixed income securities issued by central governments of Latvia		
Rated from AAA to A-	13 973	9 438
Total fixed income securities issued by central governments of Latvia	**13 973**	**9 438**
- Fixed income securities issued by corporates of Latvia		
Not rated	3 175	-
Total fixed income securities issued by corporates of Latvia	**3 175**	**-**
- Fixed income securities issued by corporates of non-OECD countries		
Rated from BBB+ to BBB-	914	-
Rated from BB+ to BB-	269	
Total fixed income securities issued by corporates of non-OECD countries	**1 183**	**-**
Total fixed income securities	**53 080**	**31 822**
Impairment allowance	**(121)**	**(15)**

Shares and other non-fixed income securities

- Shares and other non-fixed income securities issued by corporates of OECD countries		
Not rated	6 225	-
Total Shares and other non-fixed income securities issued by corporates of Latvia	**6 225**	**-**

19. LOANS AND RECEIVABLES

(a) Loans

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000 (Restated)	Bank EUR'000 (Restated)
Financial institutions	6 966	6 966	6 479	6 479
Corporates	286 164	286 164	234 045	234 017
Individuals	15 239	15 238	16 253	16 253
Total loans and receivables	**308 369**	**308 369**	**256 777**	**256 749**
Impairment allowance				
Financial institutions	(11)	(11)	(1)	(1)
Corporates	(4 371)	(4 371)	(6 952)	(6 952)
Individuals	(797)	(797)	(472)	472
Total impairment allowance	**(5 179)**	**(5 179)**	**(7 425)**	**(7 425)**
Net loans and receivables	**303 190**	**303 190**	**249 352**	**249 324**

(b) Analysis of loans by type

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000 (Restated)	Bank EUR'000 (Restated)
Loan portfolio				
Corporate loans	101 303	101 303	141 502	141 502
Industrial loans	15 687	15 687	18 312	18 312
Payment cards loans	1 997	1 997	2 154	2 154
Mortgage loans	134 087	134 087	62 045	62 045
Finance lease	1 777	1 777	1 827	1 827
Other loans	53 453	53 453	29 735	29 707
Total loan portfolio	**308 304**	**308 304**	**255 575**	**255 547**
Securities-backed loans				
Securities-backed financing	65	65	1 202	1 202
Total securities-backed loans	**65**	**65**	**1 202**	**1 202**
Total loans and receivables	**308 369**	**308 369**	**256 777**	**256 749**
Impairment allowance	(5 179)	(5 179)	(7 425)	(7 425)
Net loans and receivables	**303 190**	**303 190**	**249 352**	**249 324**

(c) Geographical segmentation of the loans

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000 (Restated)	Bank EUR'000 (Restated)
Loans to residents of Latvia	224 888	224 888	171 374	171 374
Loans to residents of OECD countries	60 778	60 778	61 776	61 776
Loans to residents of non-OECD countries	22 703	22 703	23 628	23 600
Total loans and receivables	**308 369**	**308 369**	**256 777**	**256 749**
Impairment allowance	(5 179)	(5 179)	(7 425)	(7 425)
Net loans and receivables	**303 190**	**303 190**	**249 352**	**249 324**

(d) Ageing structure of the loan portfolio

Bank	Total EUR'000	Of which not past due on the reporting date	Of which past due by the following terms				Net carrying amount of overdue loans
			Less than 30 days	31-90 days	91-180 days	More than 180 days	
As at 31 December 2020							
Net carrying amount	**303 190**	284 846	494	10 397	3	7 450	18 344
Out of which impaired	**8 805**	689	-	663	3	7 450	8 116
As at 31 December 2019							
Net carrying amount	**249 324**	231 208	11 186	1 515	552	4 863	18 116
Out of which impaired	**6 159**	741	-	3	552	4 863	5 418

The Group's ageing structure is not materially different from that of the Bank.

(Less) allowance for impairment, 2020

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	202 372	94 281	11 716	308 369
(Less) allowance for impairment	(383)	(1 885)	(2 911)	(5 179)
Net	201 989	92 396	8 805	303 190

(Less) allowance for impairment, 2019

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired) (Restated)	Total (Restated)
Gross	213 028	31 881	11 840	256 749
(Less) allowance for impairment	(465)	(1 279)	(5 681)	(7 425)
Net	212 563	30 602	6 159	249 324

(e) Impaired loans

	2020 EUR'000		2019 EUR'000	
	Group	Bank	Group (Restated)	Bank (Restated)
Impaired loans, gross	11 716	11 716	11 840	11 840
Impairment allowance	(2 911)	(2 911)	(5 681)	(5 681)
Net loans and receivables	8 805	8 805	6 159	6 159

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral on credit impaired assets at 31 December 2020 is as follows.

EUR'000	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Loans to corporate customers	**2 988**	**4 602**	**5 592**	**4 172**
Standard lending	-	-	-	-
Loans to SME	2 988	4 602	5 592	4 172
Loans to individuals	**225**	**411**	**-**	**-**
Consumer loans	-	-	-	-
Credit cards	-	-	-	-
Mortgage loans	225	411	-	

The effect of collateral on credit impaired assets at 31 December 2019 is as follows.

EUR'000	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Value of collateral	Carrying value of the assets (Restated)	Value of collateral
Loans to corporate customers	**3 646**	**5 122**	**2 447**	**2 054**
Standard lending	-	-	-	-
Loans to SME	3 646	5 122	2 447	2 054
Loans to individuals	**3**	**4**	**63**	**-**
Consumer loans	3	4	18	-
Credit cards	-	-	45	-

(f) Movements in the impairment allowance

Movements in the loan impairment allowance for the year ended 31 December 2020 are as follows:

Group and Bank, EUR'000

Corporates	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2020	**372**	**1 279**	**5 302**	**6 953**	**197 303**	**31 797**	**11 396**	**240 496**
Transfers due to change in credit risk:								
-to lifetime (from Stage 1 to Stage 2)	(158)	158	-	**-**	(67 994)	67 994	-	**-**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(38)	(82)	120	**-**	(2 968)	(798)	3 766	**-**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	**-**	-	-	-	**-**
-remaining credit risk changes	(8)	548	194	**734**	25 021	(9 394)	3 072	**18 699**
New originated or purchased	359	14	-	**373**	70 618	2 742	31	**73 391**
Derecognised	(275)	-	(17)	**(292)**	(32 006)	-	(4 071)	**(36 077)**
Change for the year	**(120)**	**638**	**297**	**815**	**(7 329)**	**60 544**	**2 798**	**56 013**
Write-offs	-	-	(3 379)	**(3 379)**			(3 379)	**(3 379)**
FX and other movements	17	(39)	14	**(8)**	-	-	-	**-**
Closing balance at 31 December 2020	**269**	**1 878**	**2 235**	**4 382**	**189 974**	**92 341**	**10 815**	**293 130**

Changes in the credit loss allowance due to movements between the stages are represented in the remaining credit risk changes row. The amount of new originated or purchased loans represents loans in the portfolio as at 31 December 2020 while the amount of derecognised loans represent loans in the portfolio as at 1 January 2020 and derecognised during 2020.

Individuals	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2020	**93**	**-**	**379**	**472**	**15 719**	**84**	**444**	**16 247**
Transfers due to change in credit risk:								
-to lifetime (from Stage 1 to Stage 2)	(3)	3	-	**-**	(2 135)	2 135	-	-
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(233)	-	233	**-**	(334)	-	334	-
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	**-**	-	-	-	-
-remaining credit risk changes	225	3	97	**325**	(525)	(271)	201	**(595)**
New originated or purchased	96	-	-	**96**	3 597	5	24	**3 626**
Derecognised	(28)	-	(40)	**(68)**	(3 923)	(14)	(86)	**(4 023)**
Change for the year	**57**	**6**	**290**	**353**	**(3 320)**	**1 855**	**473**	**(992)**
Write-offs			(16)	**(16)**			(16)	**(16)**
FX and other movements	(36)	1	23	**(12)**	-	-	-	**-**
Closing balance at 31 December 2019	**114**	**7**	**676**	**797**	**12 399**	**1 939**	**901**	**15 239**

Changes in the credit loss allowance due to movements between the stages are represented in the remaining credit risk changes row. The amount of new originated or purchased loans represents loans in the portfolio as at 31 December 2020 while the amount of derecognised loans represent loans in the portfolio as at 1 January 2020 and derecognised during 2020.

Movements in the loan impairment allowance for the year ended 31 December 2019 are as follows:

Group and Bank, EUR'000

Corporates	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired) (Restated)	Total (Restated)	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2019	**353**	**1 574**	**4 207**	**6 134**	**142 671**	**26 860**	**13 827**	**183 358**
Transfers due to change in credit risk:								
-to lifetime (from Stage 1 to Stage 2)	(435)	435	-	**-**	(20 103)	20 103	-	**-**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(5)	(613)	618	**-**	(2 362)	(63)	2 425	**-**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	157	(157)	-	**-**	14 214	(14 214)	-	**-**
-remaining credit risk changes	146	50	866	**1 062**	(18 661)	(4 484)	(1 585)	**(24 730)**
New originated or purchased	406	9	-	**415**	146 709	3 599	-	**150 308**
Derecognised	(288)	-	(288)	**(576)**	(65 165)	(4)	(3 169)	**(68 338)**
Change for the year	**(19)**	**(276)**	**1 196**	**901**	**54 632**	**4 937**	**(2 329)**	**57 240**
Write-offs	-	-	(102)	**(102)**			(102)	**(102)**
FX and other movements	38	(19)	1	**20**	-	-	-	**-**
Closing balance at 31 December 2019	**372**	**1 279**	**5 302**	**6 953**	**197 303**	**31 797**	**11 396**	**240 496**

Changes in the credit loss allowance due to movements between the stages are represented in the remaining credit risk changes row. The amount of new originated or purchased loans represents loans in the portfolio as at 31 December 2019 while the amount of derecognised loans represent loans in the portfolio as at 1 January 2019 and derecognised during 2019.

Individuals	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2019	**225**	**1**	**165**	**391**	**16 676**	**2**	**175**	**16 853**
Transfers due to change in credit risk:								
-to lifetime (from Stage 1 to Stage 2)	(4)	4	-	**-**	(120)	120	-	-
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(162)	(8)	170	**-**	(294)	(19)	313	-
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	**-**	-	-	-	-
-remaining credit risk changes	25	4	74	**103**	(443)	(15)	(28)	**(486)**
New originated or purchased	49	-	-	**49**	5 343	-	-	**5 343**
Derecognised	(44)	(1)	(10)	**(55)**	(5 443)	(4)	(1)	**(5 448)**
Change for the year	**(136)**	**(1)**	**234**	**97**	**(957)**	**82**	**284**	**(591)**
Write-offs			(15)	**(15)**			(15)	**(15)**
FX and other movements	4	-	(5)	**(1)**	-	-	-	**-**
Closing balance at 31 December 2019	**93**	**-**	**379**	**472**	**15 719**	**84**	**444**	**16 247**

Changes in the credit loss allowance due to movements between the stages are represented in the remaining credit risk changes row. The amount of new originated or purchased loans represents loans in the portfolio as at 31 December 2019 while the amount of derecognised loans represent loans in the portfolio as at 1 January 2019 and derecognised during 2019.

(g) Industry analysis of the loan portfolio (Group and the Bank)

	2020 EUR'000	2019 EUR'000 (Restated)
Water transport	37 294	41 332
Financial services	64	588
Wholesale	54 259	44 362
Real Estate	94 987	57 877
Leisure, recreation, sports	-	563
Overdrafts	14 270	14 546
Metal manufacture	-	431
Transport and storage	6 387	6 787
Private customers – mortgage loans and consumer loans	13 145	14 103
Manufacture of food products	3 604	5 173
Processing factory	17 000	17 288
Forestry	946	1 034
Other services	61 234	45 240
Net loans and receivables	**303 190**	**249 324**

(h) Analysis of loans by type of collateral (Group and Bank)

EUR'000	31 December 2020	% of loan portfolio	31 December 2019 (Restated)	% of loan portfolio
Commercial buildings	134 122	45	84 576	34
Real estate – first mortgage	22 453	7	31 480	13
Commercial assets pledge	64 922	21	60 604	24
Commercial assets: water transport	24 305	8	29 567	12
Trading securities	616	-	1 605	1
Guarantee	7	-	1 970	1
Deposit	9 077	3	917	-
Inventories	41 527	14	23 076	9
No collateral	6 161	2	15 529	6
Net loans and receivables	**303 190**	**100**	**249 324**	**100**

EUR'000	2020		2019	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Stage 1	201 989	295 599	212 563	302 336
Stage 2	92 396	104 186	30 602	11 830
Stage 3	8 805	9 185	6 159	7 180
Total	**303 190**	**408 970**	**249 324**	**321 346**

(j) Restructured loans

As at 31 December 2020 and 2019, the loans restructured by the Group and the Bank possessed the following signs of restructuring:

	2020 EUR'000	2019 EUR'000 (Restated)
Reduced interest rate	596	-
Interest capitalization	17 972	15 149
Loan holidays, term prolongation	69 546	5 969
Other	4 433	2
Total restructured loans	**92 547**	**21 120**

(l) Significant credit exposures

As at 31 December 2020 the Bank had no borrowers or groups of related borrowers, respectively, whose total loan balances exceeded 10% of loans and receivables from customers.

As at 31 December 2019 the Bank had no borrowers or groups of related borrowers, respectively, whose total loan balances exceeded 10% of loans and receivables from customers.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one customer or group of related customers of more than 25% of Bank's equity. As at 31 December 2020 and 2019, the Bank was in compliance with this requirement.

20. INVESTMENT SECURITIES AT AMORTISED COST

Financial assets measured at amortised cost (IFRS 9)

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Fixed income securities				
Fixed income securities issued by the government of LR	7 599	7 599	7 799	7 799
Fixed income securities issued by companies and credit institutions of LR	9 182	9 182	522	522
Fixed income securities issued by the government of OECD countries	85 048	85 048	-	-
Fixed income securities issued by companies and credit institutions of OECD countries	45 813	45 813	522	522
Fixed income securities issued by the government of other countries	946	946	27 851	27 851
Fixed income securities issued by companies and credit institutions of other countries	16 570	16 570	18 769	18 769
Impairment allowance	(598)	(598)	(177)	(177)
Total fixed income securities	**164 560**	**164 560**	**54 764**	**54 764**

Notes to the Group's Consolidated and the Bank's Separate Annual Report

Financial assets measured at amortised cost 2020

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	159 834	5 324	-	165 158
(Less) allowance for impairment	(470)	(128)	-	(598)
Net	**159 364**	**5 196**	**-**	**164 560**

Financial assets measured at amortised cost 2019

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	54 941	-	-	54 941
(Less) allowance for impairment	(177)	-	-	(177)
Net	**54 764**	**-**	**-**	**54 764**

Financial assets measured at amortised cost (Group and Bank), EUR'000

Information about credit loss allowances, 2020

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2019	**177**	**-**	**-**	**177**
Transfers due to change in credit risk:				
-from Stage 1 to Stage 2	(115)	115	-	-
-remaining credit risk changes	55	22	-	77
-additional credit loss allowances duet to reclassifications	255	-	-	255
New originated or purchased	189	-	-	189
Derecognised	(80)	-	-	(80)
Change for the year	**304**	**137**	**-**	**441**
FX and other movements	(11)	(9)	-	(20)
Closing balance at 31 December 2019	**470**	**128**	**-**	**598**

Information about credit loss allowances, 2019

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2018	**156**	**-**	**-**	**156**
Transfers due to change in credit risk:				
-remaining credit risk changes	39	-	-	39
New originated or purchased	38	-	-	38
Derecognised	(57)	-	-	(57)
Change for the year	**20**	**-**	**-**	**20**
FX and other movements	1	-	-	1
Closing balance at 31 December 2018	**177**	**-**	**-**	**177**

Quality analysis of investment securities at amortised cost, based on rating agency ratings, is as follows:

	2020 EUR'000	2019 EUR'000
Debt securities and other fixed income securities		
- Corporate bonds		
Rated from AAA to A-	95 495	13 793
Rated from BBB+ to BBB-	25 807	24 417
Rated from BB+ to BB-	24 546	11 560
Rated below BB-	9 823	3 845
No rate	9 487	1 326
Total corporate bonds	**165 158**	**54 941**
Impairment allowance	(598)	(177)
Debt securities and other fixed income securities	**164 560**	**54 764**

21. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(c) Investments in subsidiaries (Bank)

Company	*Ownership share*	Carrying amount at 31.12.2020 EUR'000	Carrying amount at 31.12.2019 EUR'000
SIA BlueOrange International	*100%*	5 559	5 509
Impairment allowance		(2 249)	(2 249)
SIA Zapdvina Development	*100%*	11 474	11 474
Impairment allowance		(806)	(806)
SIA CityCap Service	*100%*	555	550
Impairment allowance		(158)	(158)
UAB Kamaly Development	*100%*	3	3
AS Pils Pakalpojumi	*100%*	15 281	15 281
Impairment allowance		(2 948)	(2 948)
SIA Jēkaba 2	*100%*	4 049	4 049
Impairment allowance		(106)	(106)
SIA Mateli Estate	*100%*	-	81
SIA Darzciems Entity	*100%*	70	68

SIA Mazirbe Estate	*100%*	90	90
SIA Lielie Zaki	*100%*	86	86
SIA Pulkarne Entity	*100%*	199	177
		31 099	**31 101**

The share capital of SIA Zapdvina Development consisted of 10 948 018 shares with nominal value of EUR 1 amounting to EUR 10 948 018. In previous years the Bank recognised an impairment allowance for its investment in SIA Zapdvina Development in the amount of EUR 806 thousand triggered by impairment of this subsidiary's assets. In 2020, based on the appraisal, no additional impairment allowances were recognised. SIA Zapdvina Development owns a land plot in Daugavpils.

In 2020, the Bank increased the share capital of its subsidiary, SIA CityCap Service by 5 040 shares with nominal value of EUR 1 for a total of EUR 5 040. After this increase, the share capital of SIA CityCap Service consisted of 586 824 shares with nominal value of EUR 1 amounting to EUR 586 824.

In previous years, the Bank recognised an impairment allowance for its investment in SIA CityCap Service in the amount of EUR 158 thousand triggered by impairment of this subsidiary's assets. Based on the appraisal, in 2020 impairment allowances were not recognised.

In 2020, the Bank increased the share capital of its subsidiary, SIA BlueOrange International by 50 000 shares with nominal value of EUR 1 for a total of EUR 50 000. After this increase, the share capital of SIA BlueOrange International consisted of 5 536 658 shares with nominal value of EUR 1 amounting to EUR 5 536 658.

In previous years, the Bank recognised an impairment allowance for its investment in SIA BlueOrange International in the amount of EUR 2 249 thousand EUR triggered by impairment of this investment in subsidiaries. Based on the appraisal, in 2020 impairment allowances were not recognised.

SIA BlueOrange International has three subsidiaries and an associate.

In previous years, the Bank recognised an impairment allowance for its investment in SIA Jēkaba 2 in the amount of EUR 106 thousand.

In previous years, the Bank recognised an impairment allowance for its investment in AS Pils Pakalpojumi in the amount of EUR 2 948 thousand.

In 2020, the liquidation of the Bank's subsidiary company, SIA „Mateli Estate", was finished.

In 2020, the Bank increased the share capital of its subsidiary, SIA Darzciems Entity by EUR 2,000. After this increase, the share capital of SIA Darzciems Entity consisted of 234 730 shares with nominal value of EUR 1 amounting to EUR 234 730.

The share capital of SIA „Mazirbe Estate" consisted of 197 404 shares with nominal value of EUR 1 amounting to EUR 197 404.

The share capital of SIA „Lielie Zaķi" consisted of 179 013 shares with nominal value of EUR 1 amounting to EUR 179 013.

In 2020, the Bank increased the share capital of its subsidiary, SIA „Pulkarne Entity" by EUR 22,000. After this increase, the share capital of SIA „Pulkarne Entity" consisted of 199 000 shares with nominal value of EUR 1 amounting to EUR 199 000.

(b) Investments in subsidiaries by the Bank's subsidiary SIA BlueOrange International

Company	Capital contribution	Carrying amount at 31.12.2020 EUR'000	Carrying amount at 31.12.2019 EUR'000
KamalyDevelopment EOOD (Bulgaria)	100%	692	692
Impairment allowance		(364)	(364)
Foxtran Management Ltd. (Belize)	100%	2 414	2 364
Impairment allowance		(559)	(559)
		2 183	**2 133**

In 2020, SIA BlueOrange International increased the share capital of its subsidiary Foxtran Management Ltd. By EUR 50 thousand.

In 2019, SIA BlueOrange International increased the share capital of its subsidiary Foxtran Management Ltd. By EUR 260 thousand.

In 2019, SIA BlueOrange International sold shares of its subsidiary Enarlia International Inc by EUR 3 thousand.

In the previous years, an impairment allowance for the investment in Foxtran Management Ltd. was recognised in the amount of EUR 559 thousand . Allowances were recognised since the investment in SIA BlueOrange International exceeded net assets of Foxtran Management Ltd.

In the previous years, SIA BlueOrange International recognised impairment allowances for the investment in KamalyDevelopment EOOD in the amount of EUR 364 thousand.

(c) *Equity-accounted investments in associates (Group)*

Company	Capital contribution	Carrying amount at 31.12.2020 EUR'000	Carrying amount at 31.12.2019 EUR'000
		Group	**Group**
AS Termo biznesa Centrs	26.15%	1 848	1 848
Impairment allowance		*(1 021)*	*(1 021)*
Total		**827**	**827**

SIA BlueOrange International has an associate AS Termo biznesa Centrs. The property owned by AS Termo biznesa Centrs was appraised on the basis of discounted cash flow using a weighted average rate of 9%. Based on an appraisal, in 2020 and 2019 an impairment allowance was not recognised.

Financial information of the associate AS Termo biznesa centrs:

	Current assets EUR'000	Long-term investments EUR'000	Total assets EUR'000	Current liabilities EUR'000	Non-current liabilities EUR'000	Total liabilities EUR'000	Net assets EUR'000	Income EUR'000	Expenses EUR'000	Net loss EUR'000	Group's share in net assets 26.15% EUR'000	Group's share in loss 26.15% EUR'000
31 December 2020												
AS Termo biznesa Centrs	**79**	**329**	**408**	**(28)**	**(4)**	**(32)**	**376**	**239**	**(223)**	**16**	**98**	**4.18**
31 December 2019												
AS Termo biznesa Centrs	**87**	**333**	**420**	**(43)**	**(13)**	**(56)**	**364**	**244**	**(231)**	**13**	**95**	**3.40**

As losses for 2020 are insignificant they have no impact on the Group results.

22. INVESTMENT PROPERTY

Investment property of the Group and the Bank represents the following:

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Real estate in Latvia	2 163	188	2 163	188
Real estate in Lithuania	2 807	2 807	2 807	2 807
Real estate in Bulgaria	521	-	521	-
Impairment allowance	(2 740)	(1 607)	(2 740)	(1 607)
	2 751	**1 388**	**2 751**	**1 388**

Investment property is recognized at cost. Investment property consists of land and commercial properties.

Direct operating expenses (including repairs and maintenance costs) incurred by the Group in connection with the investment property which has not earned a rental income during the reporting year amounted to EUR 2 thousand (2019: EUR 2 thousand).

Direct operating expenses (including repairs and maintenance costs) incurred by the Bank in connection with the investment property which has not earned a rental income during the reporting year amounted to EUR 2 thousand (2019: EUR 2 thousand).

The Group and the Bank did not earn any rent income on investment property neither in 2020 nor in 2019.

The following table shows the valuation technique used in measuring the fair value of property, as well as the significant unobservable inputs used.

Group's investment

Type	Carrying amount, EUR '000	Valuation method	Significant unobservable inputs			Correlation between balance sheet data and fair value measurement, EUR '000
				2020	2019	
Buildings and land plot, Kungu iela, Liepāja, Latvia	93 (2019: 60)	Comparison approach	Sales price* varies from EUR to EUR per m2	14,8-21,18	11,1 – 15,8	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Buildings and a land plot, Jurģu iela, Jūrmala, Latvia	95 (2019: 95)	Comparison approach	Sales price* varies from EUR to EUR per m2	74,4-106,3	88,8-118,8	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Klaipeda, Lithuania	1 200 (2019: 1 200)	Comparison approach	Sales price* varies from EUR to EUR per m2 for each land plot separately based on footage	0.37-0.57 for land plot over 8.2 ha 5 -5.8 for land plot 1 ha 2.42 – 6.41 for land plots till 300 m2	0.37-0.57 for land plot over 8.2 ha 5 -5.8 for land plot 1 ha 2.42 – 6.41 for land plots till 300 m2	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Apartments, Bulgaria	328 (2019: 328)	Comparison approach	Sales price* varies from EUR to EUR per m2	770-1 100	1 176 - 1 506	Fair value would increase (reduce) if the price per m^2 was higher (lower)

Land plot, Mūku purvs, Latvia	386 (2019: 386)	Comparison approach	Sales price* varies from EUR to EUR per m2	34,0-48,6	28,7-41	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Akācijas iela, Daugavpils, Latvia	250 (2019: 250)	Comparison approach	Sales price* varies from EUR to EUR per m2	4,5-6,6	7,8-8,71	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot in Ķekavas pagasts, Ķekavas novads, Latvia	170 (2019: 170)	Comparison approach	Sales price* varies from EUR to EUR per m2	2,2-3,1	3,02-3,21	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Kārsavas iela, Riga, Latvia	61 (2019: 61)	Comparison approach	Sales price* varies from EUR to EUR per m2	69,6-71,0	70,42-82,16	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot in Kolkas pagasts, Dundaga novads, Latvia	86 (2019: 86)	Comparison approach	Sales price* varies from EUR to EUR per m2	1,46-2,08	1,46-2,08	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot in Lejas akmeņi, Ķekavas novads, Latvia	82 (2019: 82)	Comparison approach	Sales price* varies from EUR to EUR per m2	0,54-0,77	0,55-0,58	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Total	**2 751**					

Bank's investment

Type	Carrying amount, EUR '000	Valuation method	Significant unobservable inputs			Correlation between balance sheet data and fair value measurement, EUR '000
				2020	2019	
Buildings and land plot, Kungu iela, Liepāja, Latvia	93 (2019: 60)	Comparison approach	Sales price* varies from EUR to EUR per m2	14,8-21,18	11,1 - 15,8	Fair value would increase (reduce) if the price per m^2 was higher (lower);
Buildings and land plot, Jurģu iela, Jūrmala, Latvia	95 (2019: 95)	Comparison approach	Sales price* varies from EUR to EUR per m2	74,4-106,3	88,8-118,8	Fair value would increase (reduce): if the price per m^2 was higher (lower);
Land plot, Klaipeda, Lithuania	1 200 (2019: 1 200)	Comparison approach	Sales price* varies from EUR to EUR per m2 for each land plot separately based on footage	0.37-0.57 for land plot over 8.2 ha 5 -5.8 for land plot 1 ha 2.42 – 6.41 for land plots till 300 m2	0.37-0.57 for land plot over 8.2 ha 5 -5.8 for land plot 1 ha 2.42 – 6.41 for land plots till 300 m2	Fair value would increase (reduce) if the price per m^2 was higher (lower);
Total	**1 388**					

* sales prices are market prices for similar properties adjusted for certain criteria such as land plot footage adjustment, location area adjustment, property condition, offer price adjustment, resulting in the significant unobservable inputs.

23. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

Property and equipment

	Land and buildings EUR'000		Leasehold improvements EUR'000		Vehicles EUR'000		Office equipment EUR'000		Total EUR'000	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank	Group	Bank
Cost										
31 December 2018	**29 311**	-	**-**	**4 603**	**1 505**	**105**	**2 643**	**1 962**	**33 459**	**6 670**
Additions	-	-	-	-	43	-	19	8	62	8
Disposals	-	-	-	-	(38)	(38)	(88)	(88)	(126)	(126)
31 December 2019	**29 311**	-	**-**	**4 603**	**1 510**	**67**	**2 574**	**1 882**	**33 395**	**6 552**
Additions					-	-	100	100	100	100
Disposals					-	-	(128)	(111)	(128)	(111)
31 December 2020	**29 311**		**-**	**4 603**	**1 510**	**67**	**2 546**	**1 871**	**33 367**	**6 541**
Depreciation										
31 December 2018	**1 836**	**-**	**-**	**396**	**207**	**67**	**1 294**	**1 054**	**3 337**	**1 517**
Depreciation	942	-	-	230	155	15	390	283	**1 487**	**528**
Disposals	-	-	-	-	(15)	(15)	(83)	(83)	**(98)**	**(98)**
31 December 2019	**2 778**	**-**	**-**	**626**	**347**	**67**	**1 601**	**1 254**	**4 726**	**1 947**
Depreciation	942	-	-	230	144	-	367	258	**1 453**	**488**
Disposals	-	-	-	-	-	-	(126)	(109)	(126)	**(109)**
31 December 2020	**3 720**	**-**	**-**	**856**	**491**	**67**	**1 842**	**1 403**	**6 053**	**2 326**
Net carrying amount										
31 December 2019	**26 533**	**-**	**-**	**3 977**	**1 163**	**-**	**973**	**628**	**28 669**	**4 605**
31 December 2020	**25 591**	**-**	**-**	**3 747**	**1 019**	**-**	**704**	**468**	**27 314**	**4 215**

The two buildings that the Bank rents from its subsidiaries at Smilšu street and Jēkaba street are used as the Head office of the Bank. From the Group's perspective, these buildings are considered to be corporate assets and are classified as property and equipment. In 2020 and 2019, the management believes that there are no indications that these sites may be impaired.

Right-of-use assets – lease contracts (IFRS 16)

Bank	Right-of-use assets EUR'000
Cost	
31 December 2018	**-**
Changes on initial application of IFRS 16	12 576
Additions	-
31 December 2019	**12 576**
Additions	-
31 December 2020	**12 576**
Depreciation	
31 December 2018	**-**
Depreciation	662
Disposals	-
31 December 2019	**662**
Depreciation	664
Disposals	-
31 December 2020	**1 326**
Net carrying amount	
31 December 2019	**11 914**
31 December 2020	**11 250**
Lease liability	
31 December 2018	**-**
Changes on initial application of IFRS 16	**12 576**
Lease payments	(502)
Interest accrued	377
Interest paid	(377)
31 December 2019	**12 074**
Lease payments	(517)
Interest accrued	362
Interest paid	(362)
31 December 2020	**11 557**

The Bank leases a number of premises under operating lease. The leases typically run for 20 years, with an option to renew the lease after that date. All property leases are intragroup agreements.

24. INTANGIBLE ASSETS

Group	Software EUR'000
Acquisition cost	
31 December 2018	**2 894**
Disposed in the reporting period	(259)
Acquired in the reporting period	68
31 December 2019	**2 703**
Disposed in the reporting period	(46)
Acquired in the reporting period	54
31 December 2020	**2 711**
Amortization	
31 December 2018	**1 705**
Amortization for the reporting period	397
Amortization of assets disposed in the reporting period	(259)
31 December 2019	**1 843**
Amortization for the reporting period	362
Amortization of assets disposed in the reporting period	(45)
31 December 2020	**2 160**
Net carrying amount	
31 December 2019	**860**
31 December 2020	**551**

Bank	Software EUR'000
Acquisition cost	
31 December 2018	**2 875**
Disposed in the reporting period	(259)
Acquired in the reporting period	68
31 December 2019	**2 684**
Disposed in the reporting period	(46)
Acquired in the reporting period	53
31 December 2020	**2 691**
Amortization	
31 December 2018	**1 686**
Amortization for the reporting period	397
Amortization of assets disposed in the reporting period	(259)
31 December 2019	**1 824**
Amortization for the reporting period	362
Amortization of assets disposed in the reporting period	(45)
31 December 2020	**2 141**
Net carrying amount	
31 December 2019	**860**
31 December 2020	**550**

25. PREPAYMENTS AND ACCRUED INCOME

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Other accrued income	-	-	274	274
Next period expense – Resident	143	143	165	165
Next period expense – Non Resident	2 412	2 412	110	110
Insurance premium	17	17	16	16
Other	4	1	6	6
Prepayments and accrued income total	**2 576**	**2 573**	**571**	**571**

26. OTHER ASSETS

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Guarantee deposits for credit card operations	5 053	5 053	7 820	7 820
Credit card claims and other payment services	170	170	566	566
Prepayments and receivables	842	842	3 898	3 898
Short term debts	19	19	163	163
Other	765	734	598	558
Total other assets	**6 849**	**6 818**	**13 045**	**13 005**
Allowances for other assets	(13)	-	(13)	-
Other assets, net	**6 836**	**6 818**	**13 032**	**13 005**

In 2020, security deposits of EUR 5 053 thousand (2019: EUR 7 820 thousand) were reserved for potential transactions connected with MasterCard Europe and VISA Card systems.

Movements in the impairment allowance

Movements in the impairment allowance of other assets for the year ended 31 December 2020 and 2019 are as follows:

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Opening balance	**13**	**-**	**3 563**	**3 552**
Increase in the impairment allowance for other assets	-	-	17	15
Change due to change in credit risk (net)	-	-	(47)	(47)
Other assets write-offs	-	-	(16)	(16)
Repossessed collaterals write offs	-	-	(3 504)	(3 504)
Closing balance	**13**	**-**	**13**	**-**

27. DUE TO CREDIT INSTITUTIONS ON DEMAND

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Credit institutions registered in Latvia	8 681	8 681	3 077	3 077
Credit institutions registered in OECD countries	-	-	22	22
	8 681	**8 681**	**3 099**	**3 099**

As at 31 December 2020 the Bank had one credit institution whose account balances exceeded 10% of total deposits on demand with other credit institutions. Total balances of this credit institution as at 31 December 2020 amounted to EUR 8 644 thousand.

As at 31 December 2019 the Bank had one credit institution whose account balances exceeded 10% of total deposits on demand with other credit institutions. Total balances of this credit institution as at 31 December 2019 amounted to EUR 3 071 thousand.

28. DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Central Bank of Latvia	74 900	74 900	-	-
	74 900	**74 900**	**-**	**-**

The Bank participated in the long-term refinancing target programme (TLTRO III) of the European Central Bank, by borrowing EUR 75 million. The loan has a 3-year maturity with the possibility of early repayment, starting from September 2021. Borrowing rates in these operations may be lower for 50 base points than the average interest rate on ECB deposits during the period from 24 June 2020 and 23 June 2022, provided that the lending thresholds for the respective periods, as established by the ECB, are reached. Outside this period, the interest rate can be as low as the average deposit rate, which is currently -0.50%. Liabilities are recognised as a floating-rate instrument and expected cash flows are based on an assumption that lending thresholds will not be reached. When there is sufficient assurance that lending thresholds are reached and the established rates can be applied, the expected cash flows will be restored.

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Credit institutions registered in Latvia	204	204	187	187
	204	**204**	**187**	**187**

29. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: DEPOSITS

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Current accounts:				
Financial institutions	80 805	80 805	15 705	15 705
Corporate entities	82 228	83 790	103 933	105 148
Individuals	40 660	40 660	47 221	47 221
	203 693	**205 255**	**166 859**	**168 074**
Term deposits:				
Subordinate liabilities	2 219	2 219	2 836	2 836
Other financial institutions	7 457	7 457	5 328	5 328
Corporate entities	1 053	1 053	612	612
Individuals	331 084	331 084	256 532	256 532
	341 813	**341 813**	**265 308**	**265 308**
Total deposits	**545 506**	**547 068**	**432 167**	**433 382**

Geographical segmentation of the deposits

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Deposits of residents registered in Latvia	84 728	86 267	62 760	63 863
Deposits of residents registered in OECD countries	415 149	415 149	304 838	304 838
Deposits of residents registered in other countries (non-OECD)	45 629	45 652	64 569	64 681
Total deposits	**545 506**	**547 068**	**432 167**	**433 382**

As at 31 December 2020, the Bank maintained customer deposit balances of EUR 16 697 thousand which were reserved by the Bank as collateral for loans and other credit instruments granted by the Bank (as at 31 December 2019: EUR 14 874 thousand).

As at 31 December 2020 the Bank had 1 customer group with deposits exceeding 10% of the total customer deposits – EUR 78 001 thousand (as at 31 December 2019 the Bank had no customers/customer groups with deposits exceeding 10% of the total customer deposits).

30. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: SUBORDINATED DEBT SECURITIES

Subordinated bonds have a fixed term at their origination. Subordinated bonds are repayable before maturity only on winding up or bankruptcy of the Bank. Subordinated bonds rank before shareholders' claims.

This issue is offered to a limited number of investors and it does not represent a public offer in the understanding of the Financial Instruments Market Law of Latvia.

Issued subordinated bonds

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Issued subordinated bonds	10 480	10 480	20 495	20 495
Accrued interest payments	430	430	483	483
Total	**10 910**	**10 910**	**20 978**	**20 978**

The table below summarises issued bonds with the following maturities and carrying amount:

ISIN	Currency	Issue size	Par value	Date of issue	Date of maturity	Discount/ coupon rate, %	Group/ Bank 31/12/2020	Group/ Bank 31/12/2019
Subordinated bonds								
LV0000801629	EUR	10 000	1 000	25.11.2014	28.11.2021	6.0	-	10 000
LV0000801611	USD	10 000	1 000	25.11.2014	28.11.2021	6.0	-	15
LV0000801728	EUR	20 000	1 000	16.04.2015	24.04.2022	6.0	10 480	10 480
Issued debt securities, total ('000 EUR)							**10 480**	**20 495**

Additional Tier 1 debt securities

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Additional Tier 1 debt securities	400	400	-	-
Accrued interest payments	8	8	-	-
Total	**408**	**408**	**-**	**-**

The table below summarises issued bonds with the following maturities and carrying amount:

ISIN	Currency	Issue size	Par value	Date of issue	Date of maturity	Discount/ coupon rate, %	Group/ Bank 31/12/2020	Group/ Bank 31/12/2019
Additional Tier 1 debt securities								
LV0000802437	EUR	100	100 000	19.10.2020	-	10%	400	-
Additional Tier 1 debt securities, total ('000 EUR)							**400**	**-**

Reconciliation of movements of liabilities to cash flows arising from financing activities (bonds)

		Liabilities
EUR	**Note**	**Bonds issued**
Balance at 1 January 2020		**20 978**
Change from financing cash flows		
Bonds issued		400
Repayments for bonds issued		(10 015)
Total changes from financing cash flows		**(9 615)**
The effect of changes in foreign exchange rates		2
Liability - related		
Interest expense	6	870
Interest paid		(917)
Total liability-related other changes		**-**
Balance at 31 December 2020		**11 318**

		Liabilities
EUR	**Note**	**Bonds issued**
Balance at 1 January 2019		**21 167**
Change from financing cash flows		
Repayments for bonds issued		(187)
Total changes from financing cash flows		**(187)**
The effect of changes in foreign exchange rates		-
Liability - related		
Interest expense	6	1 239
Interest paid		(1 241)
Total liability-related other changes		-
Balance at 31 December 2019		**20 978**

31. OTHER LIABILITIES

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Other financial liabilities				
Credit card payments	19	19	266	266
Money in transit	50	50	24	24
Shor term liabilities	43	43	12	12
Other liabilities, balances of closed customers' accounts	349	349	408	408
Other non-financial liabilities				
Operating and other liabilities	17	17	17	18
Tax settlements	28	28	43	43
VAT payable	-	-	4	4
Other liabilities related to contrition work	38	3	51	-
	544	**509**	**825**	**775**

32. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Group and Bank	2020 EUR'000		2019 EUR'000	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Assets				
Future contracts	67	37 247	24	41 949
Total derivative financial assets	**67**	**37 247**	**24**	**41 949**
Liabilities				
Future contracts	80	37 260	160	42 085
Total derivative liabilities	**80**	**37 260**	**160**	**42 085**

As at 31 December 2020 the Bank had 6 outstanding foreign exchange forward contracts (in 2019 – 5 contracts).

33. SHARE CAPITAL AND RESERVES

As of 31 December 2019, the authorized share capital comprised 28 209 653 ordinary shares (2018: 28 209 653 ordinary shares). As at 31 December 2019, share capital comprised 28 209 653 shares with total nominal value of EUR 39 493 514.20. Nominal value of one share is EUR 1.40. The structure of shareholders holding ordinary shares did not change. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the shareholders' meetings. All shares rank equally with regard to the Bank's residual assets.

	2020		2019	
	Quantity	EUR'000	Quantity	EUR'000
Share capital				
Ordinary shares with voting rights	28 209 653	39 493	28 209 653	39 493
	28 209 653	**39 493**	**28 209 653**	**39 493**

The statutory reserve of EUR 24 thousand is not subject to any restrictions and can be distributed to the shareholders following an appropriate decision.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the legislation of Latvia. In accordance with the legislation of the Republic of Latvia, the amount of reserves available for distribution at the reporting date is EUR 32 649 thousand (2019: EUR 28 944 thousand).

During 2020, dividends were not distributed.

During 2019, 6.4 million EUR dividends were distributed, 0.23 EUR per share.

Reconciliation of movements of liabilities to cash flows arising from financing activities (dividend)

EUR	Note	Liabilities Dividends
Balance at 1 January 2019		**-**
Dividend declared		6 400
Change from financing cash flows		
Dividend paid		(6 400)
Total changes from financing cash flows		**(6 400)**
Balance at 31 December 2019		**-**

34. CASH AND CASH EQUIVALENTS

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash and balances due from central banks	113 003	113 003	90 703	90 703
Due from credit institutions on demand and within 3 months	24 561	24 528	24 870	24 835
Due to credit institutions on demand and within 3 months	(8 885)	(8 885)	(3 099)	(3 099)
Total cash and cash equivalents	**128 679**	**128 646**	**112 474**	**112 439**

35. CONTINGENT LIABILITIES AND COMMITMENTS

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed to completely perform as contracted.

	2020		2019	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Unused loan facilities	70 952	70 952	49 912	49 912
Unused credit card facilities	1 374	1 380	1 767	1 773
Guarantees	1 442	1 442	1 593	1 593
	73 768	**73 774**	**53 272**	**53 278**
Provisions	*(196)*	*(197)*	*(95)*	*(96)*

The total contractual amounts of the above loan commitments may differ from the cash flow that may actually be required in future as these commitments may expire before they are claimed.

Group EUR'000, 2020

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Contingent liabilities and commitments, Gross	71 924	1 744	100	73 768
Allowance for impairment	(129)	(7)	(60)	(196)
Net	**71 795**	**1 737**	**40**	**73 572**

Bank EUR'000
2020

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Contingent liabilities and commitments, Gross	71 930	1 744	100	73 774
Allowance for impairment	(130)	(7)	(60)	(197)
Net	**71 800**	**1 737**	**40**	**73 577**

Group EUR'000,
2019

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Contingent liabilities and commitments, Gross	52 791	473	8	53 272
Allowance for impairment	(86)	(1)	(8)	(95)
Net	**52 705**	**472**	**-**	**53 177**

Bank EUR'000
2019

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Contingent liabilities and commitments, Gross	52 797	473	8	53 278
Allowance for impairment	(87)	(1)	(8)	(96)
Net	**52 710**	**472**	**-**	**53 182**

Movements in the impairment allowance of contingent liabilities and commitments

Movements in the loan impairment allowance for the year ended 31 December 2020 are as follows:

Group EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2020	**86**	**1**	**8**	**95**
Transfers due to change in credit risk:				
-from Stage 1 to Stage 2)	(1)	1	-	-
-from Stage 1 to Stage 3)	(1)	-	1	-
-remaining credit risk changes	(58)	(5)	53	(10)
New originated or purchased	187	8	-	195
Derecognised	(76)	-	(8)	(84)
Change for the year	**51**	**4**	**46**	**101**
FX and other movements	(8)	2	6	(-)
Closing balance at 31 December 2020	**129**	**7**	**60**	**196**

Bank EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2019	**87**	**1**	**8**	**96**
Transfers due to change in credit risk:				
-from Stage 1 to Stage 2)	(1)	1	-	-
-from Stage 1 to Stage 3)	(1)	-	1	-
-remaining credit risk changes	(58)	(5)	53	(10)
New originated or purchased	187	8	-	195
Derecognised	(76)	-	(8)	(84)
Change for the year	**51**	**4**	**46**	**101**
FX and other movements	(8)	2	6	(-)
Closing balance at 31 December 2019	**130**	**7**	**60**	**197**

Movements in the impairment allowance of contingent liabilities and commitments

Movements in the loan impairment allowance for the year ended 31 December 2019 are as follows:

Group EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2019	**190**	**10**	**-**	**200**
Transfers due to change in credit risk:				
-to lifetime (from Stage 1 to Stage 2)	(2)		2	-
-remaining credit risk changes	(119)	(16)	6	(129)
New originated or purchased	103	6	-	109
Derecognised	(80)	-	-	(80)
Change for the year	**(98)**	**(10)**	**8**	**(100)**
FX and other movements	(6)	1	-	(5)
Closing balance at 31 December 2019	**86**	**1**	**8**	**95**

Bank EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2019	**190**	**10**	**-**	**200**
Transfers due to change in credit risk:				
-to lifetime (from Stage 1 to Stage 2)	(2)		2	-
-remaining credit risk changes	(118)	(16)	6	(128)
New originated or purchased	103	6	-	109
Derecognised	(80)	-	-	(80)
Change for the year	**(97)**	**(10)**	**8**	**(99)**
FX and other movements	(6)	1	-	(5)
Closing balance at 31 December 2019	**87**	**1**	**8**	**96**

36. LITIGATION

Management is unaware of any other significant actual, pending or likely claims against the Bank and its subsidiaries.

37. ASSETS AND LIABILITIES UNDER MANAGEMENT

	2020		2019	
Assets under management	**Group EUR'000**	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Due from credit institutions registered in Latvia	7 164	7 164	242 405	242 405
Due from foreign credit institutions	-	-	4 894	4 894
Loans to customers	165	165	2 063	2 063
Non fixed income securities	11 199	11 199	13 436	13 436
Fixed income securities	1 718	1 718	5 053	5 053
Other assets	4	4	526	526
Total assets under management	**20 250**	**20 250**	**268 377**	**268 377**
Liabilities under management				
Non-resident trust liabilities	6 353	6 353	16 136	16 136
Resident trust liabilities	13 897	13 897	252 241	252 241
Total liabilities under management	**20 250**	**20 250**	**268 377**	**268 377**

The largest share of assets under management were invested in non-fixed income securities and due from credit institutions registered in Latvia . Assets under management include loans granted on a trust basis (trust loans) made on behalf of a third party (the beneficiary).

38. RELATED PARTY TRANSACTIONS

Related parties are defined as shareholders who have a significant influence over the Bank (parent company), members of the Council and the Board and Other related parties, that are companies in which parent company and members of the Council and the Board have a controlling interest, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated and related companies. All transactions with related parties have been carried out at an arm's length.

Loans, deposits and other claims and liabilities to related parties include the following:

	2020		2019	
	Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Loans to related parties	5 896	5 896	5 003	5 003
incl. members of the Council and the Board	*2 353*	*2 353*	*1 258*	*1 258*
incl. relatives of members of the Council and the Board	*1 103*	*1 103*	*1 346*	*1 346*
incl. companies related to members of the Council and the Board	*2 440*	*2 440*	*2 399*	*2 399*
Impairment allowance	(126)	(126)	(99)	(99)
Net loans to related parties	5 770	5 770	4 904	4 904
Other investments – debt securities	8 125	8 125	5 047	5 047
Right-of-use assets – lease contracts	-	11 250	-	11 914
Total loans and other claims	**13 895**	**25 145**	**9 951**	**21 865**
Term and demand deposits and loans	80 568	82 129	4 894	6 110
incl. from the parent company	*1 009*	*1 009*	*134*	*134*
incl. from subsidiaries	-	*1 561*	-	*1 216*
incl. from the members of the Council and Board	*1 068*	*1 068*	*1 061*	*1 061*
incl. relatives of members of the Council and the Board	*2 625*	*2 625*	*552*	*552*
incl. companies related to members of the Council and the Board	*76 476*	*76 476*	*3 147*	*3 147*
Lease liability	-	11 557	-	12 074
Total deposits and liabilities	**80 568**	**93 686**	**4 894**	**18 184**

Contingent liabilities and commitments	**4 421**	**4 427**	**1 023**	**1 029**

	2020		2019	
	Group Interest rate %	Bank Interest rate %	Group Interest rate %	Bank Interest rate %
Loans to related parties	2.57	2.57	2.17	2.17
Term and demand deposits	-0.37	-0.37	0.00	0.00

Remuneration to the member of Council and Board during 2020 amounted to EUR 662 thousand (2019: EUR 615 thousand) (see Note 11).

	2020		2019	
Income from related party transactions	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Commission revenue	350	352	103	112
Interest income	144	144	84	84
Other income	-	-	-	4
Expenses from related party transactions				
Commission expenses	1	1	3	3
Interest expense (Lease liabilities)	-	362	-	377
Rent payments	-	334	1	295
Other expenses	2	2	15	30

39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The table below reflects the maturity analysis of financial assets and liabilities based on the contractual term from the reporting date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as at 31 December 2019 was as follows:

2020 EUR'000	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	5 years and over, or no maturity	Total EUR'000
Financial assets							
Cash and demand deposits with central banks	113 003	-	-	-	-	-	**113 003**
Deposits with credit institutions	24 528	-	-	-	-	-	**24 528**
Trading financial assets	2 839	-	-		-	-	**2 839**
Loans and receivables	38 448	15 678	7 071	37 360	189 896	14 737	**303 190**
Investment securities	106 291	297	1 296	3 623	5 739	107 410	**224 656**
Other financial assets	19	-	-	-	-	6 799	**6 818**
Total financial assets	**285 128**	**15 975**	**8 367**	**40 983**	**195 635**	**128 946**	**675 034**
Financial liabilities							
Due to central banks	-	-	-	-	74 900	-	**74 900**
Demand deposits with credit institutions	8 681	-	-	-	-	-	**8 681**
Trading financial liabilities	80	-	-	-	-	-	**80**
Financial liabilities carried at amortized cost	224 424	74 143	106 241	113 875	39 338	569	**558 590**
Other financial liabilities	461	-	-	-	-	-	**461**
Total financial liabilities	**233 646**	**74 143**	**106 241**	**113 875**	**114 238**	**569**	**642 712**
Maturity gap	**51 482**	**(58 168)**	**(97 874)**	**(72 892)**	**81 397**	**128 377**	**32 322**
Contingent liabilities and commitments	**73 774**	**-**	**-**	**-**	**-**	**-**	**73 774**

The table below reflects the maturity analysis of financial assets and liabilities based on the contractual term from the reporting date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as at 31 December 2019 was as follows:

2019 EUR'000	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	5 years and over, or no maturity	Total EUR'000
Financial assets							
Cash and demand deposits with central banks	90 703	-	-	-	-	-	**90 703**
Deposits with credit institutions	24 835	-	-	-	-	-	**24 835**
Trading financial assets	11 854	33	3	9 161	130	-	**21 181**
Loans and receivables	42 969	11 884	11 416	41 419	133 396	8 240	**249 324**
Investment securities	75 978	120	906	605	11 093	-	**88 702**
Other financial assets	163	-	-	-	-	12 842	**13 005**
Total financial assets	**246 502**	**12 037**	**12 325**	**51 185**	**144 619**	**21 082**	**487 750**
Financial liabilities							
Demand deposits with credit institutions	3 099	-	-	-	-	-	**3 099**
Trading financial liabilities	160	-	-	-	-	-	**160**
Financial liabilities carried at amortized cost	184 863	46 091	82 499	81 459	59 163	472	**454 547**
Other financial liabilities	710	-	-	-	-	-	**710**
Total financial liabilities	**188 832**	**46 091**	**82 499**	**81 459**	**59 163**	**472**	**458 516**
Maturity gap	**57 670**	**(34 054)**	**(70 174)**	**(30 274)**	**85 456**	**20 610**	**29 234**
Contingent liabilities and commitments	**53 278**	**-**	**-**	**-**	**-**	**-**	**53 278**

The maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

The negative gap positions are managed in accordance with the Bank's Liquidity risk management policy. There are limits for maturity gap positions, which are set and monitored by the Bank's Investment committee.

40. FINANCIAL RISK MANAGEMENT

Liquidity risk (Bank)

Residual contractual maturities of financial liabilities of the Bank are presented below. The amounts disclosed in the tables are the contractual undiscounted cash flows in comparison with the carrying amounts of financial liabilities The Group's residual contractual maturities of financial liabilities have not been presented as the difference to the Bank's analysis is insignificant.

EUR'000

31 December 2020	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1– 3 months	3 months to 1 year	1-5 years and more
Non-derivative liabilities						
Due to central banks	74 900	(73 859)	31	63	281	(74 234)
Demand deposits with credit institutions	8 681	(8 681)	(8 681)	-	-	-
Lease liabilities	11 557	(14 916)	(73)	(146)	(659)	(14 038)
Financial liabilities carried at amortized cost: deposits	547 272	(549 239)	(224 699)	(74 612)	(220 594)	(29 334)
Financial liabilities carried at amortized cost: subordinated debt securities	11 318	(12 187)	(56)	(111)	(902)	(11 118)
Total non-derivative liabilities	**653 728**	**(658 882)**	**(233 478)**	**(74 806)**	**(221 874)**	**(128 724)**
Derivative liabilities						
Trading: outflow	14 769	(14 769)	(14 769)	-	-	-
Trading: inflow	(14 689)	14 689	14 689	-	-	-
Total derivative liabilities	**80**	**(80)**	**(80)**	**-**	**-**	**-**
Unused loan and credit card commitments	72 332	(72 332)	(72 332)	-	-	-
Guarantees given	1 442	(1 442)	(1 442)			-
Total Liabilities	**727 582**	**(702 736)**	**(277 332)**	**(74 806)**	**(221 874)**	**(128 724)**

EUR'000

31 December 2019	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1– 3 months	3 months to 1 year	1-5 years and more
Non-derivative liabilities						
Demand deposits with credit institutions	3 099	(3 099)	(3 099)	-	-	-
Lease liabilities	12 074	(15 795)	(73)	(146)	(659)	(14 917)
Financial liabilities carried at amortized cost: deposits	433 569	(435 844)	(185 135)	(46 586)	(165 054)	(39 069)
Financial liabilities carried at amortized cost: subordinated debt securities	20 978	(23 618)	(102)	(205)	(922)	(22 389)
Total non-derivative liabilities	**469 720**	**(478 356)**	**(188 409)**	**(46 937)**	**(166 635)**	**(76 375)**
Derivative liabilities						
Trading: outflow	38 459	(38 459)	(38 459)	-	-	-
Trading: inflow	(38 299)	38 299	38 299	-	-	-
Total derivative liabilities	**160**	**(160)**	**(160)**	**-**	**-**	**-**
Unused loan and credit card commitments	51 685	(51 685)	(51 685)	-	-	-
Guarantees given	1 593	(1 593)	(1 593)			-
Total Liabilities	**523 158**	**(531 794)**	**(241 847)**	**(46 937)**	**(166 635)**	**(76 375)**

41. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The Latvian banking legislation requires that the total foreign currency open position may not exceed 20% of the equity.

The EUR equivalent of assets and liabilities as at 31 December 2019 by the currencies in which they are denominated is as follows:

2020 EUR'000	EUR EUR'000	USD EUR'000	Other currencies EUR'000	Total EUR'000
Financial assets				
Cash and demand deposits with central banks	112 980	19	4	**113 003**
Loans and receivables from banks	11 268	10 278	2 982	**24 528**
Trading financial assets	1 825	1 014	-	**2 839**
Loans and receivables	292 355	9 187	1 648	**303 190**
Investment securities	204 426	20 230	-	**224 656**
Other financial assets	4 476	2 044	298	**6 818**
Total financial assets	**627 330**	**42 772**	**4 932**	**675 034**
Financial liabilities				
Due to central banks	(74 900)	-	-	**(74 900)**
Demand deposits with credit institutions	(1 733)	(6 873)	(75)	**(8 681)**
Trading financial liabilities	-	(80)	-	**(80)**
Financial liabilities carried at amortized cost	(524 665)	(30 132)	(3 793)	**(558 590)**
Other financial liabilities	(335)	(104)	(22)	**(461)**
Total financial liabilities	**(601 633)**	**(37 189)**	**(3 890)**	**(642 712)**
Assets (liabilities) arising from currency exchange				
Spot and forward transaction receivables	40 100	35 808	1 508	**77 416**
Spot and forward transaction liabilities	(34 266)	(41 617)	(1 571)	**(77 454)**
Net long/short currency position	**31 531**	**(226)**	**979**	**32 284**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

The currency gap positions are managed in accordance with the Bank's Currency risk management policy. There are limits for currency gap positions.

41. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

The Latvian banking legislation requires that the total foreign currency open position may not exceed 20% of the equity.

The EUR equivalent of assets and liabilities as at 31 December 2019 by the currencies in which they are denominated is as follows:

2019 EUR'000	EUR EUR'000	USD EUR'000	Other currencies EUR'000	Total EUR'000
Financial assets				
Cash and demand deposits with central banks	90 671	30	2	**90 703**
Loans and receivables from banks	14 863	7 195	2 777	**24 835**
Trading financial assets	17 581	3 600	-	**21 181**
Loans and receivables	237 318	9 830	2 176	**249 324**
Investment securities	79 449	9 253	-	**88 702**
Other financial assets	10 418	2 326	261	**13 005**
Total financial assets	**450 300**	**32 234**	**5 216**	**487 750**
Financial liabilities				
Demand deposits with credit institutions	(651)	(2 448)	-	**(3 099)**
Trading financial liabilities	-	(160)	-	**(160)**
Financial liabilities carried at amortized cost	(421 204)	(29 389)	(3 954)	**(454 547)**
Other financial liabilities	(574)	(108)	(28)	**(710)**
Total financial liabilities	**(422 429)**	**(32 105)**	**(3 982)**	**(458 516)**
Assets (liabilities) arising from currency exchange				
Spot and forward transaction receivables	38 650	40 161	831	**79 642**
Spot and forward transaction liabilities	(38 459)	(39 295)	(1 874)	**(79 628)**
Net long/short currency position	**28 062**	**995**	**191**	**29 248**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

The currency gap positions are managed in accordance with the Bank's Currency risk management policy. There are limits for currency gap positions.

42. REPRICING MATURITY ANALYSIS (BANK)

Interest rate risk relates to the changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2020, interest rate re-pricing categories were:

2020 EUR'000	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Non interest bearing	Total EUR'000
FINANCIAL ASSETS								
Cash and demand deposits with central banks	112 315	-	-	-	-	-	688	**113 003**
Loans and receivables from banks	-	-	-	-	-	-	24 528	**24 528**
Trading financial assets	67	-	-	-	-	-	2 772	**2 839**
Investment securities	32 343	-	10 889	8 933	140 760	22 689	9 042	**224 656**
Loans and receivables	238 425	16 401	3 148	23 544	19 564	127	1 981	**303 190**
Other financial assets	-	-	-	-	-	-	6 818	**6 818**
Total financial assets	**383 150**	**16 401**	**14 037**	**32 477**	**160 324**	**22 816**	**45 829**	**675 034**
FINANCIAL LIABILITIES								
Due to central banks	-	-	-	-	74 900	-	-	**74 900**
Demand deposits with credit institutions	-	-	-	-	-	-	8 681	**8 681**
Trading financial liabilities	80	-	-	-	-	-	-	**80**
Financial liabilities carried at amortized cost	199 299	73 565	105 226	113 300	39 109	400	27 691	**558 590**
Other financial liabilities	-	-	-	-	-	-	461	**461**
Total financial Liabilities	**199 379**	**73 565**	**105 226**	**113 300**	**114 009**	**400**	**36 833**	**642 712**
Interest rate risk net position	**183 771**	**(57 164)**	**(91 189)**	**(80 823)**	**46 315**	**22 416**	**8 996**	**32 322**
Interest rate risk gross (cumulative) position	**183 771**	**126 607**	**35 418**	**(45 405)**	**910**	**23 326**	**32 322**	**64 644**

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

42. REPRICING MATURITY ANALYSIS (BANK) (continued)

Interest rate risk relates to the changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2019, interest rate re-pricing categories were:

2019 EUR'000	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Non interest bearing	Total EUR'000
FINANCIAL ASSETS								
Cash and demand deposits with central banks	89 928	-	-	-	-	-	775	**90 703**
Loans and receivables from banks	-	-	-	-	-	-	24 835	**24 835**
Trading financial assets	5 023	-	40	45	7 805	1 837	6 431	**21 181**
Investment securities	-	15 000	4 896	3 367	62 274	-	3 165	**88 702**
Loans and receivables	185 436	10 314	7 051	26 734	18 560	135	1 094	**249 324**
Other financial assets	-	-	-	-	-	-	13 005	**13 005**
Total financial assets	**280 387**	**25 314**	**11 987**	**30 146**	**88 639**	**1 972**	**49 305**	**487 750**
FINANCIAL LIABILITIES								
Demand deposits with credit institutions	-	-	-	-	-	-	3 099	**3 099**
Trading financial liabilities	160	-	-	-	-	-	-	**160**
Financial liabilities carried at amortized cost	156 671	45 777	81 645	80 925	58 874	-	30 655	**454 547**
Other financial liabilities	-	-	-	-	-	-	710	**710**
Total financial Liabilities	**156 831**	**45 777**	**81 645**	**80 925**	**58 874**	**-**	**34 464**	**458 516**
Interest rate risk net position	**123 556**	**(20 463)**	**(69 658)**	**(50 779)**	**29 765**	**1 972**	**14 841**	**29 234**
Interest rate risk gross (cumulative) position	**123 556**	**103 093**	**33 435**	**(17 344)**	**12 421**	**14 393**	**29 234**	**58 468**

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

43. MAXIMUM CREDIT ANALYSIS

The Bank's maximum exposure to credit risk is set out below. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Maximum credit exposure

		Gross maximum credit exposure	
	Notes	Bank	Bank
At 31 December		**2020**	**2019**
EUR'000			
Cash and balances with central banks	15	113 003	90 703
Loans and receivables from banks	16	24 528	24 835
Trading financial assets	17, 32	2 839	21 181
Investment securities	19, 21	224 656	88 702
Loans and receivables	20	303 190	249 324
Other financial assets	26	6 818	13 005
Total financial assets		**675 034**	**487 750**
Unused loan facilities	35	70 952	49 912
Unused credit card facilities	35	1 380	1 773
Guarantees	35	1 442	1 593
Total guarantees and commitments		**73 774**	**53 278**
Total maximum credit risk exposure		**749 574**	**540 594**

The maximum credit risk exposure analysis of the Group is not significantly different from that of the Bank disclosed above.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management. Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Limits. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review

Credit risks policies are presented in Note 4.1.

44. CAPITAL ADEQUACY CALCULATION (BANK)

	2020 EUR'000	2019 EUR'000
Tier 1		
Share capital	39 493	39 493
Statutory reserves	24	24
Retained earnings for the previous periods	28 944	22 998
Profit for the reporting period	3 705	5 946
Dividends declared	0	-4 000
Changes on application of IFRS 9	2 652	1 885
Revaluation reserve – financial assets	122	28
Other reserves	-2074	-2378
Intangible assets	-550	-860
Other deductions	-63	-54
Reduction of Tier 1 capital (Pillar 2 adjustments)	-185	-56
Additional Tier 1	400	
Total Tier 1	**72 468**	**63 026**
Subordinated debt	3 333	9 799
Reduction of Tier 2 capital (Pillar 2 adjustments)	0	0
Tier 2 capital	**3 333**	**9 799**
Equity	**75 801**	**72 825**
Risk-weighted value		
Banking portfolio	428 186	368 362
Trading portfolio	6 817	31 800
Operating risk	44 938	57 851
Total risk exposure amount loan adjustment	8	14
Total risk weighted assets	**479 949**	**458 027**
Total capital as a percentage of risk weighted assets (total capital ratio)	**15.79%**	**15.90%**
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	**15.10%**	**13.76%**

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

As at 3l December 2020, the Bank's capital adequacy ratio was 15.79% (2019: 15.90%) which corresponds to the requirements set in the Basel Capital Accord and the regulations of the FCMC of Latvia. Under the capital requirements introduced by Regulation (EU) No 575/2013 of the European Parliament and of the Council and the FCMC banks need to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. Although the minimum required level as at 31 December 2020 was 8%, according to a special request by the FCMC the Bank was required to ensure a higher capital adequacy of 10.20% during the period from 21 April 2020 In addition to the above capital requirement for the overall risk coverage, the Bank is required to maintain compliance with the total capital reserve requirement calculated in accordance with Section 35^{22}, 35^{23}, 35^{24} or 35^{25} of the Credit Institution Law -2.51% (Capital conservation buffer – 2.50%, institution-specific countercyclical capital buffer – 0.1% (as at 31.12.2020. The requirements of the total capital reserve should be met using Tier 1 capital.

During the years 2020 and 2019 as of 31 December of these years the Bank and the Group were in compliance with the capital adequacy and the minimum capital requirement specified in the Law On Credit Institutions and the rules of the FCMC, as well as in compliance with the higher ratio required by the FCMC.

In addition to the calculation of the capital adequacy ratio in accordance with 'Normative regulations on establishing a capital and liquidity adequacy assessment process' No. 209 of the FCMC, the Bank regularly conducts its own internal capital adequacy assessment in order to ensure that it covers all the risks assumed by the Bank and whether they are covered by the capital.

In accordance with Regulation (EU) of the European Parliament and of the Council 575/2013, the calculation of capital adequacy is performed at the consolidated level, including the parent company of the bank (AS BBG). All of the above requirements are also met at the consolidated level. CALCULATION OF CAPITAL ADEQUACY at the consolidated level can be found on the Bank's website in the section "financial information" in the quarterly financial report (https://www.blueorangebank.com/lv/finansu-informacija)

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

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

The Group and the Bank

31 December 2020	**Published price quotations (1)**	**Valuation techniques based on market observable inputs (2)**	**Valuation techniques based on unobservable inputs (3)**	**Total**
Financial assets				
Financial assets designated as at fair value through profit or loss:				
Fixed income securities	-	-	-	**-**
Non fixed income securities	2 772	573	-	**3 345**
Derivatives	-	67	**-**	**67**
Financial assets measured at fair value through other comprehensive income				
Fixed income securities	49 945	-	3 135	**53 080**
Non fixed income securities and shares	6 179	46	218	**6 443**
	58 896	**686**	**3 353**	**62 935**
Financial liabilities				
Derivatives	-	80	**-**	80
	-	**80**	**-**	**80**

31 December 2019	**Published price quotations (1)**	**Valuation techniques based on market observable inputs (2)**	**Valuation techniques based on unobservable inputs (3)**	**Total**
Financial assets				
Financial assets designated as at fair value through profit or loss:				
Fixed income securities	6 767	998	8 143	**15 908**
Non fixed income securities	6 247	862	-	**7 109**
Derivatives	-	24	**-**	**24**
Financial assets measured at fair value through other comprehensive income				
Fixed income securities	31 822	-	-	**31 822**
Non fixed income securities and shares	-	37	218	**255**
	44 836	**1 921**	**8 361**	**55 118**
Financial liabilities				
Derivatives	-	160	**-**	160
	-	**160**	**-**	**160**

Included in category "Published price quotations" (Level 1) are financial assets and liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices.

Included in category 2 "Valuation methods based on market observable data" are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument or based on available market data.

Not based upon market observable (Level 3) input means that fair values are determined in whole or in part using a valuation technique (model) base on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

The following table shows the valuation techniques used in measuring Level 2 fair values:

Type	Valuation technique
Financial assets and liabilities designated as at fair value through profit or loss.	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.
Financial assets measured at fair value through other comprehensive income	Valuation is based on financial indicators, including discounted cash flows and value of Bank's position with the price hedge

The following table shows the valuation techniques used in measuring Level 3 fair values:

Type	Valuation method	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Assets at fair value through profit or loss (illiquid bonds)	Valuation is based on financial indicators, including discounted cash flows.	Net assets	The estimated fair value would increase (decrease), if: Increase/(decrease) in net assets
Financial assets at fair value through profit or loss	Outlook of the court case and estimated proceeds	Court case's order	The estimated fair value would increase (decrease) if: Positive (negative) court case's order
Financial assets measured at fair value through other comprehensive income	Valuation is based discounted dividend model	Future net revenues; CAPEX	The estimated fair value would increase (decrease) if: revenue increases/ (decreases/ CAPEX decreases/ (increases)

Changes in financial instruments of the Group/Bank classified as Level 3 in Fair Value Hierarchy:

31.12.2020

Financial assets at fair value	31.12.2019	Acquired (sold)	Fair value adjustment	31.12.2020
Fixed income securities	**8 143**	(5 008)	-	**3 135**
Non fixed income securities	**218**	-	-	**218**
Total financial assets at fair value	**8 361**	**(5 008)**	**-**	**3 353**

31.12.2019 Financial assets at fair value	31.12.2018	Acquired	Fair value adjustment	31.12.2019
Fixed income securities	**5 711**	2 432	-	**8 143**
Non fixed income securities	**218**	-	-	**218**
Total financial assets at fair value	**5 929**	**2 432**	**-**	**8 361**

The table below analyses the fair values of financial instruments other than measured at fair value by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2020	Level 1: EUR'000	Level 2: EUR'000	Level 3: EUR'000	Total fair value EUR'000	Total carrying amount EUR'000
Financial assets					
Cash and demand deposits with central bank	688	112 315	-	113 003	113 003
Loans and receivables from banks	-	-	24 528	24 528	24 528
Loans to customers	-	-	307 186	307 186	303 190
Investment securities	160 427	-	6 681	167 108	164 560
Other financial assets			6 818	6 818	6 818
Financial liabilities					
Balances due to central bank			74 900	74 900	74 900
Deposits and balances due to financial institutions	-	-	8 681	8 681	8 681
Financial liabilities carried at amortized cost	-	-	559 340	559 340	558 590
Other financial liabilities			461	461	461

31 December 2019	Level 1: EUR'000	Level 2: EUR'000	Level 3: EUR'000	Total fair value EUR'000	Total carrying amount EUR'000
Financial assets					
Cash and demand deposits with central bank	775	89 928	-	90 703	90 703
Loans and receivables from banks			24 835	24 835	24 835
Loans to customers			251 083	251 083	249 324
Investment securities	54 446	-	1 317	55 763	54 764
Other financial assets	-	-	13 005	13 005	13 005
Financial liabilities					
Deposits and balances due to financial institutions	-	-	3 099	3 099	3 099
Financial liabilities carried at amortized cost			454 865	454 865	454 547
Other financial liabilities	-	-	710	710	710

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

Type	Valuation method	Significant unobservable inputs
Loans and advances due from financial institutions	Discounted cash flows	Discount rates
Loans	Discounted cash flows	Discount rates
Due to financial institutions	Discounted cash flows	Discount rates
Deposits	Discounted cash flows	Discount rates

46. EVENTS AFTER THE REPORTING PERIOD

Other than disclosed in these financial statements, no significant subsequent events have occurred in the period from the reporting date to the date of these financial statements that would require adjustments to be made to these financial statements and disclosures added to the notes thereto.

In 4th quarter of 2020, the Financial and Capital Markets Commission carried out the regular review of the Bank's activities aimed at assessing the quality, adequacy and scope of the collective impairment models and the credit risk, as well as the methods used by the Bank to manage that risk, and assessing the compliance of the Bank's activities with the laws and regulations of the Republic of Latvia, the regulations of the European Union, the regulations, instructions and other regulatory enactments issued by the Bank of Latvia and the Commission. At the time of the preparation of the financial statements for the year 2020, the above-mentioned recommendations for improving the performance of the Bank were not yet received. Having received and reviewed the recommendations, the Bank will prepare and coordinate an action plan with the Financial and Capital Markets Commission in order to improve the performance of the Bank.