BlueOrange
20 years together

AS BlueOrange Bank

Group's Consolidated and Bank's Separate Annual Report for the year ended 31 December 2021

CONTENT

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 Bank successfully continues to provide financial and lending services to Latvian companies

Restrictions imposed under the influence of the Covid-19 pandemic have been a serious challenge for the business sector for two years. But, despite the still existing difficulties in many industries, in 2021 there was already a stabilization of business and adjustment to changing circumstances. In the 20th year of its activity, the Bank successfully carried out its activities in a semi-remote mode, having also succeeded in implementing its business strategy and developing defined priorities.

According to audited data, the Bank ended 2021 with a profit of EUR 9.8 million (2020: EUR 3.7 million). The Bank's total operating income amounted to EUR 27 million (2020: EUR 20 million) during the reporting period. The Bank's equity amounted to EUR 79.4 million (2020: EUR 70.2 million). The Bank's total assets have increased by 22.9% or EUR 166 million, reaching EUR 893 million at the end of 2021 (2020: EUR 726 million).

At the end of 2021, the Bank's liquidity reached 90% (2020: 80%). Other key financial performance indicators of the Bank were successful as well – return on equity (ROE) 13.6% (2020: 5.5%) and return on assets (ROA) 1.2% (2020: 0.6%).

In 2021, the Bank purposefully continued to work in its strategic priority business line — servicing and financing of businesses, which was also demonstrated by the increase in lending: at the end of the year, the total loan portfolio was EUR 344 million, which represents a 14% increase compared to the previous year. Out of that, new loans issued in 2021 amounted to EUR 134 million, which resulted in a 30% increase of lending income compared to the previous year. 90% of loans issued during the reporting period were granted to Latvian and Baltic companies. Thus, the Bank has contributed to both the development of individual industries 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. It should be noted that the Bank's loan portfolio already contains several sustainable projects aimed at protecting the environment and climate.

Appreciating the role of small and medium-sized enterprises in the recovery and growth of the Latvian economy, the Bank continued to develop its SME lending program for this business segment, ensuring the availability of financial resources. SME lending accounted for 86% of the Bank's total lending in 2021. Of these, several projects were implemented in successful cooperation with the state-owned development finance institution ALTUM.

The Bank focused on improving financial services for legal entities, which resulted in 33% increase of the number of domestic clients – legal entities. At the end of the reporting period, the share of clients based in Latvia, Baltic States and Europe in the total client portfolio accounted for 98%.

The provision of digital services under various restrictions over the past year has proved to be an important factor in serving clients. Targeted introduction of new technologies with an emphasis on offering online services gave the Bank certain advantages. Since July 2021, the Bank ensures opening of business accounts remotely for both domestic entrepreneurs and companies registered in the countries of the European Economic Area, as well as in Switzerland and the UK. Thus, BlueOrange is the first bank in Latvia to provide businesses with an opportunity to open a current account with improved identification options and on such a wide geographical scale. Remote deposits solutions are also available, making the Bank's financial services even more accessible and convenient.

In this regard, we can say that the Bank continues to strengthen its position in the market, increase the number of corporate clients and strengthen its potential as a financial institution.

Last year, the Bank continued to cooperate with a number of European fintech companies and payment institutions, expanding the range of partners and sources of deposits. Thanks to effective cooperation with deposit platforms and diversification of funding sources, the Bank reduced interest expenses on deposits by 15%, while increasing the amount of term deposits.

In 2021, the Bank started actively offering corporate clients risk hedging services using derivatives. Since the Bank has long-term successful cooperation with companies in various industries, whose activities are subject to adverse fluctuations in the prices of the company's manufactured or marketed products or raw materials, the Bank offers a solution, helping to develop an appropriate strategy for limiting price risks. This helps to reduce the company's dependence on the global market conditions, maintain the level of margins and more successful development of the company.

During the reporting period, significant investments were made in improving e-commerce processes. With the development of the new payment system, the Bank considerably increased its competition in acquiring payment cards online, which contributed to a 46% increase in the number of e-commerce clients.

To increase the quality of customer service and the efficiency of the Bank's operation, a new incoming call centre system was introduced last year, while legal entities now have their own online cabinet.

In 2021, the Bank continued to prioritise all risk management and compliance issues. The Bank continued improving its internal processes and information systems in the area of risk management for the prevention of money laundering and terrorism and proliferation financing and sanctions risk management, meanwhile improving its client transaction monitoring and due diligence procedures. During the reporting period, substantial resources were allocated to the improvement and control of internal processes, such as credit risk management and asset quality assessment, as well as the introduction of the latest versions of AML/CFTP systems is continuously ongoing.

At the end of last year, the FCMC, in accordance with the Law on Credit Institutions, named institutions that correspond to the status of "other systemically important financial institutions" in the area of finance in Latvia, including BlueOrange Bank in this list. This means that the Bank has achieved a significant level in its growth through its targeted work and investment in the Latvian financial market. At the same time, this high rating also imposes additional requirements on the Bank, introduction of stricter norms and criteria, which is a necessary factor for the future growth of the Bank.

Considering the fact that maintaining lending rates is an essential instrument for warming up the national economy, the Bank, in line with its business strategy, will retain funding for domestic companies as a priority also in 2022, with a particular focus on projects aimed at reducing environmental impacts, green energy, development of environmentally friendly materials, recycling and other solutions, following the common objective in the context of European climate change and energy efficiency.

As at issuance of the annual report the Board proposes to distribute part of the profit amounting to EUR 3.5 million as dividends and the rest to keep as retained earnings to strengthen the capital position of the Group.

On behalf of the Bank,

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

3 March 2022

Council and Board of the Bank

Council as of 31 December 2021

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 2021

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

3 March 2022

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 15 to 104 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2021 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 2021 and the results of its operations and cash flows for the year ended 31 December 2021.

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*

3 March 2022

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 15 to 104 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 2021, 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 3 March 2022.

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 2021;
- the Group's Consolidated and the Bank's Separate Statements of Other Comprehensive Income for the year ended 31 December 2021;
- the Group's Consolidated and the Bank's Separate Statements of Financial Position as at 31 December 2021;
- 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, its parent company and subsidiaries are in accordance with the applicable law and regulations in the 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, its parent company and subsidiaries, in the period from 1 January 2021 to 31 December 2021, are disclosed in Note 11 to the financial statements.

Our audit approach

Overview

- Overall Bank and Group materiality: EUR 700 thousand, which represents approximately 1% of net assets of the Bank and the Group.

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

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and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	Overall materiality applied to the Bank and the Group was EUR 700 thousand.
How we determined it	Approximately 1% of the Bank's and the Group's net assets at 31 December 2021.
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 35 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.

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 both timing of recognition of expected credit losses and their extent. 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 expected credit losses 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 2021 expected credit losses amounted to EUR 4 114 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. We analysed PD and LGD applied by the Group and the Bank. We involved auditor's expert to assess ECL model and recalculate the final credit loss allowance for loans and advances to legal entities assessed on collective basis. We reviewed a selection of loans from COVID-19 affected industries to evaluate reasonableness of staging as at 31 December 2021. We also reviewed and assessed the post-model expert credit adjustments applied as at 31 December 2021. Finally, we have reviewed the credit risk disclosures.

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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 3 to 5 of the accompanying Annual Report;
- information on Council and Board of the Bank, as set out on page 6 of the accompanying Annual Report; and
- Statement of Management's Responsibility, as set out on page 7 of the accompanying Annual Report,

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

Our opinion on the financial statements does not cover the other information identified above, including the Report of the 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 of the Republic of Latvia and 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". 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 and information on Council and Board 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 this other information that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

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

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

In preparing the financial statements, management is responsible for assessing the Bank's 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.

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- 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's shareholders' resolution on 28 November 2018. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of 4 years.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
3 March 2022

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

	Note	2021		2020	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Interest income		24 591	24 591	19 969	19 969
From those income at effective interest rate		*24 448*	*24 448*	*19 879*	*19 879*
Interest expenses		(6 851)	(7 197)	(7 817)	(8 179)
Net interest income	6	**17 740**	**17 394**	**12 152**	**11 790**
Fee and commission income		7 298	7 299	5 986	5 987
Fee and commission expense		(1 989)	(1 989)	(1 991)	(1 991)
Net fee and commission income	7	**5 309**	**5 310**	**3 995**	**3 996**
Net profit from trading and revaluation of financial instruments	8	1 437	1 437	1 440	1 440
Net foreign exchange income	9	1 889	1 889	1 799	1 800
Other operating income	10	1 070	1 006	1 108	1 102
Total operating income		**27 445**	**27 036**	**20 494**	**20 128**
Administrative expenses	11	(13 935)	(13 198)	(13 744)	(12 963)
Other operating expenses	12	(1 895)	(1 876)	(1 696)	(1 635)
Credit loss allowances	18,19,20	(2 188)	(2 187)	(1 845)	(1 817)
Net impairment reversal	13	7	-	-	-
Total operating expenses		**(18 011)**	**(17 261)**	**(17 285)**	**(16 415)**
Profit before taxation		**9 434**	**9 775**	**3 209**	**3 713**
Corporate income tax	14	(9)	(9)	(8)	(8)
Profit for the year		**9 425**	**9 766**	**3 201**	**3 705**

The accompanying notes on pages 22 to 104 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 15 to 104 on 3 March 2022. 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

3 March 2022

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

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Profit for the year	**9 425**	**9 766**	**3 201**	**3 705**
Other comprehensive income				
Items that may be reclassified to profit or loss				
Foreign exchange revaluation reserve	(1)	-	1	-
Revaluation reserve – financial assets at fair value through other comprehensive income (debt instruments)	(339)	(339)	410	410
Total items that may be reclassified to profit or loss	**(340)**	**(339)**	**411**	**410**
Items that will not be reclassified to profit or loss				
Revaluation reserve – financial assets at fair value through other comprehensive income (equity instruments)	(253)	(253)	9	9
Total items that will not be reclassified to profit or loss	**(253)**	**(253)**	**9**	**9**
Other comprehensive (loss)/income	**(593)**	**(592)**	**420**	**419**
Total comprehensive income	**8 832**	**9 174**	**3 621**	**4 124**

The accompanying notes on pages 22 to 104 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 15 to 104 on 3 March 2022. 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

3 March 2022

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

Assets	Note	2021		2020	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash and demand deposits with central bank	15	270 118	270 118	113 003	113 003
Loans and receivables from banks	16	34 444	34 426	24 561	24 528
Demand deposits with credit institutions		*34 303*	*34 285*	*24 561*	*24 528*
Term deposits with credit institutions		*141*	*141*	-	-
Trading financial assets		1 601	1 601	2 839	2 839
Non fixed income securities	*17*	*1 524*	*1 524*	*2 772*	*2 772*
Derivatives	*17*	*77*	*77*	*67*	*67*
Investment securities	18,20	185 208	185 208	224 656	224 656
Fixed income securities		*184 339*	*184 339*	*217 640*	*217 640*
Non fixed income securities		*869*	*869*	*7 016*	*7 016*
Loans and receivables	19	344 178	344 179	303 190	303 190
Investments in associates	21	827	-	827	-
Investments in subsidiary undertakings	21	-	31 256	-	31 099
Investment property	22	2 691	1 388	2 751	1 388
Property and equipment	23	25 944	3 809	27 314	4 215
Right-of-use assets	23	-	10 587	-	11 250
Intangible assets	24	352	351	551	550
Prepayments and accrued income	25	1 975	1 972	2 576	2 573
Other assets	26	7 663	7 646	6 836	6 818
Corporate income tax receivable		2	2	8	4
Total assets		**875 003**	**892 543**	**709 112**	**726 113**

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

Liabilities and Equity	**Note**	**2021**		**2020**	
		Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Due to central bank		81 681	81 681	74 900	74 900
Due to credit institutions on demand	27	2 958	2 958	8 681	8 681
Derivatives	32	1	1	80	80
Financial liabilities carried at amortized cost		712 842	715 148	557 028	558 590
Deposits and balances due to credit institutions	*28*	-	-	*204*	*204*
Deposits	*29*	*710 282*	*712 588*	*543 287*	*544 849*
Deposits (subordinated)	*29*	*1 147*	*1 147*	*2 219*	*2 219*
Additional Tier 1 Debt securities (subordinated)		*1 122*	*1 122*	*408*	*408*
Debt securities (subordinated)	*30*	*291*	*291*	*10 910*	*10 910*
Lease liabilities	23	-	11 025	-	11 557
Deferred income and accrued expenses		1 376	1 364	1 377	1 362
Provisions		92	92	196	197
Other liabilities	31	915	863	544	509
Total liabilities		**799 865**	**813 132**	**642 806**	**655 876**
Shareholders' equity					
Share capital	33	44 493	44 493	39 493	39 493
Statutory reserves	33	24	24	24	24
Revaluation reserve – financial assets at fair value through other comprehensive income		(121)	(121)	471	471
Other reserves	33	(3 413)	(2 400)	(3 412)	(2 400)
Retained earnings		34 155	37 415	29 730	32 649
Total equity attributable to equity holders of the Bank		**75 138**	**79 411**	**66 306**	**70 237**
Total equity and liabilities		**875 003**	**892 543**	**709 112**	**726 113**
Contingent liabilities and commitments	35	40 740	40 743	73 768	73 774

The accompanying notes on pages 22 to 104 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 15 to 104 on 3 March 2022. 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

3 March 2022

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

	Note	Share capital	Statutory reserves	Revaluation reserve – FVOCI	Other reserves	Retained earnings	Total equity attributable to equity holders of the parent	Total equity
		EUR`000	EUR`000	EUR`000	EUR'000	EUR`000	EUR`000	EUR`000
Balance as at 31 December 2019		**39 493**	**24**	**52**	**(3 413)**	**26 529**	**62 685**	**62 685**
Othet comprehensive income for the year:								
Revaluation reserve – financial assets		-	-	419	-	-	**419**	**419**
Foreign exchange revaluation reserve		-	-	-	1	-	**1**	**1**
Profit for the year		-	-	-	-	3 201	**3 201**	**3 201**
Total comprehensive income for the year		**-**	**-**	**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**
Increase in share capital		5 000	-	-	-	-	**5 000**	**5 000**
Dividends paid		-	-	-	-	(5 000)	**(5 000)**	**(5 000)**
Other comprehensive income for the year:								
Revaluation reserve – financial assets		-	-	(592)	-	-	**(592)**	**(592)**
Foreign exchange revaluation reserve		-	-	-	(1)	-	**(1)**	**(1)**
Profit for the year		-	-	-	-	9 425	9 425	9 425
Total comprehensive income for the year		**-**	**-**	**(592)**	**(1)**	**9 425**	**8 832**	**8 832**
Balance as at 31 December 2021		**44 493**	**24**	**(121)**	**(3 413)**	**34 155**	**75 138**	**75 138**

The accompanying notes on pages 22 to 104 form an integral part of these financial statements.

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Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

3 March 2022

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

	Note	Share capital	Statutory reserves	Other reserves	Revaluation reserve – FVOCI	Retained Earnings	Total capital and reserves
		EUR`000	EUR`000	EUR`000	EUR'000	EUR`000	EUR`000
Balance as at 31 December 2019		**39 493**	**24**	**(2 400)**	**52**	**28 944**	**66 113**
Other comprehensive income for the year:							
Revaluation reserve –financial assets		-	-	-	419	-	419
Profit for the year		-	-	-	-	3 705	3 705
Total comprehensive income for the year		**-**	**-**	**-**	**419**	**3 705**	**4 124**
Balance at 31 December 2020		**39 493**	**24**	**(2 400)**	**471**	**32 649**	**70 237**
Increase in share capital		5 000	-	-	-	-	5 000
Dividends paid		-	-	-	-	(5 000)	(5 000)
Other comprehensive income for the year:							
Revaluation reserve – financial assets		-	-	-	(592)	-	(592)
Profit for the year		-	-	-	-	9 766	9 766
Total comprehensive income for the year		**-**	**-**	**-**	**(592)**	**9 766**	**9 174**
Balance as at 31 December 2021		**44 493**	**24**	**(2 400)**	**(121)**	**37 415**	**79 411**

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Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

3 March 2022

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

	Note	2021		2020	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash flow from operating activities					
Profit before taxation		**9 434**	**9 775**	**3 209**	**3 713**
Amortisation of intangible assets		275	275	362	362
Depreciation of property, equipment and right-of-use assets		1 432	1 131	1 451	1 151
Revaluation of financial assets		(592)	(592)	312	312
Interest income		(24 591)	(24 591)	(19 969)	(19 969)
Interest expense		7 197	7 197	7 817	8 179
Impairment of assets		2 181	2 187	1 845	1 817
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**(4 664)**	**(4 618)**	**(4 973)**	**(4 435)**
(Increase) in loans and receivables		(43 662)	(43 669)	(54 094)	(54 094)
Decrease/(increase) in investment securities		39 448	39 448	(115 297)	(115 297)
Decrease/(increase) in trading financial assets		1 238	1 238	(2 756)	(2 756)
Decrease/(increase) in prepayments and accrued income		601	601	(2 005)	(2 002)
(Increase)/ decrease in other assets		(816)	(820)	6 196	6 191
Increase in due to central banks		6 781	6 781	74 900	74 900
Increase in deposits and due to banks		166 899	167 439	113 411	113 398
Decrease in held-for-trading financial liabilities		(79)	(79)	(80)	(80)
Interest received		24 943	24 943	18 925	18 925
Interest paid		(7 969)	(7 969)	(8 076)	(8 076)
Increase/(decrease) in other liabilities and current tax liabilities		62	248	(180)	(167)
Increase/(decrease) in deferred income and accrued expenses		(1)	2	45	30
Net cash from operating activities before tax and interest		**182 781**	**183 545**	**26 016**	**26 537**
Corporate income tax paid		(9)	(9)	(6)	(6)
Net cash from operating activities		**182 772**	**183 536**	**26 010**	**26 531**
Cash flows from investment activities					
Purchase of fixed and intangible assets		(143)	(143)	(145)	(145)
Disposal of investment property		60	-	-	-
Capital increase in investment in subsidiaries	21	-	(157)	-	(83)
Capital decrease in investment in subsidiaries	21	-	-	-	81
Net cash (used in) investing activities		**(83)**	**(300)**	**(145)**	**(147)**
Cash flows from financing activities					
Lease liabilities repaid on right-of-use asset		-	(532)	-	(517)
Bonds (repaid)		(10 605)	(10 605)	(10 060)	(10 060)
Bonds issued		700	700	400	400
Share capital increase		5 000	5 000	-	-
Dividends (paid)	33	(5 000)	(5 000)	-	-
Net cash (used in) financing activities		**(9 905)**	**(10 437)**	**(9 660)**	**(10 177)**
Net changes in cash and cash equivalents		**172 784**	**172 799**	**16 205**	**16 207**
Cash and cash equivalents at the beginning of the reporting year		**128 679**	**128 646**	**112 474**	**112 439**
Cash and cash equivalents at the end of the reporting year	34	**301 463**	**301 445**	**128 679**	**128 646**

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Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

3 March 2022

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

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 2021. 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 31.12.2021 %	Holding 31.12.2020 %
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
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 Board member 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 (%) 31.12.2021	Holding (%) 31.12.2020
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 2021.

The Group's consolidated and the Bank's separate financial statements were authorized for issue by the Board on 3 March 2022. 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 fair value through other comprehensive income (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 non-controlling interest 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 2021	31 December 2020
USD	1.1326	1.2271

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 fair value through profit or loss (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 fair value through other comprehensive income (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 fair value through profit or loss (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 investment securities, deposits and balances due to credit institutions, customer deposits, issued debt securities 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 category.

Business model assessment

The Group and the Bankmade 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 Group's and the Bank'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.

Solely payments of principal and interest (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 and the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group and the Bank may write-off financial assets that are still subject to enforcement activity when the Group and the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – modification. The Group and the Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group and the Bank 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 and the Bank 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 and the Bank 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 and the Bank 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 and the Bank 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 Group and the Bank 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 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 2021 and 2020 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/sell-back* transactions. The result of *repo* and *buy/sell-back* 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 50 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 (yacht)	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 are recognised on a transaction date. 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 financial 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 for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

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.

(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 single discount 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.

(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 and the Bank advance money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group and the Bank classify 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 are measured at FVTPL.

(20) Assets under management

Assets managed by the Group and the Bank 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) Investments 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) New IFRS, amendments and interpretations

Standards or interpretations effective for the first time for the annual periods beginning 1 January 2021:

- **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). *Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform:*
  - For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

- End date for Phase 1 relief for non contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

In regards to the fact that beginning on 1 January 2022 LIBOR (London Interbank Offered rate) will no longer be published and will not be applicable to financial instrument transactions and agreements, the Bank's Investment Committee has adopted the following decisions:

- In all the credit transactions where the Base rate is 3, 6 or 12 months LIBOR to ensure its replacement with respective EURIBOR term beginning on 1 January 2022.
- In all the Bank's financial instrument transactions and respective agreements (incl. Loan agreements) in USD currency to replace currently used benchmark rate LIBOR with the BSBY (Bloomberg Short-Term Bank Yield Index) rate.

As of 31 December 2020 the Bank had 149 agreements (both with individuals and legal entities), in which EUR LIBOR floating interest rate was applied, in total amount of EUR 134,8 million and one loan agreement with USD LIBOR Base rate. Total amount of issued loan amount with LIBOR as of 31 December 2020 was EUR 143,8 million, which is 38% from overall loan portfolio as of 31 December 2020. In the Loan agreements it is set that if the Base rate amounts to zero or is negative (with a minus sign) Parties agreed that in such case the amount of the Base rate shall be set as 0.00% (zero point zero zero percent).

Therefore, (while the Base rate amounts to zero) the Bank considers both EUR LIBOR and EURIBOR as a 0.00% Thereby, replacing the base rate EUR LIBOR with EURIBOR have not affected Borrowers' interest payments as well as financial results of the Bank and the Group.

- **Covid-19-Related Rent Concessions – Amendments to IFRS 16** (effective for annual periods beginning on or after 1 June 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 2022 or not yet adopted by the EU

- **Amendments to IFRS 4 – deferral of IFRS 9** (effective for annual periods beginning on or after 1 January 2023).
- **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). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period.
- **Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS9, IFRS16 and IAS 41** (effective for annual periods beginning on or after 1 January 2022).

The Group did not early adopt any standards or amendments before effective date. The management of the Group evaluates new standards and amendments impact on the financial statements of the Group and the Bank.

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 of the Bank. 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 Bank and the Group recognize an allowance for expected credit losses on all loans and other debt financial assets, except financial assets which are valued as 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 7.81% 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 million EUR;
- Outstanding amount of a loan or total amount of loans granted to one specific customer group exceeds 0.5 million 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. Until December 31, 2021, a collective savings model was used, in which 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 1.36% to 17.4% (for Stage 1 loans) and from 7.46% to 33.05% (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.

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

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.

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.

As of December 31, 2021, the Bank has changed the model for calculating collective impairments by applying a statistical model based on historical data of the Bank's credit portfolio for the calculation of PD rates. The Bank calculates PD rates using the Weibull approach, which is widely used in credit institutions of various sizes, both in the domestic and foreign markets. The Weibull approach is particularly well suited for calculating PD rates for portfolios with a low number of historically observed defaults.

The Weibull approach is a PD calculation method that is often used in the industry when other methods based on a larger volume of historical data cannot be applied. For example, if the homogeneous Markov chain approach is not applicable due to insufficient historical data or few default events, the Weibull approach can be applied. With the Weibull approach, historically observed defaults are adjusted (interpolated) to the function curve, resulting in PD rates with relatively small amounts of data.

To calculate PD in accordance with this approach, historical transaction data on the number of new and unique defaults are collected, aggregating the data into homogeneous groups.

Dividing the number of defaults by the total number of transactions in the relevant period, the default rate (DR) and its cumulative values are calculated.

With the Weibull function, historical default data is replicated for each future period and PD cumulative rates are calculated based on the interpolated Weibull curve.

PD rates are calculated for each homogeneous group separately, based on the historical data of the Bank's credit portfolio at the end of each month for at least 36 months, covering data on the Stage classification of each transaction and covering data on exposures assessed both individually and in homogeneous groups and on the number of observed defaults of exposures. If the data does not reflect current market conditions or if historical data is available for a shorter historical period, data for a shorter period of time is used, which is representative of exposures as of the date of ECL calculation.

The Bank models the exposure at default (EAD) every time ECL is calculated based on the payment schedule specified in the agreement and the use of unused credit limits (off-balance sheet obligations). If the Bank does not have access to information on the repayment schedule of the exposure, the Bank makes a reasonable assumption based on the best available information on the actual repayment schedule types for comparable exposures. The Bank estimates the use of unused credit limits by applying the credit conversion factor (CCF). CCF is estimated based on historical data on the proportion of the limit used for credit lines provided by the Bank.

LGD is calculated at the level of homogeneous portfolio groups or the type of pledged asset, and the calculation is updated at least once a year. At least once a year, the Bank analyses whether the factors by which LGD groups are differentiated are relevant and representative for the current portfolio.

LGD is applied to each risk transaction according to its homogeneous group or type of pledged asset. The Bank applies LGD calculated on the basis of assumptions about the adjustment of the value of recoverable funds depending on the type of mortgaged property.

To adjust the ECL with macroeconomic forecasts, the Bank uses the following approaches:

1) Performs statistical calculations that take into account historical correlations between macroeconomic indicators and the observed probability of default, and, based on forecasts of macroeconomic indicators, determines the applicable adjustments for future PD rates;
2) Uses an expert assessment based on historical data or publicly available source data, or uses information provided by third-party assessment experts.

To adjust the PD of the loan portfolio taking into account forward-looking information, the Bank uses a macroeconomic model, which is developed on the basis of the principles of the one-factor stochastic Vasicek model. The model predicts the development of PD rates due to a single market factor that has a significant impact on the probability of default.

To calculate ECL and forecast future PD rates, a baseline scenario is used, supplemented by one or more alternative scenarios reflecting at least one pessimistic scenario, for example, with a probability of occurrence of 85% and 15%, respectively. Alternative scenarios do not necessarily include less likely extreme or stressful scenarios.

The PD and LGD rates are adjusted taking into account the weighted value of all scenarios, using the probability distribution of scenarios as weights.

For ECL calculation, the Bank uses the approach PD*EAD*LGD. The approach focuses on each of the variables PD, EAD and LGD separately, which are applied to each of the exposures, on a monthly cash flow basis, in order to obtain the projected amount of ECL in the months up to the final maturity of the loan.

The loans, collectively assessed by volume, represent 15% of the Bank's total credit portfolio. Out of them,85.9% are classified as Stage 1 loans, 13.9% as Stage 2 loans, and 0.2% as Stage 3 loans.

As a result of the application of the new model and assumptions, compared to the approach used until December 31, 2021, the amount of collective impairments increased by 82.9 thous. EUR or 28%.

(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 2021 and 31 December 2020 and a simplified scenario of a 5% change in the USD to EUR exchange rates is as follows:

	2021		2020	
EUR'000	**Profit or loss**	**Shareholders' equity**	**Profit or loss**	**Shareholders' equity**
5% appreciation of USD against EUR	115	115	(11)	(11)
5% depreciation of USD against EUR	(115)	(115)	11	11

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:

	2021 EUR'000	**2020 EUR'000**
EUR	768	644
USD	(52)	(99)

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.

	2021		2020	
EUR'000	Profit or loss	OCI	Profit or loss	OCI
10% increase in securities prices	-	3 938	-	5 308
10% decrease in securities prices	-	(3 938)	-	(5 308)

(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:

	2021	2020
As at 31 December	96.14%	76.92%

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:

	2021	2020
As at 31 December	166.91%	135.06%

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's Business Continuity Plan (BCP) includes actions and measures to be taken in various crisis situations and related operational risks, including possible events related to disruption of IT and support services, unavailability of critical resources or suppliers. Having assessed the Bank's BCP and operational risks that may arise as a result of the development of the geopolitical situation, we have concluded that the BCP includes the main risks of a possible crisis of the geopolitical situation. The Bank has its own Client Service Centre, which also provides the Bank's clients with cash and settlement operations, as well as, if necessary, the Bank can quickly increase the volumes of on-site customer service. The Bank and the Group has assessed and tested the existing IT infrastructure capacity and defence capacity, especially taking into account the potential of cyber-attacks and concluded that the IT infrastructure capabilities are sufficient to repel the most likely cyber-attacks with acceptable impact. The general testing of the BCP is provided on a regular basis, and within its framework the Bank ensures the provision of critical operational functions.

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 existing business model of the Group and the Bank is aimed at providing financial services to clients, therefore its activities are related to the risk of money laundering and terrorist and proliferation financing, as well as sanctions. Accordingly, the Group and the Bank devote significant efforts to ensure compliance with the requirements of the laws and regulations of the Republic of Latvia, recommendations of international organisations, best practices, as well as other binding regulations in the area of anti-money laundering and combating the financing of terrorism and proliferation (hereinafter – AML/CFTP), as well as prevention of possible violation, circumvention or attempted violation of National, International and OFAC sanctions (hereinafter – Sanctions).

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 of beneficial owners 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 automatically assigned 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 who 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 set out in the regulations. Client files are regularly supplemented and updated with the results of studying client activity and their transactions, as well as documents supporting 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 terrorist and proliferation financing risk and sanctions risk management strategy, which sets out the key principles for managing the risks of money laundering, terrorism and proliferation financing and sanctions (hereinafter – ML/TPF and Sanctions 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/TPF and Sanctions risk, and the available resources, the ML/TPF and Sanctions Risk Management Strategy sets out the ML/TPF risk exposure rates and their maximum permissible limits.

The ML/TPF and Sanctions Risk Management Strategy, AML/CFTP Policy and Sanctions Risk Management Policy establish requirements for such organisational structure fundamentals, which are based on the following principles of three-tier protection and control:

— Tier 1 controls — employees of business structural units in charge of acquiring and servicing customers, ensuring compliance with the 'Know Your Customer' (KYC) and 'Know Your Customer's Customer' (KYCC) principles both when entering into a business relationship with the client and during business relationship. Each employee of the Bank's structural units is responsible for knowing and complying with ML/TPF and Sanctions risk requirements in cooperation with clients, as well as for promoting and respecting the professional internal culture in accordance with the Corporate Ethics Standards Code.

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

— Tier 3 controls are implemented by the Internal Audit Service through independent and regular management of ML/TPF and Sanctions risk and assessment of controls.

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

The Bank's internal control system in the area of ML/TPF and Sanctions risk management is based on the principle of distribution of certain duties and responsibilities between structural units and employees; it defines the criteria for decision-making, establishes a certain responsibility for monitoring the client activities and lays the foundations for the activity of compliance units. To ensure general control and organisation of supervisory measures related to the internal control system, the Bank has established the Client Activity Compliance Committee.

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

In the second half of 2020, in accordance with the requirements of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing, the Bank carried out an assessment of the efficiency of the internal control system in the field of ML/TPF and Sanctions risk management and of the IT system, involving an independent external auditor.

Taking into account the recommendations of the independent auditor, the following measures were taken to improve the internal control system in the field of ML/TPF and Sanctions risk management: the internal regulatory documents were updated, the client risk scoring system was improved, ML/TPF and Sanctions risk scoring methodology and threshold determination methodology were developed, scenarios developed for alerts or messages that are generated in the automated system were improved, and client files were audited.

The implementation of the recommendations of the independent auditor was completed at the end of 2021. In 2021, the Financial and Capital Market Commission introduced "Regulations on the Establishment of Customer Due Diligence, Enhanced Customer Due Diligence and Risk Scoring System and Information Technology Requirements", which entered into force at the beginning of 2021. The recommendations of the independent auditor were implemented in due time.

The Financial and Capital Market Commission (hereinafter – the FCMC) carried out a regular on-site inspection of the Bank in the field of anti-money laundering and terrorism and proliferation financing prevention and sanctions risk management, inspection was conducted from 25 January 2021 to 5 March 2021. The inspection was successfully finalized, that was been confirmed by a written letter issued by FCMC. As of result, FCMC has not identified any substantial shortcomings. All other insignificant shortcomings were accordingly remediated up to the receipt of the FCMC letter. Currently the Bank is developing an action plan for the improvement of the internal control system for the management of money laundering and terrorism and proliferation financing risks as well as sanction risks to ensure development and efficiency of internal control system. Bank continues to follow the statutory requirements stipulated in the laws of the Republic of Latvia as well as international best practice established by reputable international organisations in the field of AML/CFT to ensure efficiency of internal control system in accordance to the highest standards.

(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.

As at 3I December 2021, the Bank's capital adequacy ratio was 16.02% (2020: 15.79%) 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 2021 was 8%, according to a special request by the FCMC the Bank was required to ensure a higher capital adequacy of 11.00% during the period from 28 December 2021 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: 2.50% (Capital conservation buffer – 2.50%, institution-specific countercyclical capital buffer – 0.0% (as at 31.12.2021). The requirements of the total capital reserve should be met using Tier 1 capital.

During the years 2021 and 2020 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 2021 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 Group's and the Bank's management makes significant estimates and judgements in respect of expected credit losses on loans and receivables (see note "Risk management – Credit risk").

The results of the year 2021 showed significant increase in the business activity of the Bank's customers in many industries: in ship industry, woodworking, real estate, wholesale and in other sectors.

All customers who were granted deference for loan payments in 2020, resumed credit payments according to their initial schedules. It is very likely that in 2022, after the trial period, these loans will be reclassified from Stage 2 to Stage 1.

In the hotel industry, situation significantly improved in 2021 compared to 2020: Hotels reached the workload of 85% during the summer period of 2021, which is above the average level of workload in hotel industry even compared to the situation before the COVID pandemic.

As of March 1, 2022, number of COVID-related restrictions in accordance with the government's decision will be cancelled, which certainly will increase the flow of tourists.

Taking into account the rapid growth of the Latvian economy (+4.8% of GDP) and accordingly creditworthiness improvement of the customers whose business was significantly affected by the COVID pandemic in 2020, as well as the general trend toward the cancellation of movement restrictions within the EU and accordingly the recovery of tourism, we estimate that the amount of provisions made at the end of 2021 for expected losses as the maximum, as well as the probability of the losses in the indicated amount related to the COVID, we estimate as low.

6. NET INTEREST INCOME

	2021		2020	
Interest income	**Group EUR'000**	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Interest income from financial assets at amortized cost (loans):	20 980	20 980	16 318	16 318
Deposits with credit institutions	*53*	*53*	*67*	*67*
Loans and receivables	*20 927*	*20 927*	*16 251*	*16 251*
including interest income on impaired loans	*1 470*	*1 470*	*463*	*463*
Interest income from financial assets at fair value through profit or loss	-	-	172	172
Interest income from financial assets measured at fair value through other comprehensive income	80	80	108	108
Interest income from financial assets measured at amortised cost (fixed income securities)	1 805	1 805	2 236	2 236
Other interest income	1 726	1 726	1 135	1 135
Total interest income	**24 591**	**24 591**	**19 969**	**19 969**
Interest expense				
Interest expense from liabilities measured at amortized cost:	3 009	3 009	3 539	3 539
Deposits	*3 009*	*3 009*	*3 539*	*3 539*
Interest expense on issued bonds	467	467	870	870
Payments to the Deposit Guarantee Fund and other funds	1 223	1 223	1 095	1 095
Other interest expense	2 152	2 498	2 313	2 675
Total interest expense	**6 851**	**7 197**	**7 817**	**8 179**
Net interest income	**17 740**	**17 394**	**12 152**	**11 790**

7. NET FEE AND COMMISSION INCOME

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Fee and commission income				
Money transfers	1 065	1 066	1 062	1 063
Commissions on loans monitoring and service	623	623	449	449
Securities transactions	2 278	2 278	858	858
Assets management	584	584	471	471
Client service	1 623	1 623	1 947	1 947
Payment card service	1 125	1 125	1 199	1 199
Total fee and commission income	**7 298**	**7 299**	**5 986**	**5 987**
Fee and commission expense				
Money transfers	84	84	105	105
Payment card service	1 492	1 492	1 616	1 616
Securities transactions	392	392	261	261
Other	21	21	9	9
Total fee and commission expenses	**1 989**	**1 989**	**1 991**	**1 991**
Net fee and commission income	**5 309**	**5 310**	**3 995**	**3 996**

8. NET PROFIT FROM TRADING AND REVALUATION OF FINANCIAL INSTRUMENTS

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Net profit from trading with financial assets at fair value through profit or loss	1 468	1 468	2 504	2 504
Net profit from trading with debt financial assets at fair value through other comprehensive income	123	123	5	5
Net profit/(loss) from revaluation of financial assets and liabilities	(154)	(154)	(1 069)	(1 069)
Net profit from trading and revaluation of financial instruments	**1 437**	**1 437**	**1 440**	**1 440**

9. NET FOREIGN EXCHANGE INCOME

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Net profit from foreign exchange transactions	1 960	1 960	1 991	1 991
Net loss from revaluation of foreign exchange	(71)	(71)	(192)	(191)
Net foreign exchange income	**1 889**	**1 889**	**1 799**	**1 800**

10. OTHER OPERATING INCOME

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Fines received	418	418	153	153
Dividends received	138	138	267	267
Other	514	450	688	682
Total other operating income	**1 070**	**1 006**	**1 108**	**1 102**

11. ADMINISTRATIVE EXPENSES

		2021		2020	
	Note	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Salaries to the members of the Board and Council		774	774	768	768
Staff remuneration		5 895	5 753	5 923	5 761
Compulsory state social security contributions (Board and Council)		182	182	185	185
Compulsory state social security contributions		1 374	1 350	1 419	1 394
Other staff costs		27	26	19	17
Communications and transport		230	223	232	226
Professional services		1 628	1 608	1 138	1 123
Rent, public utilities and maintenance		644	619	706	647
Depreciation costs	24	1 432	1 131	1 451	1 151
Amortization costs	25	275	275	362	362
Computer network		403	403	467	467
Advertisement and marketing expenses		106	105	49	48
Other taxes		522	345	523	335
Insurance		106	87	105	87
Audit fee		181	181	276	276
Other		156	136	121	116
Total administrative expenses		**13 935**	**13 198**	**13 744**	**12 963**

The average number of employees in the Group in 2021 was 203 (2020 – 213) and in the Bank was 198 (2020 – 208).

In 2021, the audit fee amounted to EUR 165 thousand, of which EUR 130 thousand was for the audit of the financial statements (consolidated annual report) and EUR 35 thousand for other audit related engagements.

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.

12. OTHER OPERATING EXPENSES

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Membership fees	340	340	333	333
Fees for real estate management	6	8	3	4
Fines	1	1	-	-
Royalties for the use of a trademark	1 159	1 159	1 151	1 151
Other	389	368	209	147
Total other operating expenses	**1 895**	**1 876**	**1 696**	**1 635**

In 2021, as part of its operating activities the Bank made payments of EUR 1 159 thousand (2020: EUR 1 151 thousand) for the use of the registered trademarks BlueOrange and Baltikums to the owner of this trademark (licensor).

13. IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment of assets for the Group

	2021 EUR'000	2020 EUR'000
Total allowances as at the beginning of the reporting period	**3 772**	**3 772**
Increase in the impairment allowance for other assets	-	-
Release of allowances for investment property	(7)	-
(Reversal)/change for the year	**(7)**	**-**
Investment property written off during the reporting year	(157)	-
Other assets written off during the year	-	-
Total allowance as at the end of the reporting period*	**3 608**	**3 772**

* including impairment for Repossessed collaterals 2,576 thousand EUR (see Note 22), other assets 11 thousand EUR (see Note 26) and investments in associates 1,021 thousand EUR (see Note 21).

Impairment of assets for the Bank

	2021 EUR'000	2020 EUR'000
Total allowances as at the beginning of the reporting period	**5 474**	**5 474**
Increase in the impairment allowance for other assets	-	-
Release of allowances for other assets	-	-
(Reversal)/change for the year	**-**	**-**
Repossessed collaterals written off during the reporting year	-	-
Other assets written off during the year	-	-
Total allowance as at the end of the reporting period*	**5 474**	**5 474**

* including impairment for Repossessed collaterals 1,607 thousand EUR (see Note 22) and investments in subsidiaries 3,867 thousand EUR (see Note 21).

14. CORPORATE INCOME TAX

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Corporate income tax for the conditionally distributed profit	(9)	(9)	(8)	(8)
Total corporate income tax	**(9)**	**(9)**	**(8)**	**(8)**

According to the 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 2021 as the Group and the Bank have full discretion on the distribution decisions.

15. CASH AND DEMAND DEPOSITS WITH CENTRAL BANK

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash	951	951	688	688
Balance with the Bank of Latvia (including the minimum reserve deposit)	269 167	269 167	112 315	112 315
Total	**270 118**	**270 118**	**113 003**	**113 003**

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 2021 was EUR 6 488 thousand (2020: EUR 5 231 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

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Demand deposits with credit institutions				
Credit institutions registered in Latvia	76	76	77	77
Credit institutions registered in OECD countries	31 414	31 397	19 170	19 137
Credit institutions of other countries	2 813	2 812	5 314	5 314
Total demand deposits with credit institutions	**34 303**	**34 285**	**24 561**	**24 528**
Term deposits with credit institutions	**141**	**141**	**-**	**-**
Total deposits with credit institutions	**34 444**	**34 426**	**24 561**	**24 528**

The Group and the Bank did not have significant exposures on the credit institutions in Russia or Ukraine. The Group and the Bank have performed preliminary measures to reduce exposures with potential risks related to the war in Ukraine and sanctions against Russia and therefore sees no significant potential losses due to it.

As at 31 December 2021, the Bank had demand deposits of 1 750 thousand EUR with credit institutions registered in Russia (at 31 December 2020 – 3 975 thousand EUR). As at 1 March 2022 the Bank's deposits with Russian banks amounted to EUR 453 thousand.

Deposits with credit institutions 2021

Group, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	34 444	-	-	34 444
(Less) allowance for impairment	-	-	-	-
Net	**34 444**	**-**	**-**	**34 444**

Deposits with credit institutions 2021

Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	34 426	-	-	34 426
(Less) allowance for impairment	-	-	-	-
Net	**34 426**	**-**	**-**	**34 426**

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**

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

	2021 EUR'000	2020 EUR'000
Rated from AAA to A-	11 554	5 890
Rated from BBB+ to BBB-	1 351	1 857
Rated from BB+ to BB-	6	1 089
Rated below BB-	181	86
Not rated	21 193	15 606
Total deposits with credit institutions	**34 285**	**24 528**

As at 31 December 2021, the Bank had correspondent accounts with 16 banks (2020: 15). The largest account balances exceeding 10% of total deposits with credit institutions were with EUROCLEAR BANK – 6 906 thousand EUR (2020 – 3 520 thousand EUR), ED AND F MAN CAPITAL MARKETS LIMITED – 6 351 thousand EUR (2020 – 815 thousand EUR), AK JENSEN LIMITED – 6 111 thousand EUR (2020 – 1 867 thousand EUR), DUKASCOPY BANK SA – 4 836 thousand EUR (2020 – 4 793 thousand EUR) and ERSTE GROUP BANK AG – 3 696 thousand EUR (2020 – 1 444 thousand EUR).

As at 31 December 2021, EUR 1 267 thousand was pledged with ED AND F MAN CAPITAL MARKETS LIMITED.

17. TRADING FINANCIAL ASSETS

Financial assets at fair value through profit or loss

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Investment funds (OECD)	1 087	1 087	1 669	1 669
Investment funds (non-OECD)	-	-	417	417
Non-fixed income securities issued by companies of OECD countries	437	437	686	686
Derivatives	77	77	67	67
Total	**1 601**	**1 601**	**2 839**	**2 839**

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

	2021 EUR'000	2020 EUR'000
Non-fixed income securities		
Rated from AAA to A-	-	401
Rated from BBB+ to BBB-	98	105
Rated from BB+ to BB-	110	181
Rated from B+ to B-	40	-
Not rated	1 276	2 085
Total non-fixed income securities	**1 524**	**2 772**
Derivatives	**77**	**67**
Total	**1 601**	**2 839**

18. INVESTMENT SECURITIES

Financial assets measured at fair value through other comprehensive income

	2021		2020	
	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
Fixed income securities issued by financial institutions of Latvia	3 135	3 135	3 175	3 175
Fixed income securities issued by credit institutions of Latvia	1 998	1 998	-	-
Fixed income securities issued by corporates of Latvia	379	379	-	-
Fixed income securities issued by central governments of OECD countries	19 225	19 225	19 457	19 457
Fixed income securities issued by credit institutions of OECD countries	14 542	14 542	-	-
Fixed income securities issued by corporates of OECD countries	103	103	15 292	15 292
Fixed income securities issued by corporates of non-OECD countries	-	-	1 183	1 183
Total fixed income securities - Debt securities*	**39 382**	**39 382**	**53 080**	**53 080**
Shares and other non-fixed income securities – Equity securities				
Shares of Viduskurzemes AAO SIA	218	218	218	218
SWIFT shares	18	18	46	46
iShares J.P. Morgan USD EM Bonds	-	-	6 179	6 179
Total of shares and other securities with non-fixed income – Equity securities	**236**	**236**	**6 443**	**6 443**
Total	**39 618**	**39 618**	**59 523**	**59 523**
Impairment allowance	**(111)**	**(111)**	**(121)**	**(121)**

Financial assets measured at fair value through profit and loss

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Shares and other non-fixed income securities				
Shares in VISA INC	633	633	573	573
Total of shares and other securities with non-fixed income	**633**	**633**	**573**	**573**

Investment securities

	2021		2020	
	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	18	18	46	46
VISA INC	633	633	573	573
Non- fixed income securities	**869**	**869**	**7 016**	**7 016**
Fixed income securities				
At fair value through other comprehensive income	39 382	39 382	53 080	53 080
At amortised cost (see Note 20)	144 957	144 957	164 560	164 560
Fixed income securities	**184 339**	**184 339**	**217 640**	**217 640**
Investment securities total	**185 208**	**185 208**	**224 656**	**224 656**

Financial assets measured at fair value through other comprehensive income (fixed income securities), 2021

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	**39 382**	**-**	**-**	**39 382**
Allowance for impairment	(111)	-	-	(111)
Net	**39 271**	**-**	**-**	**39 271**

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**

Information about credit loss allowances, 2021

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 2021	**121**	**-**	**-**	**121**
Transfers due to change in credit risk:				
-remaining credit risk changes	(12)	-	-	(12)
New originated or purchased	19	-	-	19
Derecognised	(18)	-	-	(18)
Change for the year	**(11)**	**-**	**-**	**(11)**
FX and other movements	1	-	-	1
Closing balance at 31 December 2021	**111**	**-**	**-**	**111**

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 2020	**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 2020	**121**	**-**	**-**	**121**

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

Fixed income securities	2021 EUR'000	2020 EUR'000
Fixed income securities issued by central governments of Latvia		
Rated from AAA to A-	-	13 973
Total fixed income securities issued by central governments of Latvia	**-**	**13 973**
Fixed income securities issued by financial institutions institutions of Latvia		
Not rated	3 135	3 175
Total fixed income securities issued by financial institutions of Latvia	**3 135**	**3 175**
Fixed income securities issued by credit institutions of Latvia		
Rated from BBB+ to BBB-	1 998	-
Total fixed income securities issued by credit institutions of Latvia	**1 998**	**-**
Fixed income securities issued by corporates of Latvia		
Not rated	379	-
Total fixed income securities issued by corporates of Latvia	**379**	**-**
Fixed income securities issued by central governments of OECD countries		
Rated from AAA to A-	19 225	17 440
Rated from BB+ to BB-	-	2 017
Total fixed income securities issued by central governments of OECD countries	**19 225**	**19 457**
Fixed income securities issued by credit institutions of OECD countries		
Rated from AAA to A-	14 542	-
Total fixed income securities issued by credit institutions of OECD countries	**14 542**	**-**

Fixed income securities issued by corporates of OECD countries		
Rated from AAA to A-	-	14 859
Rated from BB+ to BB-	103	-
Rated below BB-	-	433
Total fixed income securities issued by corporates of OECD countries	**103**	**15 292**
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	**39 382**	**53 080**
Impairment allowance	**(111)**	**(121)**

Shares and other non-fixed income securities		
Shares and other non-Fixed income securities issued by corporates of Latvia		
Not rated	218	218
Total shares and other non-fixed income securities issued by corporates of Latvia	**218**	**218**
Shares and other non-Fixed income securities issued by corporates of OECD countries		
Not rated	18	6 225
Total shares and other non-fixed income securities issued by corporates of OECD	**18**	**6 225**
Total shares and other non-fixed income securities	**236**	**6 443**

19. LOANS AND RECEIVABLES

(a) Loans

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Financial institutions	9 944	9 944	6 966	6 966
Corporates	323 562	323 563	286 164	286 164
Individuals	14 786	14 786	15 239	15 239
Total loans and receivables	**348 292**	**348 293**	**308 369**	**308 369**
Impairment allowance				
Financial institutions	(13)	(13)	(11)	(11)
Corporates	(3 845)	(3 845)	(4 371)	(4 371)
Individuals	(256)	(256)	(797)	(797)
Total impairment allowance	**(4 114)**	**(4 114)**	**(5 179)**	**(5 179)**
Net loans and receivables	**344 178**	**344 179**	**303 190**	**303 190**

b) Analysis of loans by type

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Loan portfolio				
Corporate loans	140 047	140 047	101 303	101 303
Industrial loans	11 963	11 963	15 687	15 687
Payment cards loans	1 010	1 011	1 997	1 997
Mortgage loans	183 122	183 122	134 087	134 087
Finance lease	4 824	4 824	1 777	1 777
Trade finance	892	892	389	389
Other loans	4 492	4 492	53 064	53 064
Total loan portfolio	**346 350**	**346 351**	**308 304**	**308 304**
Securities-backed loans				
Securities-backed financing	1 942	1 942	65	65
Total securities-backed loans	**1 942**	**1 942**	**65**	**65**
Total loans and receivables	**348 292**	**348 293**	**308 369**	**308 369**
Impairment allowance	(4 114)	(4 114)	(5 179)	(5 179)
Net loans and receivables	**344 178**	**344 179**	**303 190**	**303 190**

(c) Geographical segmentation of loans

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Loans to residents of Latvia	258 798	258 798	224 888	224 888
Loans to residents of OECD countries	59 607	59 607	60 778	60 778
Loans to residents of non-OECD countries	29 887	29 888	22 703	22 703
Total loans and receivables	**348 292**	**348 293**	**308 369**	**308 369**
Impairment allowance	(4 114)	(4 114)	(5 179)	(5 179)
Net loans and receivables	**344 178**	**344 179**	**303 190**	**303 190**

The Group and the Bank has no direct exposures (loans) on entities or individuals in Russia or in Ukraine and the Group and the Bank sees no significant potential credit risk losses due to the war in Ukraine.

(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: Less than 30 days	31-90 days	91-180 days	More than 180 days	Net carrying amount of overdue loans
As at 31 December 2021							
Net carrying amount	**344 179**	330 937	541	329	4	12 368	13 242
Out of which impaired	**26 417**	14 043	1	1	4	12 368	12 374
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

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

Impairment allowance, 2021

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	**247 743**	**70 850**	**29 700**	**348 293**
(Less) impairment allowance	(363)	(468)	(3 283)	(4 114)
Net	**247 380**	**70 382**	**26 417**	**344 179**

Impairment allowance, 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) impairment allowance	(383)	(1 885)	(2 911)	(5 179)
Net	**201 989**	**92 396**	**8 805**	**303 190**

(e) Impaired loans

	2021 EUR '000		2020 EUR '000	
	Group	Bank	Group	Bank
Impaired loans, gross	**29 700**	**29 700**	**11 716**	**11 716**
Impairment allowance	(3 283)	(3 283)	(2 911)	(2 911)
Net loans and receivables	**26 417**	**26 417**	**8 805**	**8 805**

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 2021 is as follows.

	Over-collateralised assets		Under-collateralised assets	
EUR'000	**Carrying value of the assets**	**Value of collateral**	**Carrying value of the assets**	**Value of collateral**
Loans to corporate customers	**25 400**	**43 428**	**961**	**1 510**
Loans to SME	25 400	43 428	961	1 510
Loans to individuals	**8**	**42**	**48**	**-**
Consumer loans	-	-	29	-
Credit cards	5	7	19	-
Mortgage loans	3	35	-	-

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

	Over-collateralised assets		Under-collateralised assets	
EUR'000	**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**	**-**	**-**
Mortgage loans	225	411	-	-

(f) Movements in the impairment allowance

Movements in the loan impairment allowance for the year ended 31 December 2021 are as follows:

Group and Bank, EUR'000

Corporates

	Credit loss allowance				Gross carrying amount of loans			
	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 2021	**269**	**1 878**	**2 235**	**4 382**	**189 974**	**92 341**	**10 815**	**293 130**
Transfers due to change in credit risk:								
-to lifetime (from Stage 1 and Stage 3 to Stage 2)	(1)	1	-	**-**	(1 788)	1 788	-	**-**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(4)	(1 277)	1 281	**-**	-	(26 212)	26 212	**-**
-remaining credit risk changes	(117)	(213)	2 753	**2 423**	67 441	(5 044)	(2 132)	**60 265**
New originated or purchased	159	49	0	**208**	28 159	7 086	3	**35 248**
Derecognised	(65)	(23)	(169)	**(257)**	(48 222)	(1 575)	(2 223)	**(52 020)**
Change for the year	**(28)**	**(1 463)**	**3 865**	**2 374**	**45 590**	**(23 957)**	**21 860**	**43 493**
Write-offs	-	-	(3 116)	**(3 116)**	-	-	(3 116)	**(3 116)**
FX and other movements	(1)	5	213	**217**	-	-	-	**-**
Closing balance at 31 December 2021	**240**	**420**	**3 197**	**3 857**	**235 564**	**68 384**	**29 559**	**333 507**

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 2021 while the amount of derecognised loans represent loans in the portfolio as at 1 January 20201and derecognised during 2021.

Individuals

	Credit loss allowance				Gross carrying amount of loans			
	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 2021	**114**	**7**	**676**	**797**	**12 399**	**1939**	**901**	**15 239**
Transfers due to change in credit risk:								
-to lifetime (from Stage 1 ans Stage 3 to Stage 2)	(5)	6	(1)	**-**	(375)	585	(210)	**-**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	(5)	5	**-**	(42)	(15)	57	**-**
-remaining credit risk changes	(6)	102	3	**99**	(797)	173	2	**(622)**
New originated or purchased	33	-	13	**46**	2 302	-	-	**2 302**
Derecognised	(15)	(1)	(4)	**(20)**	(1 308)	(157)	-	**(1 465)**
Change for the year	**7**	**102**	**16**	**125**	**(220)**	**586**	**(151)**	**215**
Write-offs	-	(59)	(609)	**(668)**	-	(59)	(609)	**(668)**
FX and other movements	2	(2)	3	**3**	-	-	-	**-**
Closing balance at 31 December 2021	**123**	**48**	**86**	**257**	**12 179**	**2 466**	**141**	**14 786**

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 2021 while the amount of derecognised loans represent loans in the portfolio as at 1 January 2021 and derecognised during 2021.

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 of loans			
	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	**-**
-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 of loans			
	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	**-**
-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 2020	**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.

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

	2021 EUR '000	2020 EUR '000
Water transport	44 810	37 294
Financial services	1 098	64
Wholesale	44 125	54 259
Real Estate	106 540	94 987
Overdrafts	24 826	14 270
Transport and storage	13 378	6 387
Private customers – mortgage loans and consumer loans	11 848	13 145
Manufacture of food products	11 126	3 604
Processing factory	14 773	17 000
Forestry	1 074	946
Other services	70 581	61 234
Net loans and receivables	**344 179**	**303 190**

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

EUR'000	31 December 2021	% of loan portfolio	31 December 2020	% of loan portfolio
Commercial buildings	135 657	39	134 122	45
Real estate – first mortgage	36 203	11	22 453	7
Commercial assets pledge	94 219	27	64 922	21
Commercial assets: water transport	28 523	8	24 305	8
Trading securities	1 942	1	616	-
Guarantee	-	-	7	-
Deposit	10 681	3	9 077	3
Inventories	20 003	6	41 527	14
Other, no collateral	16 951	5	6 161	2
Net loans and receivables	**344 179**	**100**	**303 190**	**100**

EUR'000	2021		2020	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Stage 1	247 380	551 443	201 989	295 599
Stage 2	70 382	167 062	92 396	104 186
Stage 3	26 417	44 980	8 805	9 185
Total	**344 179**	**763 485**	**303 190**	**408 970**

(j) Restructured loans

As at 31 December 2021 and 2020, the loans restructured by the Group and the Bank possessed the following signs of restructuring:

EUR'000	2021 EUR '000	2020 EUR '000
Reduced interest rate	-	596
Interest capitalization	10 479	17 972
Grace period/payment moratorium	45 608	55 045
Extension of maturity/term	11 858	14 501
Other	4 913	4 433
Total restructured loans	**72 858**	**92 547**

(l) Significant credit exposures

As at 31 December 2021 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 2020 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 2021 and 2020, the Bank was in compliance with this requirement.

20. INVESTMENT SECURITIES AT AMORTISED COST

Financial assets measured at amortised cost (IFRS 9)

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Fixed income securities				
Fixed income securities issued by the government of LR	1 036	1 036	7 599	7 599
Fixed income securities issued by companies and credit institutions of LR	6 658	6 658	9 182	9 182
Fixed income securities issued by the government of OECD countries	83 538	83 538	85 048	85 048
Fixed income securities issued by companies and credit institutions of OECD countries	44 229	44 229	45 813	45 813
Fixed income securities issued by the government of other countries	-	-	946	946
Fixed income securities issued by companies and credit institutions of other countries	10 011	10 011	16 570	16 570
Impairment allowance	(515)	(515)	(598)	(598)
Total fixed income securities	**144 957**	**144 957**	**164 560**	**164 560**

Financial assets measured at amortised cost 2021

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	**136 962**	**8 510**	**-**	**145 472**
(Less) impairment allowance	(375)	(140)	-	(515)
Net	**136 587**	**8 370**	**-**	**144 957**

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) impairment allowance	(470)	(128)	-	(598)
Net	**159 364**	**5 196**	**-**	**164 560**

Movements in credit loss allowances, 2021

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening ECL balance at 1 January 2021	**470**	**128**	**-**	**598**
Transfers due to change in credit risk:				-
-from Stage 1 to Stage 2	(15)	15	-	-
-remaining credit risk changes	(17)	10	-	(7)
New originated or purchased	42	34	-	76
Derecognised	(111)	(55)	-	(166)
Change for the year	**(101)**	**4**	**-**	**(97)**
FX and other movements	6	8	-	14
Closing ECL balance at 31 December 2021	**375**	**140**	**-**	**515**

Movements in 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 ECL balance at 1 January 2020	**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 ECL balance at 31 December 2020	**470**	**128**	**-**	**598**

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

Debt securities and other fixed income securities	**2021 EUR'000**	**2020 EUR'000**
Central governments		
Rated from AAA to A-	78 246	64 809
Rated from BBB+ to BBB-	-	23 458
Rated from BB+ to BB-	3 300	4 316
Rated below BB-	-	1 010
No rating	3 028	-
Total central governments	**84 574**	**93 593**
Credit institutions		
Rated from AAA to A-	20 364	-
Rated from BB+ to BB-	1 738	389
No rating	500	-
Total central governments	**22 602**	**389**
Corporates		
Rated from AAA to A-	10 244	30 686
Rated from BBB+ to BBB-	-	2 349
Rated from BB+ to BB-	20 379	19 841
Rated below BB-	-	8 813
No rating	7 673	9 487
Total corporate bonds	**38 296**	**71 176**
Impairment allowance	**(515)**	**(598)**
Debt securities and other fixed income securities	**144 957**	**164 560**

21. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(a) Investments in subsidiaries (Bank)

Company	*Ownership share*	Carrying amount at 31.12.2021 EUR'000	Carrying amount at 31.12.2020 EUR'000
SIA BlueOrange International	*100%*	5 709	5 559
Impairment allowance		*(2 249)*	*(2 249)*
SIA Zapdvina Development	*100%*	11 474	11 474
Impairment allowance		*(806)*	*(806)*
SIA CityCap Service	*100%*	555	555
Impairment allowance		*(158)*	*(158)*
UAB Kamaly Development	*100%*	3	3
AS Pils Pakalpojumi	*100%*	15 281	15 281
Impairment allowance		*(548)*	*(548)*
Non-reciprocal capital contribution by a parent into subsidiary		*(2 400)*	*(2 400)*
SIA Jēkaba 2	*100%*	4 049	4 049
Impairment allowance		*(106)*	*(106)*
SIA Darzciems Entity	*100%*	73	70
SIA Mazirbe Estate	*100%*	92	90
SIA Lielie Zaki	*100%*	88	86
SIA Pulkarne Entity	*100%*	199	199
		31 256	**31 099**

Investments in subsidiaries (Bank)

	31.12.2021. EUR'000	31.12.2020. EUR'000
Investments in subsidiaries	37 523	37 366
Non-reciprocal capital contribution by a parent into subsidiary according to IFRS 10 (AS „Pils pakalpojumi")	(2 400)	(2 400)
Impairment allowance	(3 867)	(3 867)
Investments in subsidiaries net	**31 256**	**31 099**

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 2021, based on the appraisal, no additional impairment allowances were recognised. SIA Zapdvina Development owns a land plot in Daugavpils.

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 2021 impairment allowances were not recognised.

In 2021, the Bank increased the share capital of its subsidiary, SIA BlueOrange International by 150 000 shares with nominal value of EUR 1 for a total of EUR 150 000. After this increase, the share capital of SIA BlueOrange International consisted of 5 686 658 shares with nominal value of EUR 1 amounting to EUR 5 686 658.

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 2021 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 2021, the Bank increased the share capital of its subsidiary, SIA Darzciems Entity by EUR 3,000. After this increase, the share capital of SIA Darzciems Entity consisted of 237 730 shares with nominal value of EUR 1 amounting to EUR 237 730.

The share capital of SIA „Mazirbe Estate" consisted of 199 404 shares with nominal value of EUR 1 amounting to EUR 199 404.

The share capital of SIA „Lielie Zaķi" consisted of 181 013 shares with nominal value of EUR 1 amounting to EUR 181 013.

The share capital of SIA „Pulkarne Entity" consisted of 1 207 352 shares with nominal value of EUR 1 amounting to EUR 1 207 352.

In 2021, SIA BlueOrange International increased the share capital of its subsidiary Foxtran Management Ltd. By EUR 152 thousand.

In 2020, SIA BlueOrange International increased the share capital of its subsidiary Foxtran Management Ltd. By EUR 50 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 31.12.2021 EUR'000 Group**	**Carrying amount at 31.12.2020 EUR'000 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 2021 and 2020 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 2021												
AS Termo biznesa Centrs	**61**	**325**	**386**	**(27)**	**(2)**	**(29)**	**357**	**218**	**(228)**	**(10)**	**93**	**(3)**
31 December 2020												
AS Termo biznesa Centrs	**79**	**329**	**408**	**(28)**	**(4)**	**(32)**	**376**	**239**	**(223)**	**16**	**98**	**4.18**

As losses for 2021 are insignificant they have no impact on the Group results.

22. INVESTMENT PROPERTY

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

	2021		2020	
	Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Real estate in Latvia	1 939	188	2 163	188
Real estate in Lithuania	2 807	2 807	2 807	2 807
Real estate in Bulgaria	521	-	521	-
Impairment allowance	*(2 576)*	*(1 607)*	*(2 740)*	*(1 607)*
	2 691	**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 (2020: 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 (2020: EUR 2 thousand).

The Group and the Bank did not earn any rental income on investment property neither in 2021 nor in 2020.

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 properties

Type	Carrying amount, '000 EUR	Valuation method	Significant unobservable inputs			Correlation between balance sheet data and fair value measurement, EUR '000
				2021	2020	
Buildings and land plot, Kungu iela, Liepāja, Latvia	93 (2020: 60)	Comparison approach	Sales price* varies from EUR to EUR per m^2	21-23,5	14,8-21,18	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Buildings and a land plot, Jurģu iela, Jūrmala, Latvia	95 (2020: 95)	Comparison approach	Sales price* varies from EUR to EUR per m^2	79-112	74,4-106,3	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Klaipeda, Lithuania	1 200 (2020: 1 200)	Comparison approach	Sales price* varies from EUR to EUR per m^2 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 m^2	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 m^2	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Apartments, Bulgaria	328 (2020: 328)	Comparison approach	Sales price* varies from EUR to EUR per m^2	770-1 100	770-1 100	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Mūku purvs, Latvia	387 (2020: 386)	Comparison approach	Sales price* varies from EUR to EUR per m^2	32-56	34,0-48,6	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Akācijas iela, Daugavpils, Latvia	250 (2020: 250)	Comparison approach	Sales price* varies from EUR to EUR per m2	3,6-6,6	4,5-6,6	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot in Ķekavas pagasts, Ķekavas novads, Latvia	170 (2020: 170)	Comparison approach	Sales price* varies from EUR to EUR per m^2	2,2-3,1	2,2-3,1	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot, Kārsavas iela, Riga, Latvia	- (2020: 61)	Comparison approach	Sales price* varies from EUR to EUR per m^2	69,6-71,0	69,6-71,0	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Land plot in Kolkas pagasts, Dundaga novads, Latvia	86 (2020: 86)	Comparison approach	Sales price* varies from EUR to EUR per m^2	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 (2020: 82)	Comparison approach	Sales price* varies from EUR to EUR per m^2	0,54-0,77	0,54-0,77	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Total	**2 691**					

Bank's investment properties

Type	Carrying amount, '000 EUR	Valuation method	Significant unobservable inputs			Correlation between balance sheet data and fair value measurement, EUR '000
				2021	2020	
Buildings and land plot, Kungu iela, Liepāja, Latvia	93 (2020: 60)	Comparison approach	Sales price* varies from EUR to EUR per m^2	21-23,5	14,8-21,18	Fair value would increase (reduce) if the price per m^2 was higher (lower)
Buildings and land plot, Jurģu iela, Jūrmala, Latvia	95 (2020: 95)	Comparison approach	Sales price* varies from EUR to EUR per m^2	79-112	74,4-106,3	Fair value would increase (reduce): if the price per m^2 was higher (lower)
Land plot, Klaipeda, Lithuania	1 200 (2020: 1 200)	Comparison approach	Sales price* varies from EUR to EUR per m^2 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 m^2	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 m^2	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 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**
Additions	-	-	-	-	-	-	62	62	62	62
Disposals	-	-	-	-	-	-	(28)	(28)	(28)	(28)
31 December 2021	**29 311**	**-**	**-**	**4 603**	**1 510**	**67**	**2 580**	**1 905**	**33 401**	**6 575**
Depreciation										
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**
Depreciation	942	-	-	230	144	-	346	238	1 432	**468**
Disposals	-	-	-	-	-	-	(28)	(28)	(28)	(28)
31 December 2021	**4 662**	**-**	**-**	**1 086**	**635**	**67**	**2 160**	**1 613**	**7 457**	**2 766**
Net carrying amount										
31 December 2020	**25 591**	**-**	**-**	**3 747**	**1 019**	**-**	**704**	**468**	**27 314**	**4 215**
31 December 2021	**24 649**	**-**	**-**	**3 517**	**875**	**-**	**420**	**292**	**25 944**	**3 809**

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 2021 and 2020, 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 2019	**12 576**
31 December 2020	**12 576**
31 December 2021	**12 576**
Depreciation	
31 December 2019	**662**
Depreciation	664
31 December 2020	**1 326**
Depreciation	663
31 December 2021	**1 989**
Net carrying amount	
31 December 2020	**11 250**
31 December 2021	**10 587**

Lease liability

31 December 2019	**12 074**
Lease payments	(517)
Interest accrued	362
Interest paid	(362)
31 December 2020	**11 557**
Lease payments	(532)
Interest accrued	347
Interest paid	(347)
31 December 2021	**11 025**

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

	Softwar EUR'000
Acquisition cost	
31 December 2019	**2 703**
Disposed in the reporting period	(46)
Acquired in the reporting period	54
31 December 2020	**2 711**
Disposed in the reporting period	(83)
Acquired in the reporting period	81
31 December 2021	**2 709**
Amortization	
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**
Amortization for the reporting period	275
Amortization of assets disposed in the reporting period	(78)
31 December 2021	**2 357**
Net carrying amount	
31 December 2020	**551**
31 December 2021	**352**

Bank

	Software EUR'000
Acquisition cost	
31 December 2019	**2 684**
Disposed in the reporting period	(46)
Acquired in the reporting period	53
31 December 2020	**2 691**
Disposed in the reporting period	(83)
Acquired in the reporting period	81
31 December 2021	**2 689**
Amortization	
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**
Amortization for the reporting period	275
Amortization of assets disposed in the reporting period	(78)
31 December 2021	**2 338**
Net carrying amount	
31 December 2020	**550**
31 December 2021	**351**

25. PREPAYMENTS AND ACCRUED INCOME

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Next period expense – Resident	95	95	143	143
Next period expense – Non Resident	1 858	1 858	2 412	2 412
Insurance premium	16	16	17	17
Other	6	3	4	1
Prepayments and accrued income total	**1 975**	**1 972**	**2 576**	**2 573**

26. OTHER ASSETS

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Guarantee deposits for credit card operations	5 205	5 205	5 053	5 053
Credit card claims and other payment services	452	452	170	170
Prepayments and receivables	1 040	1 040	842	842
Short term debts	15	15	19	19
Other	962	934	763	734
Total other assets	**7 674**	**7 646**	**6 847**	**6 818**
Allowances for other assets	(11)	-	(11)	-
Other assets, net	**7 663**	**7 646**	**6 836**	**6 818**

In 2021, security deposits of EUR 5 205 thousand (2020: EUR 5 053 thousand) were reserved for potential transactions connected with MasterCard Europe and VISA Card systems.

Movements in the impairment allowance

There was no movement in the impairment allowance of other assets for the year ended 31 December 2021 and 2020.

27. DUE TO CREDIT INSTITUTIONS ON DEMAND

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Credit institutions registered in Latvia	2 408	2 408	8 681	8 681
Credit institutions registered in OECD countries	550	550	-	-
Total due to credit institutions on demand	**2 958**	**2 958**	**8 681**	**8 681**

As at 31 December 2021 the Bank had two credit institution whose account balances exceeded 10% of total deposits on demand with other credit institutions. Total balances of this credit institutions as at 31 December 2021 amounted to EUR 1 055 thousand.

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.

28. DUE TO CREDIT INSTITUTIONS AND CENTRAL BANKS

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Central Bank of Latvia	81 681	81 681	74 900	74 900
Total due to Central banks	**81 681**	**81 681**	**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 be reached.

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Credit institutions registered in Latvia	-	-	204	204
Total due to credit institutions	**-**	**-**	**204**	**204**

29. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: DEPOSITS

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Current accounts:				
Financial institutions	185 854	185 854	80 805	80 805
Corporate entities	127 833	130 139	82 228	83 790
Individuals	52 277	52 277	40 660	40 660
	365 964	**368 270**	**203 693**	**205 255**
Term deposits:				
Subordinate liabilities	1 147	1 147	2 219	2 219
Other financial institutions	44 521	44 521	7 457	7 457
Corporate entities	2 206	2 206	1 053	1 053
Individuals	297 591	297 591	331 084	331 084
	345 465	**345 465**	**341 813**	**341 813**
Total deposits	**711 429**	**713 735**	**545 506**	**547 068**

Geographical segmentation of the deposits

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Deposits of residents registered in Latvia	162 691	164 913	84 728	86 267
Deposits of residents registered in OECD countries	436 170	436 170	415 149	415 149
Deposits of residents registered in other countries (non-OECD)	112 568	112 652	45 629	45 652
Total deposits	**711 429**	**713 735**	**545 506**	**547 068**

As at 31 December 2021, the Bank maintained customer deposit balances of EUR 1 220 thousand which were reserved by the Bank as collateral for loans and other credit instruments granted by the Bank (as at 31 December 2020: EUR 1 817 thousand).

As at 31 December 2021 the Bank had 1 customer group with deposits exceeding 10% of the total customer deposits – EUR 125 596 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).

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

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Issued subordinated bonds	280	280	10 480	10 480
Accrued interest payments	11	11	430	430
Total	**291**	**291**	**10 910**	**10 910**

ISIN	Currency	Issue size	Nominal value	Date of issue	Date of maturity	Discount/ coupon rate, %	Group/ Bank 31/12/2021	Group/ Bank 31/12/2020
Subordinated bonds								
LV0000801728	EUR	20 000	1 000	16.04.2015	24.04.2022	6.0	280	10 480
Issued debt securities, total ('000 EUR)							**280**	**10 480**

Additional Tier 1 debt securitie

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Additional Tier 1 debt securities	1 100	1 100	400	400
Accrued interest payments	22	22	8	8
Total	**1 122**	**1 122**	**408**	**408**

ISIN	Currency	Issue size	Nominal value	Date of issue	Date of maturity	Discount/ coupon rate, %	Group/ Bank 31/12/2021	Group/ Bank 31/12/2020
Additional Tier 1 debt securities								
LV0000802437	EUR	100	100 000	19.10.2020	-	10%	1 100	400
Additional Tier 1 debt securities, total ('000 EUR)							**1 100**	**400**

31. OTHER LIABILITIES

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Other financial liabilities				
Credit card payments	279	279	19	19
Money in transit	215	215	50	50
Shor term liabilities	28	28	43	43
Other liabilities, balances of closed customers' accounts	292	292	349	349
Other non-financial liabilities				
Operating and other liabilities	36	36	17	17
Tax settlements	10	10	28	28
Other liabilities	55	3	38	3
Total other liabilities	**915**	**863**	**544**	**509**

32. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Group and Bank

	2021 EUR'000		2020 EUR'000	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Assets				
Forward contracts	77	37 105	67	37 247
Total derivative financial assets	**77**	**37 105**	**67**	**37 247**
Liabilities				
Forward contracts	1	37 030	80	37 260
Total derivative liabilities	**1**	**37 030**	**80**	**37 260**

As at 31 December 2021 the Bank had 4 outstanding foreign exchange forward contracts (in 2020 – 6 contracts).

33. SHARE CAPITAL AND RESERVES

As of 31 December 2021, the authorized share capital comprised 31 781 081 ordinary shares (2020: 28 209 653 ordinary shares. 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.

	2021		2020	
	Quantity	EUR'000	Quantity	EUR'000
Share capital				
Ordinary shares with voting rights	31 781 081	44 493	28 209 653	39 493
	31 781 081	**44 493**	**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 37 415 thousand (2020: EUR 32 649 thousand).

During 2021, 5 million EUR dividends were distributed, 0.16 EUR per share.

During 2020, dividends were not distributed.

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

		Liabilities
EUR	**Note**	**Dividends**
Balance at 1 January 2021		-
Dividend declared		5 000
Change from financing cash flows		
Dividend paid		(5 000)
Total changes from financing cash flows		**(5 000)**
Balance at 31 December 2021		**-**

34. CASH AND CASH EQUIVALENTS

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash and balances due from central banks	270 118	270 118	113 003	113 003
Due from credit institutions on demand and within 3 months	34 303	34 285	24 561	24 528
Due to credit institutions on demand and within 3 months	(2 958)	(2 958)	(8 885)	(8 885)
Total cash and cash equivalents	**301 463**	**301 445**	**128 679**	**128 646**

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.

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Unused loan facilities	37 728	37 728	70 952	70 952
Unused credit card facilities	1 087	1 087	1 374	1 380
Guarantees and other	1 925	1 928	1 442	1 442
	40 740	**40 743**	**73 768**	**73 774**
Provisions	*(92)*	*(92)*	*(196)*	*(197)*

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, 2021	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Contingent liabilities and commitments, Gross	38 883	1 211	646	40 740
Impairment allowance	(69)	(2)	(21)	(92)
Net	**38 814**	**1 209**	**625**	**40 648**

Bank EUR'000, 2021	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Contingent liabilities and commitments, Gross	38 886	1 211	646	40 743
Impairment allowance	(69)	(2)	(21)	(92)
Net	**38 817**	**1 209**	**625**	**40 651**

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
Impairment allowance	(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
Impairment allowance	(130)	(7)	(60)	(197)
Net	**71 800**	**1 737**	**40**	**73 577**

Movements in the impairment allowance of contingent liabilities and commitments

Movements in the loan impairment allowance for the year ended 31 December 2021 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 2021	**129**	**7**	**60**	**196**
Transfers due to change in credit risk:				
-from Stage 1 to Stage 2	(2)	2	-	-
-from Stage 2 to Stage 1	1	(1)	-	-
-from Stage 2 to Stage 3		(4)	4	-
-remaining credit risk changes	(53)	(24)	(24)	(101)
New originated or purchased	95	24	17	136
Derecognised	(103)	(5)	(33)	(141)
Change for the year	**(62)**	**(8)**	**(36)**	**(106)**
FX and other movements	2	3	(3)	2
Closing balance at 31 December 2021	**69**	**2**	**21**	**92**

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 2021	**130**	**7**	**60**	**197**
Transfers due to change in credit risk:				
-from Stage 1 to Stage 2	(2)	2	-	-
-from Stage 2 to Stage 1	1	(1)	-	-
-from Stage 2 to Stage 3		(4)	4	-
-remaining credit risk changes	(54)	(24)	(24)	(102)
New originated or purchased	95	24	17	136
Derecognised	(103)	(5)	(33)	(141)
Change for the year	**(63)**	**(8)**	**(36)**	**(107)**
FX and other movements	2	3	(3)	2
Closing balance at 31 December 2021	**69**	**2**	**21**	**92**

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	0	195
Derecognised	(76)	0	(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 2020	**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 2020	**130**	**7**	**60**	**197**

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

	2021		2020	
Assets under management	**Group EUR'000**	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Due from credit institutions registered in Latvia	4 925	4 925	7 164	7 164
Loans to customers	1 165	1 165	165	165
Non fixed income securities	15 466	15 466	11 199	11 199
Fixed income securities	1 356	1 356	1 718	1 718
Other assets	4	4	4	4
Total assets under management	**22 916**	**22 916**	**20 250**	**20 250**
Liabilities under management				
Non-resident trust liabilities	7 559	7 559	6 353	6 353
Resident trust liabilities	15 357	15 357	13 897	13 897
Total liabilities under management	**22 916**	**22 916**	**20 250**	**20 250**

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:

	2021		2020	
	Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Loans to related parties	7 548	7 548	5 896	5 896
incl. members of the Council and the Board	*1 701*	*1 701*	*2 353*	*2 353*
incl. relatives of members of the Council and the Board	*2 657*	*2 657*	*1 103*	*1 103*
incl. companies related to members of the Council and the Board	*3 190*	*3 190*	*2 440*	*2 440*
Impairment allowance	(74)	(74)	(126)	(126)
Net loans to related parties	**7 474**	**7 474**	**5 770**	**5 770**
Other investments – debt securities	8 125	8 125	8 125	8 125
Right-of-use assets – lease contracts	-	10 587	-	11 250
Total loans and other claims	**15 599**	**26 186**	**13 895**	**25 145**
Term and demand deposits and loans	131 053	133 359	80 568	82 129
incl. from the parent company	*755*	*755*	*1 009*	*1 009*
incl. from subsidiaries	*-*	*2 306*	*-*	*1 561*
incl. from the members of the Council and Board	*869*	*869*	*1 068*	*1 068*
incl. relatives of members of the Council and the Board	*2 464*	*2 464*	*2 625*	*2 625*
incl. companies related to members of the Council and the Board	*126 965*	*126 965*	*75 866*	*75 866*
Lease liability	-	11 025	-	11 557
Total deposits and liabilities	**131 053**	**144 384**	**80 568**	**93 686**
Contingent liabilities and commitments	**2 082**	**2 085**	**4 421**	**4 427**

	2021		2020	
	Group Interest rate %	Bank Interest rate %	Group Interest rate %	Bank Interest rate %
Loans to related parties	2.41	2.41	2.57	2.57
Term and demand deposits	-0.28	-0.28	-0.37	-0.37

Remuneration to the member of Council and Board during 2021 amounted to EUR 774 thousand (2020: EUR 768 thousand) (see Note 11).

	2021		2020	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Income from related party transactions				
Commission income	690	691	350	352
Interest income	407	407	369	369
Other income	-	-	-	-
Expenses from related party transactions				
Commission expenses	-	-	1	1
Interest expense (Lease liabilities)	-	347	-	362
Rent payments	-	313	-	334
Other expenses	499	499	2	2

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 2021 was as follows:

2021 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	270 118	-	-	-	-	-	**270 118**
Deposits with credit institutions	33 018	141	-	-	-	1 267	**34 426**
Trading financial assets	1 601	-	-	-	-	-	**1 601**
Loans and receivables	43 945	17 896	14 750	51 282	188 251	28 055	**344 179**
Investment securities	72 940	482	3 649	1 071	18 009	89 057	**185 208**
Other financial assets	15	-	-	-	-	7 631	**7 646**
Total financial assets	421 637	18 519	18 399	52 353	206 260	126 010	**843 178**
Financial liabilities							
Due to central banks	-	-	-	-	81 681	-	**81 681**
Demand deposits with credit institutions	2 958	-	-	-	-	-	**2 958**
Trading financial liabilities	1	-	-	-	-	-	**1**
Financial liabilities carried at amortized cost	376 454	86 381	90 695	96 146	56 191	9 281	**715 148**
Other financial liabilities	28	-	-	-	-	786	**814**
Total financial liabilities	**379 441**	**86 381**	**90 695**	**96 146**	**137 872**	**10 067**	**800 602**
Maturity gap	**42 196**	**(67 862)**	**(72 296)**	**(43 793)**	**68 388**	**115 943**	**42 576**
Contingent liabilities and commitments	**40 743**	**-**	**-**	**-**	**-**	**-**	**40 743**

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.

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 2020 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	0	0	0	0	0	**80**
Financial liabilities carried at amortized cost	224 424	74 143	106 241	113 875	39 338	569	**558 590**
Other financial liabilities	461	0	0	0	0	0	**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**	**0**	**0**	**0**	**0**	**0**	**73 774**

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 2021	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	81 681	(80 934)	34	69	310	(81 347)
Demand deposits with credit institutions	2 951	(2 951)	(2 951)	0	0	0
Lease liabilities	11 025	(14 384)	(73)	(146)	(659)	(13 506)
Financial liabilities carried at amortized cost: deposits	713 735	(715 521)	(376 674)	(86 726)	(187 315)	(64 806)
Financial liabilities carried at amortized cost: subordinated debt securities	1 413	(1 840)	(11)	(21)	(394)	(1 414)
Total non-derivative liabilities	**810 805**	**(815 630)**	**(379 675)**	**(86 824)**	**(188 058)**	**(161 073)**
Derivative liabilities						
Trading: outflow	906	(906)	(906)	-	-	-
Trading: inflow	(905)	905	905	-	-	-
Total derivative liabilities	**1**	**(1)**	**(1)**	**-**	**-**	**-**
Unused loan and credit card commitments	38 815	(38 815)	(38 815)	-	-	-
Guarantees given	1 928	(1 928)	(1 928)	-	-	-
Total Liabilities	**851 549**	**(856 374)**	**(420 419)**	**(86 824)**	**(188 058)**	**(161 073)**

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**	**(732 736)**	**(307 332)**	**(74 806)**	**(221 874)**	**(128 724)**

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 2021 by the currencies in which they are denominated is as follows:

2021 EUR'000	EUR EUR'000	USD EUR'000	Other currencies EUR'000	Total EUR'000
Financial assets				
Cash and demand deposits with central banks	270 114	-	4	**270 118**
Loans and receivables from banks	15 091	12 705	6 630	**34 426**
Trading financial assets	271	1 166	164	**1 601**
Loans and receivables	335 417	8 750	12	**344 179**
Investment securities	171 267	13 941	-	**185 208**
Other financial assets	5 079	2 259	308	**7 646**
Total financial assets	**797 239**	**38 821**	**7 118**	**843 178**
Financial liabilities				
Due to central banks	(81 681)	-	-	**(81 681)**
Demand deposits with credit institutions	(2 408)	(534)	(16)	**(2 958)**
Trading financial liabilities	-	(1)	-	**(1)**
Financial liabilities carried at amortized cost	(669 215)	(38 031)	(7 902)	**(715 148)**
Other financial liabilities	(814)	0	-	**(814)**
Total financial liabilities	**(754 118)**	**(38 566)**	**(7 918)**	**(800 602)**
Assets (liabilities) arising from currency exchange				
Spot and forward transaction receivables	35 500	38 602	1 057	**75 159**
Spot and forward transaction liabilities	(38 529)	(36 566)	-	**(75 095)**
Net long/short currency position	**40 092**	**2 291**	**257**	**42 640**

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.

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 2020 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.

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:

2021 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	269 167	-	-	-	-	-	951	**270 118**
Loans and receivables from banks	-	-	-	-	-		34 426	**34 426**
Trading financial assets	77	-	-	-	-	-	1 524	**1 601**
Investment securities	-	2 006	3 543	16 415	158 118	3 291	1 835	**185 208**
Loans and receivables	255 760	17 975	9 374	44 482	12 066	2 929	1 593	**344 179**
Other financial assets	-	-	-	-	-	-	7 646	**7 646**
Total financial assets	**525 004**	**19 981**	**12 917**	**60 897**	**170 184**	**6 220**	**47 975**	**843 178**
FINANCIAL LIABILITIES								
Due to central banks	-	-	-	-	81 681	-	-	**81 681**
Demand deposits with credit institutions	-	-	-	-	-	-	2 958	**2 958**
Trading financial liabilities	1	-	-	-	-	-	-	**1**
Financial liabilities carried at amortized cost	319 485	127 628	71 262	80 837	55 295	1 120	59 521	**715 148**
Other financial liabilities	-	-	-	-	-	-	814	**814**
Total financial Liabilities	**319 486**	**127 628**	**71 262**	**80 837**	**136 976**	**1 120**	**63 293**	**800 602**
Interest rate risk net position	**205 518**	**(107 647)**	**(58 345)**	**(19 940)**	**33 208**	**5 100**	**(15 318)**	**42 576**
Interest rate risk gross (cumulative) position	**205 518**	**95 223**	**36 878**	**16 938**	**50 146**	**55 246**	**39 928**	**499 877**

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

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.

43. MAXIMUM CREDIT EXPOSURE 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	
At 31 December EUR'000	**Notes**	**Bank 2021**	**Bank 2020**
Cash and balances with central banks	15	270 118	113 003
Loans and receivables from banks	16	34 426	24 528
Trading financial assets	17, 32	1 601	2 839
Investment securities	19, 21	185 208	224 656
Loans and receivables	20	344 179	303 190
Other financial assets	26	7 646	6 818
Total financial assets		**843 178**	**675 034**
Unused loan facilities	35	37 728	70 952
Unused credit card facilities	35	1 087	1 380
Guarantees an others	35	1 928	1 442
Total guarantees and commitments		***40 743***	***73 774***
Total maximum credit risk exposure		**883 921**	**748 808**

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)

	2021 EUR '000	2020 EUR '000
Tier 1		
Share capital	44 493	39 493
Statutory reserves	24	24
Retained earnings for the previous periods	27 649	28 944
Profit for the reporting period	9 766	3 705
Changes on application of IFRS 9	1 110	2 652
Revaluation reserve – financial assets	(128)	122
Other reserves	(2 403)	(2 074)
Intangible assets	(351)	(550)
Insufficient coverage for non-performing exposures	(2)	-
Other deductions	(42)	(63)
Reduction of Tier 1 capital (Pillar 2 adjustments)	(244)	(185)
Additional Tier 1	1 100	400
Total Tier 1	**80 972**	**72 468**
Subordinated debt	321	3 333
Reduction of Tier 2 capital (Pillar 2 adjustments)	-	-
Tier 2 capital	**321**	**3 333**
Equity	**81 293**	**75 801**
Risk-weighted value		
Banking portfolio	443 303	428 186
Trading portfolio	3 071	6 817
Operating risk	42 482	44 938
Total risk exposure amount loan adjustment	-	8
Total risk weighted assets	**488 856**	**479 949**
Total capital as a percentage of risk weighted assets (total capital ratio)	**16.63%**	**15.79%**
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	**16.56%**	**15.10%**

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

As at 3l December 2021, the Bank's capital adequacy ratio was 16.63% (2020: 15.79%) 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 2021 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 -2.50% (Capital conservation buffer – 2.50%, institution-specific countercyclical capital buffer – 0.0% (as at 31.12.2021). The requirements of the total capital reserve should be met using Tier 1 capital.

During the years 2021 and 2020 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 2021	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Valuation techniques based on unobservable inputs (3)	Total
Financial assets				
Financial assets at fair value through profit or loss:				
Fixed income securities	-	-	-	**-**
Non fixed income securities	1 524	633	-	**2 157**
Derivatives	-	77	-	**77**
Financial assets at fair value through other comprehensive income				
Fixed income securities	35 868	-	3 514	**39 382**
Non fixed income securities and shares	-	18	218	**236**
	37 392	**728**	**3 732**	**41 852**
Financial liabilities				
Derivatives	-	1	-	**1**
	-	**1**	**-**	**1**

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 at fair value through profit or loss:				
Fixed income securities	-	-	-	**-**
Non fixed income securities	2 772	573	-	**3 345**
Derivatives	-	67	-	**67**
Financial assets 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**

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) based 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:

31.12.2021 Financial assets at fair value	31.12.2020.	Acquired (sold)	Fair value adjustment	31.12.2021
Fixed income securities	**3 135**	379		**3 514**
Non fixed income securities	**218**	-	-	**218**
Total financial assets at fair value	**3 353**	**379**		**3 732**

31.12.2020 Financial assets at fair value	31.12.2019.	Acquired	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**

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 2021	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	951	269 167	-	270 118	270 118
Loans and receivables from banks	-	-	34 426	34 426	34 426
Loans to customers	-	-	341 654	341 654	344 179
Investment securities	138 215	-	7 017	145 232	144 957
Other financial assets	-	-	7 646	7 646	7 646
Financial liabilities					
Balances due to central bank	-	-	81 681	81 681	81 681
Deposits and balances due to financial institutions	-	-	2 958	2 958	2 958
Financial liabilities carried at amortized cost	-	-	-	715 424	715 148
Other financial liabilities	-	-	814	814	814

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

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

On February 24th Russia's army attacked Ukraine and initiated a full scale war on Ukraine's territory. Sanctions against Russian state entities, corporates and related to regime persons were imposed by European Union, United States and other countries, resulting in Russia's equity, debt and currency markets collapse.

The Group and the Bank had no marketable exposures or loans exposure on the assets that were affected by these events, neither did the Group and the Bank have significant exposures on the financial institutions in Russia or Ukraine. The Group and the Bank has performed preliminary measures to reduce exposures with potential risks related to the war in Ukraine and therefore sees no significant potential losses due to it.

The Group and the Bank have performed preliminary measures to reduce exposures with potential risks related to the war in Ukraine and sanctions against Russia and therefore sees no significant potential losses due to it.