AS Citadele banka

Annual Report

For the year ended
31 December 2020

Key figures and events of the Group

The number of active customers reached all-time high for Citadele with 326 thousand clients as of 31 December 2020, 4% growth y-o-y.

EUR 151 million issued in new financing to Baltic private, SME and corporate customers in Q4 2020. New lending in 12 months 2020 reached EUR 477 million.

Baltic deposits continued to increase by EUR 482 million in 12 months 2020, or 18% growth vs. year-end 2019.

Operating income during the period was affected by Covid-19-related disruption to economic activity. The defensive and proactive measures taken during H1 2020 had negative impact on the Bank's profitability. Business activity resumed in the second half of the year, and net profit in Q4 2020 reached EUR 24.1 million. Year 2020 was closed with EUR 3.6 million in net profit.

The Bank continues to operate with strong capital and liquidity ratios. Group's CAR reached 26.0%, and LCR was 356% as at 31 December 2020.

Moody's upgraded Citadele credit rating to investment grade, assigning Baa3 with stable outlook; affirmed on 17 February 2021 with positive outlook.

EUR millions	**2020**	**2019**	**2018**
Net interest income	67.5	84.6	82.6
Net fee and commission income	30.2	30.9	33.4
Net financial and other income	(3.1)	8.4	11.2
Operating income	**94.7**	**123.9**	**127.2**
Operating expense	(80.0)	(82.8)	(85.4)
Net credit losses and impairments	(10.5)	(3.7)	(7.0)
Net profit	**3.6**	**36.5**	**34.8**
Return on average assets (ROA)	0.09%	1.07%	1.10%
Return on average equity (ROE)	1.05%	11.5%	12.3%
Cost to income ratio (CIR)	84.5%	66.8%	67.1%
Cost of risk ratio (COR)	0.6%	0.2%	0.5%
*Adjusted for one-time item *:*			
Operating income	123.5	123.9	127.2
Net profit	32.4	36.5	34.8
Return on average assets (ROA)	0.78%	1.07%	1.10%
Return on average equity (ROE)	9.5%	11.5%	12.3%
Cost to income ratio (CIR)	64.8%	66.8%	67.1%

EUR millions (Reclassified)	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2018**
Total assets	4,597	3,743	3,052
Loans to public	1,541	1,568	1,396
Deposits from customers	3,671	3,290	2,645
Shareholders' equity	344	341	297
Loan-to-deposit ratio	42%	48%	53%
Total capital adequacy ratio (CAR), transitional (including period's result)	26.0%	22.2%	20.1%
Common equity Tier 1 (CET1) capital ratio, transitional (including period's result)	22.1%	18.8%	16.7%
Full time employees	1,230	1,369	1,492

** 2020 is adjusted for one-time losses related to the tail risk defensive measures in the amount of EUR (28.8) million, included in "Net financial and other income".*

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Rounding and Percentages

Some numerical figures included in these financial statements have been subject to rounding adjustments. Accordingly, numerical figures shown for the same category presented in different tables may vary slightly, and numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

In these financial statements, certain percentage figures have been included for convenience purposes in comparing changes in financial and other data over time. However, certain percentages may not sum to 100% due to rounding.

Business activity returned during the second half of the year and we achieved all-time high number of active customers in Citadele. During the year we have improved the resilience of the business model to better support our customers and leveraging our financial strength the UniCredit Leasing acquisition closed beginning of 2021.

Johan Åkerblom
CEO and Chairman of the Management Board

Global economy dominated by Covid-19

The Covid-19 pandemic continued to impact global economy in Q4 2020 and many countries re-imposed restrictive measures due to second wave of the pandemic. Although economic impact of the second wave has been smaller than in spring 2020, uncertainty remains as recovery is dependent on a successful vaccine rollout. Lockdown measures will most likely lead to another downturn in the economy of Baltics, but economic losses are likely to be smaller than in the spring of 2020 as manufacturing and construction remains stable.

Stable client base

Overall business sentiment in Q4 2020 was positive. Active customers reached all time high of 326 thousand clients as of 31 December 2020, or 4% growth y-o-y.

Mobile App users and Internet bank customers increased by 9% and 1% y-o-y, respectively, reaching 143 thousand active Mobile App users and 195 thousand active Internet Bank customers.

Decrease was seen in new customers onboarded, reaching 11 thousand new clients in Q4 2020 vs. 14 thousand in Q3 2020, mainly caused by Covid-19 related restrictions, e.g. visits in branches by appointment only, and ban to work on the weekends.

Innovations and development

Throughout 2020 Citadele continued to build best in class remote services and products to meet customer expectations across multiple channels and changing market conditions. Citadele launched ApplePay and developed and launched e-commerce solution Klix, enabling a streamlined e-commerce experience for customers. Customers in Latvia get instant individual offers from Citadele for mortgages and consumer loans via digital channels. X smart cards were introduced for students and juniors, and new innovative X card introduced based on subscription model.

Bank with the best customer service in Latvia

Our commitment of providing the best customer service was once again confirmed by Dive's annual customer service evaluation survey. Citadele was again named the bank with one of the best customer service in the Baltics, coming first in Latvia for the sixth time. We are proud to see that our customers value our service as customer recognition is the best accolade for any business.

EUR 477 million issued in new financing to Baltic private, SME and corporate customers

New lending to Baltic private, SME and corporate customers reached EUR 477 million in 2020 where Q4 was the strongest quarter with EUR 151 million in issued loans, 7% increase vs. previous period.

The total loan book as of 31 December 2020 was EUR 1,541 million, remaining stable vs. year-end 2019. Portfolio quality remained good and NPL ratio stood at 3.5% as of 31 December 2020.

Strong liquidity and capital ratios

Citadele continues to operate with capital and liquidity ratios well above regulatory requirements: CAR of 26.0% and LCR of 356% as of 31 December 2020.

Customer deposits reached EUR 3,671 million as of 31 December 2020, an increase of 12% compared to the end of 2019, indicating the financial strength of our customer base.

The consequences of the Covid-19 pandemic have had a negative impact on 12 months 2020 results and year was closed with EUR 3.6 million profit. Business activity resumed in the second half of the year. Net profit in Q4 2020 reached 24.1 million, and the Bank also expects year 2021 to result in improved financials.

Citadele credit rating upgraded to investment grade

On 29 September 2020, Moody's has upgraded Citadele's credit rating to Baa3 with stable outlook. On 17 February 2021, the rating was affirmed changing the outlook to positive.

The rating action follows the positive revision of Baltic countries' macro profiles and expectation that the acquisition of the SIA UniCredit Leasing, completed beginning of 2021, will support a recovery in bank's profitability during 2021, and will not result in material deterioration in asset quality.

The Bank's focus remains on safety and well-being of its customers and employees

Taking into account lockdown measures which have been reintroduced in the Baltics and increasing numbers of Covid-19 cases, Citadele has switched back to "visit by appointment only" principle in branches as of 30 September. The Bank's employees are provided with Covid-19 health insurance and most of them are working remotely. Remote customer services such as Sky Branch, mobile and internet banking continue to be available and widely utilized by customers.

Although the non-legislative moratoria and granting grace periods on loan repayments ended in September, Citadele encourages its clients to contact the Bank promptly if they face unexpected financial challenges. Each case will be evaluated individually to find the best solution and help clients in short-term financial difficulties.

Post reporting period events

The transaction between AS Citadele banka and UniCredit S.p.A. has been completed. Citadele has become the 100% owner of SIA UniCredit Leasing (including its Estonian and Lithuanian branches), along with its 100% owned subsidiary SIA UniCredit Insurance Broker (including its Estonian branch). The acquired entity is part of the Citadele Group as of beginning of 2021. The acquisition will give additional positive financial impact in 2021. Agreement between AS Citadele Banka and UniCredit S.p.A. involves a name and brand change for SIA UniCredit Leasing. As of February 2021, SIA UniCredit Leasing is rebranded to SIA Citadele Leasing and SIA UniCredit Insurance Broker is re-named to SIA CL Insurance Broker.

To continue support the Bank's Strategy and execution excellence - Rūta Ežerskienė joins Citadele Management Board being responsible for the Retail business. Rūta Ežerskienė most recently was Head of Baltic Retail for AON insurance company (since 2018), before that she held different management positions in SEB, both on Baltic level and in Lithuania, including Head of Sales Department and Business transformation (years 2017-2018) and CEO in SEB Life Insurance (years 2015-2017). Several other changes have also been made in Management Board functions - Vladislavs Mironovs has been appointed as Chief Strategy Officer and will focus on strategy execution, digital evolution, and business development. Valters Ābele has been appointed as Chief Financial Officer. While the Bank is in process of selection of new Chief Risk Officer, Valters will temporarily continue CRO responsibilities. Chief Operations Officer role has become part of merged IT and Operations organization, to be led by Slavomir Mizak, Chief Technology and Operations Officer. On 27 January 2021 the changes have been approved by the Financial and Capital Market Commission.

The European Central Bank announced it has classified Citadele as a significant credit institution, commencing its direct supervision as of 1 January 2021. The Financial and Capital Market Commission will continue to participate in the supervision of the Bank and cooperate with the ECB within Joint Supervision Team.

Financial review of the Group

Results and profitability YTD Q4 2020

Net interest income reached EUR 16.7 million in Q4 2020 and remained stable vs. Q3 2020. FY 2020 net interest income was EUR 67.5 million, 20% decrease year-on-year, primarily driven by significantly higher interest expense (+42%) resulting from liquidity buffer ahead of the acquisition of UniCredit Leasing.

The Group's **net fee and commission income** in Q4 2020 reached EUR 7.7 million, which translates into 9% decrease vs. Q3 2020, mainly due to lower income from cards and payments and transactions. Net fee and commission income in January – December 2020 were EUR 30.2 million, 2% decrease year-on-year, mainly due lower client activity during the first half of the year due to Covid-19.

Operating income in 2020 reached EUR 94.7 million. Adjusted for one-time losses in amount of EUR (28.8) million related to the tail risk defensive measures, operating income was EUR 123.5 million, in line with year 2019 result. Q4 2020 operating income reached EUR 45.1 million.

In line with the Group's expected future office needs and assessment of several potential buyers' proposals, in 2020 Group's Latvian headquarters building was sold to Lords LB Baltic Green Fund (V). In total a sales gain of EUR 18.4 million was registered with EUR 16.7 million qualifying as sales-day profits of the Group in 2020. The deferred part is allocated to the lease-back right of use asset.

Operating expenses in 2020 was EUR 80 million, decrease by 3% compared to year 2019. Staff costs decreased by 5% y-o-y to EUR 50.9 million. The number of full-time employees was 1,230 vs. 1,369 as at 31 December 2019, reflecting the progress of ongoing efficiency initiatives. Other costs were EUR 21.1 million (3% decrease y-o-y). Depreciation and amortization expenses stood at EUR 8.0 million. **Operating expenses in Q4 2020** were EUR 20.4 million (6% increase q-o-q).

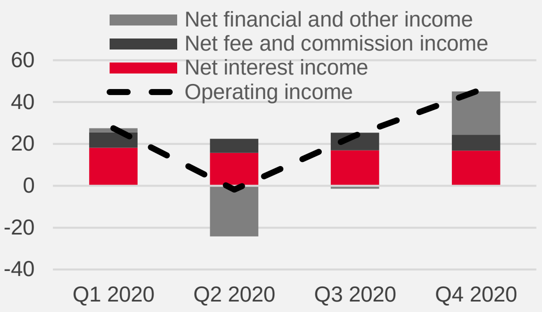
Citadele's adjusted **cost to income ratio** in 2020 was 64.8% versus 66.8% as of year-end 2019.

Net credit losses of EUR (10.5) million recorded in 2020 vs. EUR (3.7) million in 2019, reflecting additional impairments set aside for the expected deterioration in the economic environment due to Covid-19, however underlying credit quality of the Group's loan portfolio continued to improve. Covid-19 related forborne gross loans constituted EUR 98 million as of 31 December 2020, 8% decrease q-o-q.

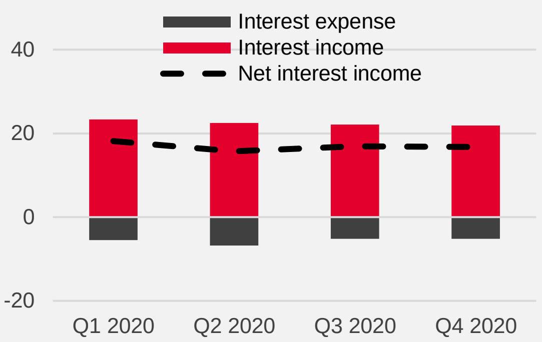
Overall credit quality continued to improve. **The Stage 3 loans to public ratio** decreased to 3.5% as of 31 December 2020, compared to 4.8% at the end of 2019, mostly due to legacy loan workouts and proactive client measures.

Group's securities portfolio demonstrated stable development in terms of yield and risk profile. While Covid-19 created short term mark-to-market volatility, the main factor driving returns of the portfolio remained the extremely low yield environment across all major currencies resulting in declining interest income from fixed income securities.

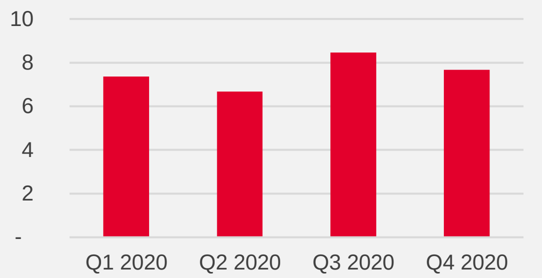
Operating income, EURm



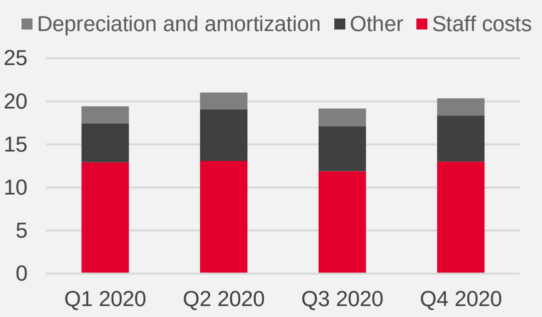
Net interest income, EURm



Net fee and commission income, EURm



Operating expense, EURm



Balance sheet overview

The **Group's assets** stood at EUR 4,597 million as of 31 December 2020, representing a 23% increase from year end 2019 (EUR 3,743 million).

The **net loan portfolio** stood at EUR 1,541 million as of 31 December 2020, decreasing by EUR 27 million (2%) from year end 2019. Corporate loan book has been impacted the most by ongoing amortization and lower new lending velocity in H1 2020, declining by EUR 40 million vs 2019. Strong rebound was observed in the second half of the year when corporate new lending increased by 48% vs. H1 2020. In terms of segments, Private customers represented 39% of the portfolio followed by Corporates (34%), Leasing (14%) and SMEs (10%).

Q4 was the strongest quarter in 2020 in terms of **new lending,** reaching EUR 151 million, 40% more than 2020 average. New lending in 12 months reached EUR 477 million, of which EUR 174 million were issued to retail customers and EUR 304 million to corporate customers.

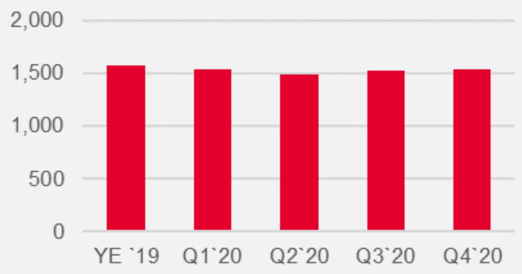
In terms of **geographical profile**, the loan portfolio has remained unchanged in 2020. As of 31 December 2020, Latvia accounted for 57% of the portfolio (EUR 876 million), followed by Lithuania at 32% (EUR 494 million) and Estonia at 10% (EUR 149 million).

No major changes in **industry concentrations** occurred. Loans to Households represented 47% of the portfolio. The largest increases in 2020 were seen in Finance leases (8%) and mortgages (8%). Consumer and card lending decreased by 22% and 11%, respectively, since year end 2019. Overall, the main industry concentrations were Commercial real estate (25% of gross loans), Manufacturing (17%), Transport and Communications (12%) and Trade (13%).

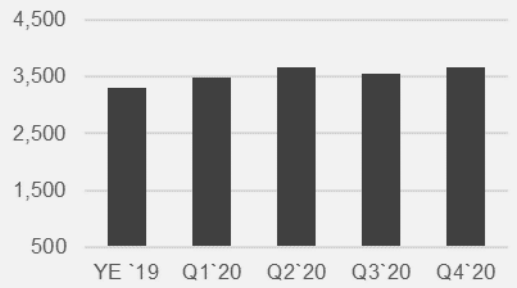
The key drivers for changes in **securities portfolio** over 2020 have been volatility related to Covid-19 and preparation for UCL transaction. In Q1 2020 securities portfolio was reduced by 18% in preparation for the UCL transaction and to mitigate potential credit risks stemming from the Covid-19 outbreak. With delayed closing of UCL transaction and lower uncertainty related to Covid-19, portfolio size grew by 38% during Q2 and 37% in Q3 before declining 7% in Q4. Main rational behind portfolio growth was short term liquidity management and optimization of net interest income and cash balances. New investments were mostly made in government debt securities. 97% of debt securities held were rated A or higher.

The main source of funding, customer deposits, grew by 12% vs. year-end 2019. Baltic residents' deposits increased by EUR 458 million (+18% y-o-y). As of 31 December 2020, total Group customer deposits were EUR 3,671 million.

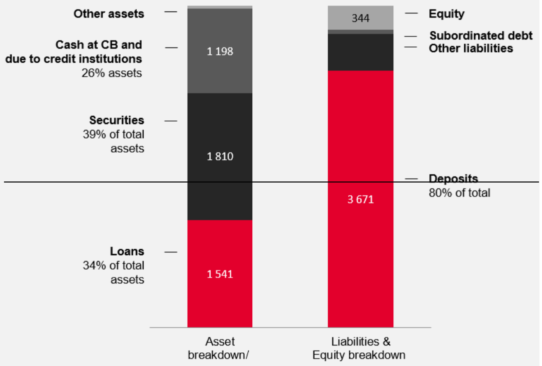
Loans, EURm



Deposits, EURm



Balance sheet structure, EURm



Ratings

International credit rating agency Moody's Investors Service has assigned Baa3 rating with positive outlook (17 February 2021).

The main credit strengths are:

- Strong capitalization
- Improved governance, with selective growth in its home markets, and reduction of the non-resident segment

Moody's	
Long term deposit	Baa3
Long term counterparty risk rating	Baa2
Short term deposit	P-3
Short term counterparty risk rating	P-2
Outlook:	Positive

Detailed information about ratings can be found on the web page of the rating agency www.moodys.com

Segment highlights

Retail segment

Private individuals and SMEs showed strong results in Q4 despite Covid-19 second wave and following lockdown measures.

Number of active customers reached all-time high for Citadele, and retail primary customers continued to grow reaching 154 thousand clients as of 31 December 2020, 11% increase since beginning of the year.

New lending to retail customers reached EUR 174 million in 2020, of which EUR 58 million were issued in Q4. Less demand was seen for consumer loans, but mortgage market remained strong - EUR 34 million issued in Q4 2020 (vs. EUR 28 million in Q3).

Total loans to Private individuals and SME customers amounted to EUR 753 million, 5% increase since year end 2019 with an improved loan quality.

Deposits from Private individuals and SMEs reached EUR 1,778 million, a 22% increase y-o-y.

Bank with the best customer service in Latvia

In Dive's annual customer service evaluation survey, Citadele has been named as the bank with one of the best customer service in the Baltics, coming first in Latvia for the sixth time. We are proud to see that Bank's customers value our service. Positive customer feedback is the best recognition for any business.

Increasing demand for digital services

Share of digitally onboarded customers continued to increase. Self-service tool was gaining popularity, with more than 5 thousand sessions monthly. More than 90% of all services is performed remotely.

Digital Onboarding via Mobile App was introduced in Estonia, bringing full Baltic Digital onboarding coverage for private individuals.

Mobile App users and Internet bank customers increased by 9% and 1% y-o-y, respectively, reaching 143 thousand active Mobile App users and 195 thousand active Internet Bank customers.

Innovations and developments

New innovative X cards based on subscription model were introduced in Q4 2020. To secure transactions via e-commerce, new 3D secure version has been launched. Peer to peer payments via Mobile App introduced in Estonia. Fast SEPA payments enabled for Digilink and PSD2 in all 3 markets. Branch network in both Latvia and Lithuania was working by "appointment only" as of 30 September due to Covid-19 second wave. To support customers, branch appointment booking tool was introduced in Latvia and Lithuania. The Bank also significantly improved the secure chat in all 3 countries, increasing Sky Branch service level.

Corporate segment

Q4 2020 in overall had a good sentiment in the market and business interest for new cooperation's was high. Q4 was the strongest quarter in 2020 for corporate team with new loans issued in amount of EUR 93 million. New lending in 12 months 2020 reached EUR 304 million. In overall since March 2020 when Covid-19 hit Baltic countries, corporate sector has managed to keep portfolio almost flat despite the fact that during Q2 there was very low volumes generated due to uncertainty in the economy.

During Q4 2020, Citadele's continued focus was on non-lending products and e-commerce solutions for existing and potential customers. Several successful co-operations were initiated, increasing non-lending proportion in total corporate business portfolio.

Deposit portfolio grew 19% vs. year end 2019 and reached EUR 827 million as of 31 December 2020.

In Q4 2020 new campaigns were launched to stimulate companies to renew their car park with environment friendly electrical cars, thus helping economy to access sustainable assets for more attractive price. Citadele will continue to develop new offers supporting the green transformation.

Business Environment

Global economy dominated by Covid-19

Following rapid spread of Covid-19 which started in autumn, many countries in Europe and around the world have reintroduced number of restrictions and lockdown measures that have restricted operations of various service sectors. Nevertheless, economic impact of the second wave of Covid-19 has so far been smaller than in spring 2020. GDP in euro area declined only modestly in Q4 2020. Global manufacturing sentiment is positive and world trade recovered to pre-Covid-19 levels. However, the recovery in the global economy is uneven and incomplete, and uncertainty remains high as recovery is dependent on a successful vaccine rollout. Global economy is projected to grow by 5.5% in 2021 following a 3.5% decline in 2020 according to IMF January 2021 forecasts.

Recovery in the Baltics remains incomplete

Economic recovery of the Baltic states in the second half of 2020 was unexpectedly fast, but incomplete. Decline in economic activity in the Baltics in 2020 was significantly smaller than in many other European countries. Latvia's GDP in the fourth quarter fell by 1.4% compared to same period of previous year, and Lithuania's by 1.3% while Estonia's GDP in third quarter declined by 1.9%. At the same time euro areas GDP in Q4 declined by 5.1%.

The second wave of Covid-19 and lockdown measures will most likely lead to another downturn in economic activity in the Baltics at the beginning of 2021, but economic losses are likely to be significantly smaller than in the spring of 2020 as manufacturing and construction sentiment remains strong, while export of goods in Latvia grew by 1.7% and reached new record in 2020.

Manufacturing rebounds strongly

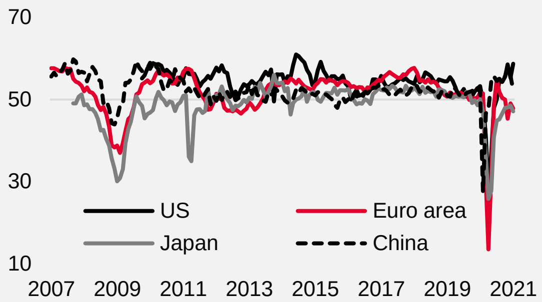
In 2020 manufacturing was among the best performing sectors in the Baltics. Shift in demand from services to goods as well as reduced inventory levels due disruptions in the global manufacturing system at the beginning of 2020 have led to a quick recovery in the global manufacturing and world trade. As a result, manufacturing in the Baltics has not been affected by second wave of Covid-19. Manufacturing output in Latvia rose by 5.1% in December compared to previous year. Manufacturing output in Lithuania increased by 1.3% and by 0.6% in Estonia.

Consumption has shifted from service to goods

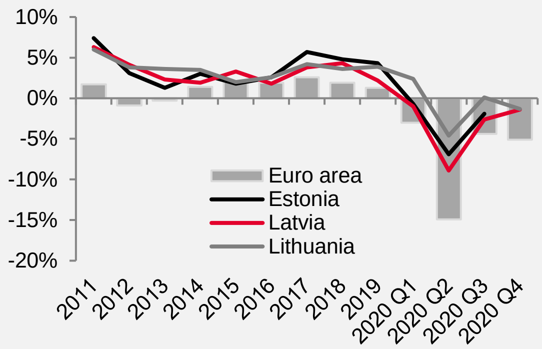
As Covid-19 infections have surged in the Baltics, governments have re-introduced restrictions and service sectors are currently the weak point of the economy. Closure of non-essential retail trade has led to a fall in retail trade activity in December in Latvia and Lithuania, while in Estonia shops remained open. Despite the downturn in the economy and increase in unemployment, household deposits in the Baltics in 2020 increased by 12-14%. If vaccine rollout is successful pent-up demand and forced saving could lead to a rapid recovery in service sectors in the second half of 2021.

Composite PMI

(values above 50 indicate expansion)

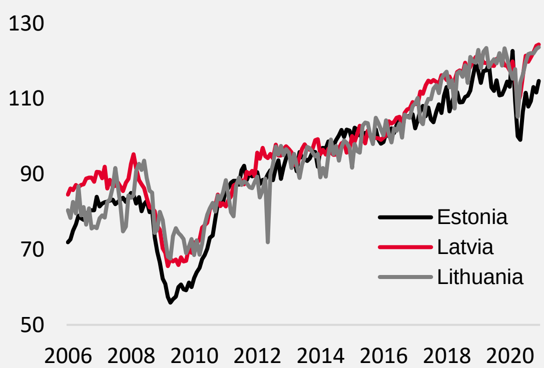


Real GDP, % YoY



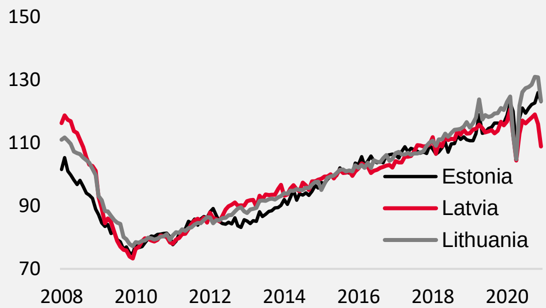
Manufacturing output

(constant prices, 2015=100)



Retail trade excluding fuel

(constant prices, 2015=100)



OTHER REGULATORY INFORMATION

Name	AS Citadele banka
Address	Republikas laukums 2A, Riga, LV-1010, Latvia
Web page	www.citadele.lv www.cblgroup.com
Phone	(371) 67010 000
Registration number	40103303559
Licence number	06.01.05.405/280
Licence issue date	30/06/2010
Branches	AS Citadele banka has 20 branches and client service centres in Latvia, 1 branch in Estonia and 1 branch in Lithuania as of the period end. The Lithuanian branch has 5 customer service units in Lithuania. AS Citadele banka has 2 client consultation centres in Latvia. Information about branches, client service centres and ATMs of Citadele is available in the Citadele web page's section "Branches and ATMs".
Dividends	Refer to Note 26 (*Share Capital*) of the annual report. As at issuance of the annual report the Management proposes to transfer the Bank's losses incurred in 2020 to the retained earnings account.
Future development	Citadele aims to become the primary bank of choice for aspiring retail and small business customers across the Baltics and will continue to relentlessly improve products and services. Citadele will continue to provide high quality financial services to clients and their businesses with an objective to foster further growth across the whole Baltic region. A complete portfolio of banking, leasing, financial and wealth management services is to be offered for both private individuals and companies. The core market of Citadele remains unchanged: Latvia, Lithuania and Estonia.
Risk management	The main risks to which the Group is exposed are credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. For each of these risks the Group has approved risk management policies and other internal regulations defining key risk management principles and processes, functions and responsibilities of units, risk concentration limits, as well as control and reporting system. The Group's risk management policies for each of the above-mentioned risks and certain other risks are briefly summarised in the Note 33 (*Risk Management*) of these financial statements.

CORPORATE GOVERNANCE

AS Citadele banka is the parent company of Citadele Group. AS Citadele bank is a joint stock company. 75% plus one share in AS Citadele bank is owned by a consortium of international investors represented by Ripplewood Advisors LLC. The European Bank for Reconstruction and Development (EBRD) owns 25% minus one share.

The Statement of Corporate Governance is published on the Bank's website www.cblgroup.com.

Audit Committee's report to the shareholders

In 2020 Audit Committee of AS Citadele banka (hereinafter – the Committee) acted in the role of audit committee as required by the Financial Instruments Market Law.

The Committee performed tasks in line with the requirements of the law:

- *Supervised the preparation of the annual report for the year ended 31 December 2020;*
- *Supervised the process of audit of the annual report for the year ended 31 December 2020;*
- *Supervised the effectiveness of internal controls, risk management and internal audit systems as applicable to the process of the preparation of financial statements;*
- *Supervised the approval of the external auditor for audit of the annual report for the year ended 31 December 2020;*
- *Supervised the compliance of the auditor of the annual report for the year ended 31 December 2020 with independence and objectivity requirements set forth in the Law of the Provision of Audit Services;*
- *Communicated to the Supervisory Board the conclusions made by the auditor of the annual report for the year ended 31 December 2020.*

In 2020 the Committee was not hindered in any way, and full access to any information required by the Committee was ensured. The Committee throughout the year kept the Management Board and the Supervisory Board informed about the conclusions and recommendations made by it. In the course of discharging its duties as related to the preparation of the annual report for the year ended 31 December 2020 the Committee did not encounter any evidence that would suggest that these financial statements would not be true and fair.

A detailed report on the activities of the Committee in 2020 has been submitted to the Supervisory Board of the Bank.

Supervisory Board of the Bank as of 31/12/2020:

Name	Current Position	Date of first appointment
Timothy Clark Collins	Chairman of the Supervisory Board	20 April 2015
Elizabeth Critchley	Deputy chairperson of the Supervisory Board	20 April 2015
James Laurence Balsillie	Member of the Supervisory Board	20 April 2015
Dhananjaya Dvivedi	Member of the Supervisory Board	20 April 2015
Lawrence Neal Lavine	Member of the Supervisory Board	20 April 2015
Klāvs Vasks	Member of the Supervisory Board	30 June 2010
Nicholas Dominic Haag	Member of the Supervisory Board	19 December 2016
Karina Saroukhanian	Member of the Supervisory Board	19 December 2016
Sylvia Yumi Gansser Potts	Member of the Supervisory Board	29 October 2018

There were no changes in the Supervisory Board of the Bank in the reporting period.

Timothy Collins, Chairman of the Supervisory Board. Mr. Collins is the Chief Executive Officer of Ripplewood Advisors LLC. Ripplewood has successfully invested in and built companies globally, including in the US, Europe, the Middle East and Asia, delivering superior returns on investments in business with over USD 40 billion in enterprise value. Before founding Ripplewood, Mr. Collins held executive positions with Cummins Engine Company, Lazard Frères & Company and Booz, Allen & Hamilton. Mr. Collins sits on the Board of Directors of Banque Saudi Fransi, EFG Hermes and SODIC. He is Chairman of the Advisory Board for Yale School of Management, co-chair of the Advisory Council of the NYU Global Institute for Advanced Study and a member of the Investment Advisory Committee to the New York State Common Retirement Fund. He formerly served on several public-company boards, including Advance Auto Parts, Asbury Automotive, Citigroup (after it accepted public funds), Commercial International Bank, Gogo, Rental Services Corporation and Shinsei Bank. He also served as an independent director at Weather Holdings, a large private emerging-markets telecom operator that was sold to VimpelCom. Mr. Collins has a BA in Philosophy from DePauw University and an MBA in Public and Private Management from Yale University's School of Management.

Elizabeth Critchley, Deputy Chairman of the Supervisory Board. Mrs. Critchley is a Partner of Ripplewood Advisors Limited. Prior to joining Ripplewood Advisors Limited, Mrs. Critchley was a Founding Partner of Resolution Operations which raised £660 million through a listed vehicle at the end of 2008, and went on to make three acquisitions in financial services. Until forming Resolution Operations, Mrs. Critchley was a Managing Director at Goldman Sachs International where she ran the European FIG Financing business. Mrs. Critchley has structured, advised, or invested in transactions with more than fifty global financials and corporates. Mrs. Critchley holds a First Class Honours Degree in Mathematics from University College London.

James L. Balsillie, member of the Supervisory Board. Mr. Balsillie currently chairs the Board of Directors of Sustainable Development Technology Canada. Mr. Balsillie was appointed to this role by the Government of Canada in 2013. Mr. Balsillie is a co-founder and former co-CEO of Research In Motion (BlackBerry) and founder of the Centre for International Governance Innovation (CIGI). He is also the founder of the Balsillie School of International Affairs (BSIA), Arctic Research Foundation, and co-founder of Communitech. Mr. Balsillie was the private sector representative on the UN Secretary General's High Panel for Sustainability. His awards include: Mobile World Congress Lifetime Achievement Award, India's Priyadarshni Academy Global Award, Time Magazine World's 100 Most Influential People, and three times Barron's list of "World's Top CEOs". Mr. Balsillie holds a Bachelor of Commerce from the University of Toronto, an MBA from Harvard Business School, and is a Fellow of the Institute of Chartered Accountants Ontario.

Dhananjaya Dvivedi, member of the Supervisory Board. Mr. Dhananjaya Dvivedi headed the Banking Infrastructure Group and was the Corporate Executive Officer of Shinsei Bank from 2000 to 2010. Mr. Dvivedi was instrumental in transforming Shinsei's IT platform as part of its strategy to improve customer service with conveniences such as internet banking, 24-hr ATMs, managed and monitored remotely, and real-time data, while maintaining cost control. Mr. Dvivedi has also served as the External Director of SIGMAXYZ Inc. from 2008 until 2011 and has since been involved in various research and advisory capacities for the development of new technologies to benefit society. Mr. Dvivedi holds an engineering degree from the Madhav College of Engineering in India and an MBA from the Indian Institute of Management.

Lawrence Lavine, member of the Supervisory Board. Mr. Lavine is a Senior Managing Director of Ripplewood Advisors LLC following a 28 year career in investment banking. At Ripplewood Advisors LLC, Mr. Lavine has focused primarily on companies in the financial services and telecommunications industries. Mr. Lavine was previously a Managing Director of Credit Suisse First Boston in its Mergers and Acquisitions Group. He joined CSFB in 2000 as part of the acquisition of Donaldson, Lufkin & Jenrette where he had been a Managing Director in M&A since 1987. He started his career on Wall Street at Kidder Peabody & Co. in 1976. Mr. Lavine holds a BS from Northeastern University and an MBA from Harvard Business School.

Klāvs Vasks, member of the Supervisory Board. Mr. Vasks has served as Chairman of Citadele Supervisory Board since the establishment of the bank in 2010 until 20 April 2015, at which point he was replaced by Mr. Timothy Collins. He has 20 years of experience in the banking sector. Previously he was vice president of the SEB Bank Latvia, also working as the director of the Restructuring Department and Large Company Services Department. From 2010 to 2015, he chaired the Latvian Guarantee Agency. Mr. Vasks holds a bachelor's degree from the Banking University College and an MBA degree from the Rīga School of Business of the Rīga Technical University.

Nicholas Haag, Member of the Supervisory Board. Mr. Haag is an independent non-executive director (INED) and chairman of the audit committee of TBC Bank Group PLC, the largest Georgian bank. He is an INED and chairs the audit, risk and compliance committee of Bayport Management Ltd., the holding company for a leading African and Latin American financial solutions provider. Prior to that, he was a Member of the Supervisory Board of Credit Bank of Moscow PJSC. Mr. Haag has a 30 year banking career, half at Managing Director level, with various financial institutions including Barclays, Banque Paribas, ABN AMRO and Royal Bank of Scotland, specialising in technology finance and equity capital markets. Mr. Haag holds a First Class Honours Degree from the University of Oxford.

Karina Saroukhanian, Member of the Supervisory Board. Karina Saroukhanian is a Managing Director of Ripplewood Advisors Limited. Before joining the company, from 2008, she worked as senior banker in the Financial Institutions team of the European Bank for Reconstruction and Development. At the EBRD, she specialized in complex equity transactions, working with financial sponsors in multiple jurisdictions. Prior to joining the EBRD, Karina was an Associate Director in the M&A group at Nomura International in London and a Vice President at Sindicatum, a specialist financial advisory and asset management firm. Karina holds an MSc in Economics from the London School of Economics and a degree in mathematical economics from the Moscow State University.

Sylvia Gansser-Potts, Member of the Supervisory Board. Sylvia Gansser-Potts is a member of the investment and forex committees of the European Fund for Southeast Europe (EFSE). Before joining EFSE, Sylvia was a Managing Director at the European Bank for Reconstruction and Development (EBRD) with the overall responsibility for EBRD's investments and operations in Central and Southeastern Europe. Over her 25 year career at the EBRD, Sylvia ran a succession of banking teams including the financial institutions operations in Central Europe, in MENA/Turkey as well as the property and tourism team. Sylvia started her career at Swiss Bank Corporation (which later merged to become UBS) in Switzerland and Japan. She holds a master's in business from the University of Paris IX Dauphine, a honour's degree in Japanese language from the University of Paris and a MBA from INSEAD.

Management Board of the Bank as of 31/12/2020:

Name	Current position	Responsibility
Johan Åkerblom	Chairman of the Management Board	Chief Executive Officer and Chief Financial Officer
Valters Ābele	Member of the Management Board	Chief Risk Officer
Vladislavs Mironovs	Member of the Management Board	Chief Commercial Officer Retail
Uldis Upenieks	Member of the Management Board	Chief Compliance Officer
Slavomir Mizak	Member of the Management Board	Chief Technology Officer
Kaspars Jansons	Member of the Management Board	Chief Operations Officer
Vaidas Žagūnis	Member of the Management Board	Chief Corporate Commercial Officer

As from 2 March 2020, Johan Åkerblom, previously Chief Financial Officer of the Bank, is Chairman of the Management Board. Effective from 2 March 2020, the long-time Chairman of the Management Board, Guntis Belavskis, resigned. On 1 March 2020, Vaidas Žagūnis joined the Management Board and is responsible for the development and management of the corporate business in the Baltics.

After the year-end on 1 January 2021 Vladislavs Mironovs is refocusing on Strategy execution, Digital evolution and Business development, Valters Ābele takes Chief Financial Officer role and Slavomir Mizak runs merged IT and Operations organization. Former Chief Operations Officer Kaspars Jansons resigned on 1 January 2021. Kaspars Jansons will remain in Citadele working with the shareholders. Effective from 1 February 2021, Rūta Ežerskienė joined the Management Board. Rūta Ežerskienė is responsible for the Retail business.

Johan Åkerblom, Chairman of the Management Board and Chief Executive Officer.

Johan Akerblom joined AS “Citadele banka” Management Board on February 2018 and was responsible for the financial functions of the Group. Before joining the Bank, he worked for SEB group as Chief Financial Officer for its Baltic business division in 2016 and 2017 and prior to that Johan Akerblom was Chief Financial Officer and member of the Management Board of SEB AG, SEB group’s German subsidiary. He has more than 10 years of banking experience and started his career as a management consultant with McKinsey & Co, where he spent 4 years. Johan Åkerblom holds a master’s degree in industrial management and engineering from the Lund Institute of Technology.

Valters Ābele, Chief Risk Officer (also Chief Financial Officer from 1 January 2021).

Valters Ābele is responsible for the Group’s Finance and Treasury functions as of January 2021. While the Bank is in process of selection of new Chief Risk Officer, Valters Ābele temporarily continues Chief Risk Officer responsibilities in 2021. Until January 2021 Valters Ābele has been responsible for risk analysis functions at AS „Citadele banka” and ran the Risk Sector. Previously Valters Ābele managed the Credit Risk Department at Parex banka. In December 2008, when the Latvian State took over Parex banka, Valters Ābele was invited to work in the new Board of the Bank, and after the successful split-up, he continued in the same position in the Board of Citadele. Valters Ābele has acquired extensive experience in auditing and financial consulting at companies such as Ernst & Young and Arthur Andersen. He is a member of Latvian Association of Sworn Auditors and previously a member of Association of Chartered Certified Accountants. Valters Ābele has master’s degree in business management and international economic relations from the University of Latvia.

Vladislavs Mironovs, Chief Commercial Officer Retail (Chief Strategy Officer from 1 January 2021).

Vladislavs Mironovs is responsible for the Group’s business strategy implementation, development of the Bank’s products and services and Bank’s digital evolution. He joined AS „Citadele banka” in July 2015 as Head of Strategic projects and from December 2016 until January 2021 was Chief Commercial Officer, Member of the Management Board. His former experience includes various positions in GE Money Bank. The last two years before joining Citadele, he worked as Strategic Initiatives Leader in GE Capital HQ in USA, leading the projects and assisting in developing global strategy around trade finance and multinational clients. Vladislavs Mironovs held a position of Business Development Manager in GE Capital, UK (2012-2013) and Sales and Marketing Director in GE Money Bank Latvia (2010-2012). Vladislavs Mironovs holds Executive MBA from Riga Business School.

Uldis Upenieks, Chief Compliance Officer.

Uldis Upenieks in Citadele Group is responsible for the compliance area. Uldis has 20 years of experience in the financial sector, of which last 15 years he has worked in the banking sector. Since November 2012 Uldis Upenieks was a Chairman of the Board at IPAS CBL Asset Management. Before that Uldis Upenieks worked in PrivatBank – as a Board member and as a Head of Internal audit. Prior to that Uldis Upenieks was responsible for client oversight function (2002-2009), and a vice president and the deputy director of the Risk and Compliance Sector (2009.-2011.) at Citadele. Uldis Upenieks holds a master’s degree in business administration and a bachelor’s degree in economics from the Riga Technical University and he has studied at Riga Graduate School of Law.

Slavomir Mizak, Chief Technology Officer (also Operations Officer from 1 January 2021).

Slavomir Mizak is responsible for the Group's IT and technology operations and development, as well as administrative services and bank operations at Citadele. In Citadele Group he has been working since August 1, 2017. Before joining the Bank, Slavomir Mizak was a member of the Management Board and held a position of the Chief Information Officer and the Chief Operating Officer in Zuno Bank AG (Austria) since 2014. Prior to that, he held positions of the Head of Information Technology and the Head of Information Technology Development in Zuno Bank. Before that he worked as a consultant and manager in the consulting division for financial services sector in Accenture (2002.-2009.). Slavomir Mizak holds a master's degree in Business Administration from the University of Economics in Bratislava.

Kaspars Jansons, Chief Operations Officer (resigned on 1 January 2021).

Kaspars Jansons was responsible for Group administrative services and bank operations. Kaspars has over 20 years of work experience in the banking sector. He has led Treasury sector of Citadele since the Bank's establishment in August 2010, and from October 2016 to January 2018, Kaspars Jansons worked as interim Chief Financial Officer of Citadele. Kaspars Jansons holds a master's degree in economics from the BA School of Business and Finance.

Vaidas Žagūnis, Chief Corporate Commercial Officer.

Vaidas Žagūnis is responsible for the development and management of corporate business in Citadele. Vaidas Žagūnis has been working in the banking sector for almost 18 years. He started in 2001 with client executive assistant position in SEB Bank in Lithuania, and then took different management positions mainly in SME business area. Since September 2016 Vaidas Žagūnis served as a Member of the Management board and Executive Vice President of SEB Bank in Lithuania, as a Head of Retail Banking. Vaidas Žagūnis holds a master's degree in business administration from the Kaunas University of Technology, and also has educated in Massachusetts Institute of Technology (MIT) in United States.

Rūta Ežerskienė, Chief Retail Commercial Officer from 1 February 2021.

Rūta Ežerskienė is responsible for services to retail clients, as well as organisation and supervision of the operations of the Bank's branches, client service centers and settlement groups. She joined AS „Citadele banka" in January 2021. Rūta Ežerskienė most recently was Head of Baltic Retail for AON insurance company since 2018. Before that she held different management positions in SEB, both on Baltic level and in Lithuania, including Head of Sales Department and Business transformation (years 2017-2018) and CEO in SEB Life Insurance (years 2015-2017). Rūta Ežerskienė holds Master of Business Management degree from Kaunas University of Technology.

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITY

The Management of AS Citadele banka (hereinafter – the Bank) is responsible for the preparation of the financial statements of the Bank and for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the Group).

The financial statements set out on pages 16 to 74 are prepared in accordance with the source documents and present fairly the financial position of the Bank and the Group as of 31 December 2020 and 31 December 2019 and the results of their operations, changes in shareholders' equity and cash flows for the years then ended. The management report set out on pages 4 to 14 presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

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

The Management of AS Citadele banka is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Financial and Capital Market Commission and other legislation of the Republic of Latvia applicable for credit institutions.

Johan Åkerblom Chairman of the Management Board	Klāvs Vasks Member of the Supervisory Board

THE DOCUMENT IS SIGNED USING A QUALIFIED ELECTRONIC SIGNATURE AND CONTAINS A TIMESTAMP

STATEMENT OF INCOME

	Note	2020 Group	2019 Group	2020 Bank	2019 Bank
		EUR thousands			
Interest income	5	90,124	100,555	81,144	91,126
Interest expense	5	(22,584)	(15,914)	(22,484)	(16,013)
Net interest income		**67,540**	**84,641**	**58,660**	**75,113**
Fee and commission income	6	51,761	56,388	43,445	47,406
Fee and commission expense	6	(21,580)	(25,467)	(20,745)	(24,836)
Net fee and commission income		**30,181**	**30,921**	**22,700**	**22,570**
Net financial income	7	(17,463)	8,196	(17,591)	6,867
Net other income / (expense)	8	14,409	172	(163)	4,711
Operating income		**94,667**	**123,930**	**63,606**	**109,261**
Staff costs	9	(50,888)	(53,319)	(44,141)	(47,572)
Other operating expenses	10	(21,057)	(21,782)	(17,540)	(17,166)
Depreciation and amortisation	20	(8,044)	(7,690)	(7,688)	(7,271)
Operating expense		**(79,989)**	**(82,791)**	**(69,369)**	**(72,009)**
Profit before impairment		**14,678**	**41,139**	**(5,763)**	**37,252**
Net credit losses	11	(9,351)	(2,405)	(10,379)	(442)
Other impairment losses and other provisions	12	(1,106)	(1,305)	11,805	2,485
Operating profit / (loss) before non-current assets held for sale		**4,221**	**37,429**	**(4,337)**	**39,295**
Result from non-current assets held for sale		(307)	404	(307)	(71)
Operating profit / (loss)		**3,914**	**37,833**	**(4,644)**	**39,224**
Income tax	13	(306)	(1,329)	(117)	(248)
Net profit / (loss)		**3,608**	**36,504**	**(4,761)**	**38,976**
Basic earnings per share in EUR	26	0.02	0.23	(0.03)	0.25
Diluted earnings per share in EUR	26	0.02	0.23	(0.03)	0.25

The notes on pages 21 to 74 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	EUR thousands			
	2020 Group	**2019 Group**	**2020 Bank**	**2019 Bank**
Net profit / (loss)	**3,608**	**36,504**	**(4,761)**	**38,976**
Other comprehensive income items that are or may be reclassified to profit or loss:				
Fair value revaluation reserve				
Fair value revaluation reserve charged to statement of income (Note 7)	(1,123)	(1,284)	(1,023)	(589)
Change in fair value of debt securities and similar	(809)	6,929	(609)	4,395
Deferred income tax charged / (credited) directly to equity	88	(259)	-	-
Other reserves				
Foreign exchange retranslation	144	875	-	-
Other comprehensive income items that may not be reclassified to profit or loss:				
Fair value revaluation reserve				
Change in fair value of equity and similar instruments	8	1,648	8	1,647
Transfer to retained earnings	927	(1,395)	927	(1,395)
Other comprehensive income / (loss)	**(765)**	**6,514**	**(697)**	**4,058**
Total comprehensive income / (loss)	**2,843**	**43,018**	**(5,458)**	**43,034**

The notes on pages 21 to 74 are an integral part of these financial statements.

BALANCE SHEET

	Note	31/12/2020 Group	31/12/2019 Group Reclassified (Note 3 ee)	31/12/2020 Bank	31/12/2019 Bank Reclassified (Note 3 ee)
		EUR thousands			
Assets					
Cash and cash balances at central banks	14	1,146,606	707,914	1,131,008	691,455
Loans to credit institutions		51,287	121,395	40,289	96,021
Debt securities	15	1,760,190	1,208,479	1,563,675	972,315
Loans to public	16	1,541,223	1,567,898	1,518,313	1,589,255
Equity instruments	18	4,764	5,092	4,764	5,092
Other financial instruments	19	43,343	39,972	13,834	6,434
Derivatives	27	1,474	960	1,474	960
Investments in related entities	19	274	-	46,756	34,161
Tangible assets	20	12,930	49,989	14,143	18,231
Intangible assets	20	5,981	4,698	5,832	4,571
Current income tax assets	13	885	707	878	707
Deferred income tax assets	13	2,387	2,429	2,179	2,179
Non-current assets held for sale		946	2,862	946	2,862
Other assets	21	25,028	30,373	16,355	23,200
Total assets		**4,597,318**	**3,742,768**	**4,360,446**	**3,447,443**
Liabilities					
Deposits from credit institutions and central banks	22	449,991	1,637	470,959	39,287
Deposits and borrowings from customers	23	3,671,390	3,289,534	3,478,096	2,990,630
Debt securities issued	24	60,080	60,044	60,080	60,044
Derivatives	27	4,461	528	4,461	528
Provisions	11	2,211	4,150	2,133	4,108
Current income tax liabilities	13	213	581	115	-
Deferred income tax liabilities	13	464	676	-	-
Other liabilities	25	64,198	44,893	27,003	30,532
Total liabilities		**4,253,008**	**3,402,043**	**4,042,847**	**3,125,129**
Equity					
Share capital	26	156,556	156,556	156,556	156,556
Reserves and other capital components		10,265	11,276	4,469	5,412
Retained earnings		177,489	172,893	156,574	160,346
Total equity		**344,310**	**340,725**	**317,599**	**322,314**
Total liabilities and equity		**4,597,318**	**3,742,768**	**4,360,446**	**3,447,443**
Off-balance sheet items					
Guarantees and letters of credit	27	23,903	22,809	23,246	22,107
Financial commitments	27	261,050	330,250	276,089	410,928

The notes on pages 21 to 74 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Group, EUR thousands						
	Issued Share capital	Securities fair value revaluation reserve (*Note 15*)	Foreign currency retrains-lation	Statutory reserves	Share based payments	Retained earnings	Total equity
Balance as of 31/12/2018	**156,556**	**(951)**	**3,119**	**1,313**	**387**	**136,376**	**296,800**
Total comprehensive income for the period							
Net profit for the period	-	-	-	-	-	36,504	36,504
Share based payments to employees	-	-	-	-	812	95	907
Other comprehensive income / (loss) for the period	-	7,034	875	-	-	(1,395)	6,514
Transactions with shareholders							
Transfer to reserves	-	-	-	(1,313)	-	1,313	-
Balance as of 31/12/2019	**156,556**	**6,083**	**3,994**	**-**	**1,199**	**172,893**	**340,725**
Total comprehensive income for the period							
Net profit / (loss) for the period	-	-	-	-	-	3,608	3,608
Share based payments to employees	-	-	-	-	681	61	742
Other comprehensive income / (loss) for the period	-	(1,836)	144	-	-	927	(765)
Balance as of 31/12/2020	**156,556**	**4,247**	**4,138**	**-**	**1,880**	**177,489**	**344,310**

	Bank, EUR thousands				
	Issued Share capital	Securities fair value revaluation reserve (*Note 15*)	Share based payments	Retained earnings	Total equity
Balance as of 31/12/2018	**156,556**	**(1,240)**	**387**	**112,117**	**267,820**
Total comprehensive income for the period					
Net profit for the period	-	-	-	38,976	38,976
Share based payments to employees	-	-	812	95	907
Other comprehensive income / (loss) for the period	-	5,453	-	(1,395)	4,058
Transactions with shareholders					
Integration of AB Citadele bankas	-	-	-	10,553	10,553
Balance as of 31/12/2019	**156,556**	**4,213**	**1,199**	**160,346**	**322,314**
Total comprehensive income for the period					
Net profit / (loss) for the period	-	-	-	(4,761)	(4,761)
Share based payments to employees	-	-	681	62	743
Other comprehensive income / (loss) for the period	-	(1,624)	-	927	(697)
Balance as of 31/12/2020	**156,556**	**2,589**	**1,880**	**156,574**	**317,599**

The notes on pages 21 to 74 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Note	2020 Group	2019 Group	2020 Bank	2019 Bank
		EUR thousands			
Operating activities					
Operating profit before tax		3,914	37,833	(4,644)	39,224
Interest income	5	(90,124)	(100,555)	(81,144)	(91,126)
Interest expense	5	22,584	15,914	22,484	16,013
Dividends income		(42)	(43)	(42)	(3,348)
Depreciation and amortisation	20	8,044	7,690	7,688	7,271
Impairment allowances and provisions	11, 12	10,457	3,710	(1,426)	(2,043)
Sale of tangible assets	8	(17,491)	-	(813)	-
Currency translation and other non-cash items		11,233	(768)	15,396	13,591
Cash flows from the income statement		**(51,425)**	**(36,219)**	**(42,501)**	**(20,418)**
(Increase) / decrease in loans to public		15,767	(178,290)	58,927	(161,455)
Increase / (decrease) in deposits and borrowings from customers		380,542	644,839	486,119	621,343
(Increase) / decrease in loans to credit institutions		8,335	7,129	7,435	(4,202)
Increase / (decrease) in deposits from central banks and credit institutions		447,744	(6,056)	433,077	(1,453)
(Increase) / decrease in other items at fair value through profit or loss		3,419	(1,291)	3,418	(1,294)
(Increase) / decrease in other assets		6,846	806	8,366	(679)
Increase / (decrease) in other liabilities		15,033	3,171	(1,599)	(10,025)
Cash flows from operating activities before interest and corporate income tax		**826,261**	**434,089**	**953,242**	**421,817**
Interest received		90,682	100,578	81,725	90,311
Interest paid		(16,459)	(12,630)	(16,342)	(12,055)
Corporate income tax paid		(811)	(1,598)	(173)	(802)
Cash flows from operating activities		**899,673**	**520,439**	**1,018,452**	**499,271**
Investing activities					
Acquisition of tangible and intangible assets		(5,222)	(4,195)	(5,168)	(3,864)
Disposal of tangible and intangible assets		58,075	30	2,893	13
Investments in debt securities and other financial instruments		(1,427,884)	(738,596)	(1,268,422)	(602,030)
Proceeds from debt securities and other financial instruments		858,433	526,471	653,020	407,290
Dividends received		42	43	42	3,348
Increase in cash and cash equivalents as a result of integration of AB Citadele bankas	2	-	-	-	222,022
Sale or investments in subsidiaries		-	-	649	(2,679)
Cash flows from investing activities		**(516,556)**	**(216,247)**	**(616,986)**	**24,100**
Financing activities					
Interest paid on debt securities and other subordinated liabilities		(3,636)	(3,633)	(3,636)	(3,633)
Repayment of lease liabilities		(1,989)	(1,486)	(4,003)	(3,929)
Cash flows from financing activities		**(5,625)**	**(5,119)**	**(7,639)**	**(7,562)**
Cash flows for the period		**377,492**	**299,073**	**393,827**	**515,809**
Cash and cash equivalents at the beginning of the period		**799,058**	**499,985**	**754,370**	**238,561**
Cash and cash equivalents at the end of the period	30	**1,176,550**	**799,058**	**1,148,197**	**754,370**

The notes on pages 21 to 74 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

If not mentioned otherwise, referral to the Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures. Figures in parenthesis represent amounts as of 31 December 2019 or for the year ended 31 December 2019.

NOTE 1. AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management Board and comprise the financial information of AS Citadele banka (hereinafter – the Bank or Citadele) and its subsidiaries (together – the Group). According to the Commercial Law of the Republic of Latvia, the shareholders' have the right to make the decision on the approval of these financial statements.

NOTE 2. GENERAL INFORMATION

Citadele is a Latvian-based bank offering retail, private banking, asset management, lending, leasing and other commercial banking services. As of period end the Bank operates branches in Latvia, Lithuania and Estonia. AS Citadele banka is the parent company of the Group, which has a subsidiary bank in Switzerland and several financial services subsidiaries. The Group's main market is the Baltics (Latvia, Lithuania and Estonia). Citadele was registered as a joint stock company on 30 June 2010. Citadele commenced its operations on 1 August 2010.

As of 31 December 2020, the Group had 1,230 (2019: 1,369) and the Bank had 1,152 (2019: 1,292) full time equivalent active employees.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) New standards and amendments

New accounting and financial reporting standards, interpretations and amendments which were not applicable to the previous annual financial statements since then have been issued. Some of the standards become effective in 2020, others become effective for later reporting periods. In this section those relevant for the Group are summarised. Where the implementation impact was or is expected to be reasonably material it is disclosed.

New requirements effective for 2020 which did not have a significant effect to the Group:

Amendments to References to Conceptual Framework in IFRS Standards
Amendments to IFRS 3 – Definition of a Business
Amendments to IAS 1 and IAS 8 – Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform. Most of the Group's floating-rate loans to public are indexed to Euribor interest rate. The reform of Euribor is now complete and consisted of a change to the underlying calculation methodology. The calculation methodology of Euribor changed during 2019. Market participants are allowed to continue to use Euribor for both existing and new contracts. The Group expects that Euribor will continue to exist as a benchmark rate for the foreseeable future. Thus, the Group does not consider contracts indexed to the Euribor benchmark interest rate to be directly affected by uncertainty about interbank offered rate (IBOR) reform.

The Group as of 31 December 2020 has floating-rate loans to public with total carrying amount of approximately EUR 57 million which are indexed to Libor interest rate. Part of the exposure would mature before the anticipated cessation dates for Libor rates. For EUR denominated exposures the Group is interacting with clients to update Libor reference rate to Euribor to facilitate smooth transition for clients.

The Group as of 31 December 2020 has no outstanding derivative exposures or liabilities which would be affected by IBOR reform.

Upcoming requirements not impacting 2020 financials

Certain new standards, amendments to standards and interpretations have been endorsed by EU for the accounting periods beginning after 1 January 2020 or are not yet effective in the EU. These standards have not been applied in preparing these financial statements. The Group does not plan to adopt any of these standards early. The Group is in the process of evaluating the potential effect if any of changes arise from these new standards and interpretations.

IFRS 17 - Insurance Contracts. Expected to be effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted as long as IFRS 9 and IFRS 15 are also applied. The upcoming standard combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract. Groups of insurance contracts have to be measured at a risk-adjusted present value of the future cash flows adjusted for unearned profits or losses. Profit from a group of insurance contracts is recognised over the period the insurance cover is provided, and as the risk is released; loss from a group of contracts is recognised immediately. The standard requires presenting insurance service results separately from insurance finance income or expenses and requires to make an accounting policy choice of whether to recognise all insurance finance income or expenses in profit or loss or to recognise some of that income or expenses in other comprehensive income.

Amendments to IAS 37 – Onerous contracts – Cost of Fulfilling a Contract
Amendment to IFRS 16 – COVID-19-Related Rent Concessions
Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IFRS 3 – Reference to Conceptual Framework
Amendments to IAS 1 – Classification of Liabilities as Current or Non-current
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2

b) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union and relevant Financial and Capital Markets Commission's (FCMC) regulations on a going concern basis. The financial statements are prepared under the historical cost convention, except for assets measured at fair value through other comprehensive income, financial assets and financial liabilities measured at fair value through profit or loss and all derivative contracts, which have been measured at fair value.

Having reassessed the environments, the Management considers going concern basis of accounting appropriate in preparing these financial statements; there are no material uncertainties in applying going concern basis of accounting. The Group's financial and capital position, business activities, its risk management objectives and policies and the major risks to which the Group is exposed to are disclosed in the Risk Management section of these financial statements. Liquidity risk management is particularly important in respect to the going concern convention, as a failure to have a sufficient funding to meet payment obligations due may result in an extraordinary borrowing at excessive cost, regulatory requirement breach, delays in day-to-day settlements activities or cause the Group to no longer be a going concern; for more details refer to Liquidity risk management section. Regulatory compliance, especially capital adequacy requirements, is also significant to the going concern of the Group. The Group conducts and plans business in accordance with the available capital and in line with other regulatory requirements. For capital adequacy ratios as at period end refer to the Capital management section. The Group has implemented a comprehensive liquidity risk management and capital planning framework and policies and procedures to manage other risks.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Management's best knowledge of current events and actions, actual results ultimately may differ from the estimated. For more details refer to paragraph *ff)*.

c) Functional and Presentation Currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank, its Baltic subsidiaries, and the Group's presentation currency, is Euro ("EUR"). The functional currency of majority of the Group's foreign subsidiaries is also Euro. The accompanying financial statements are presented in thousands of Euros.

d) Basis of consolidation

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 financials of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The investments in the subsidiaries are presented in the Bank's financial statements at cost. More detailed information on the Group's subsidiaries is presented in Note 19 (*Investments in Related Entities*).

The financial statements of AS Citadele banka and its subsidiaries are consolidated in the Group's financial statements on a line by line basis by aggregating like items of assets, liabilities, income and expenses. For the purposes of consolidation, intragroup balances and intragroup transactions, including interest income and expense as well as unrealised profits and loss resulting from intragroup transactions, are eliminated in the Group's financial statements.

e) Income and expense recognition

Income and revenue are only recognised, if the Group is likely to receive economic benefits associated with the transaction. Interest income and expense items are recognised on an accrual basis using the effective interest rate. Commissions in respect of the acquisition of financial assets or the issue of financial liabilities that are not at fair value through profit or loss are deferred and recognised as an adjustment to the effective yield on the respective asset or liability. The Group presents the fee income from financial guarantees as part of fee and commission income. For loan commitments which are not expected to result in draw-down, the reservation fee is credited to the income statement on a straight-line basis over the commitment period. For a contract with a customer containing a financial instrument, the part that relates to financial instrument is measured and separated first and then to the residual part recognised appropriately as revenue from contracts with customers.

Revenue from contracts with customers, including account servicing fees, asset management fees, custody fees and sales commissions are credited to the statement of income as the related services are performed and control over a service is transferred to a customer. Revenue from customers is recognised as fee and commission income or other income. Revenue may be recognised at a point in time or over the time. Over time revenue recognition is proportional to progress towards satisfying a performance obligation by transferring control of promised services to a customer. Revenue which does not qualify for recognition over time is recognised at a point in time when the service is rendered or product is sold. The Group has no material receivables and contract liabilities from contracts with customers.

The nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies for the major categories of commission income:

Cards, payments and transactions – regular fees for accounts servicing, cards and product packages are charged to the customers on a monthly basis according to the price list; revenue is recognised over time as the services are provided. Transaction-based fees for payments, foreign to the customer's when the transaction takes place and revenue is recognised at the point in time when the currency transactions and similar are charged transaction takes place.

Asset management, custody and securities – fees are calculated based on a fixed percentage of the value of assets managed or held in custody and are deducted from the customer's account on a monthly basis. Upon commencement of the service an insignificant non-refundable initial fee may be charged as a compensation for client's screening, agreement and other services provided. Revenue from management and custody services is recognised over time as the services are provided.

Fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received. Penalty income is recognised on cash-received basis as often there is significant uncertainty about collectability.

f) Foreign currency translation

Transactions denominated in foreign currencies are recorded in Euros at the rates of exchange effective at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency, such as investments in equity instruments, are translated using the exchange rates at the date when the fair value was determined and the impact from changes in foreign exchange rates are treated as foreign exchange gain/loss in the statement of income, with exception of non-monetary financial assets at fair value through other comprehensive income for which any foreign exchange gain or loss is recognised in other comprehensive income. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the official rate of exchange prevailing at the reporting date. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of income as profit or loss from revaluation of foreign currency positions.

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised as other comprehensive income.

g) Staff costs and related contributions

The Group recognises employee financial benefits when an employee has rendered services in exchange for these financial benefits.

The Group's personnel expenses relate mostly to short term benefits and related tax expense. The Group pays social security contributions to state pension insurance and to state-funded pension scheme in accordance with the relevant regulations. In most countries where the Group operates, a part of the social insurance contributions is used to fund the state defined contribution pension system. The state-funded pension scheme is a defined contribution plan under which the Group pay fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or the state-funded pension scheme is not able to settle their liabilities to employees. The social security contributions are accrued in the period in which the associated services are rendered by the employees of the Group.

Citadele has a multi-year long-term incentive plans for its employees. Under the approved long-term incentive plans share options are granted. Settlement is expected in shares of Citadele. Each option grants eligibility to one ordinary share of Citadele and has an exercise price of null euros. Vesting dates are predetermined. For each participant individual performance conditions aligned with business plan and strategic objectives of Citadele apply. The Remuneration and Nomination Committee of the Supervisory Board is responsible for aligning, setting and amending individual performance conditions. Granted options may be forfeited to the extent any of the performance conditions are not satisfied at sole discretion of the committee.

Expense for share-based remuneration is measured at fair value at the grant date. Share-based remuneration may be in a form of Citadele shares or conditional share options. The grant date is the date at which the entity and the participating employee agree to a share-based payment arrangement and an internal approval is obtained. The fair value is the estimated share price reduced by the present value of dividends that participants will not receive and value of other restricting terms of the compensation agreed. Expense for share-based remuneration is re-measured only if the compensation arrangement is modified so that the fair value after modification has increased compared to the fair value before modification. Such increase is recognised as compensation expense at the re-measurement date.

The expense is recognised on a straight-line basis over the period of the remuneration program as intention is to receive services from employees over the whole period. For share options granted a corresponding increase in equity is recognised as other reserves. Estimates of actual or expected forfeitures are re-estimated at each reporting date and if necessary, previously recognised other reserves are reversed directly to the retained earnings. After deferral period, when vesting conditions are met and conditional share option exercised, previously recognised other reserves are transferred to issued share capital and share premium accounts.

h) Customer loyalty programmes

To reward and promote customers to actively use products of the Group, the Group has implemented several customer loyalty programs. Loyalty point and similar incentives represent discounts that a customer can choose to use in the future to acquire additional goods or services of retail nature. A portion of the transaction price is allocated to the material performance obligation not yet fulfilled. All benefits awarded to customers are fully accrued at the moment the benefits are awarded. The amount allocated is based on the stand-alone price of the loyalty incentive. Revenue and related costs in the income statement are recognised when the Group has satisfied its performance obligations relating to the loyalty incentive or when the incentive expire or are cancelled.

i) Corporate income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current corporate income tax assets and liabilities are measured at the amount expected to be obtained from or paid to tax authorities. Certain Group companies pay income tax on profit distribution (e.g. dividends). Correspondingly, for these Group companies, income tax on profit distribution is recognised as expenses only at the moment dividends are declared.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences are reversed or the tax loss carry forwards are utilised. The deferred tax balance is measured at a tax rate which is applicable for undistributed profits until decision of profits distribution is made. Therefore, for jurisdictions where income tax is payable on profit distribution (e.g. dividends) any deferred tax liabilities or benefits are recognised at a tax rate applicable to undistributed profits. When applicable at the Group level the deferred tax is recognised at the expected future taxable dividend rate. Deferred tax assets and liabilities are netted only within the individual companies of the Group and only if certain criteria are met. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The carrying amount of deferred corporate income tax asset, if any, is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium-term financial forecast prepared by management and extrapolated results thereafter. The financial forecast is based on management expectations that are believed to be reasonable under the current circumstances.

j) Financial instruments classification and measurement

The Group recognises a financial asset on its balance sheet when, and only when, the Group becomes a party to the contract. Financial assets are classified as either subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The basis for classification is both business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. At acquisition the applicable classification is evaluated based on the guidelines established by the Group. For financial asset classification to a particular category, the Group at inception determines that the asset meets the relevant business model and contractual cash flow criteria. The business model is observable through the activities of the Group. It refers to how the Group typically manages its financial assets in order to generate cash flows; thus, the assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur. In a stress case, if cash flows are realised in a way that is different from the Group's expectations embedded in the business model, it does not give rise to a prior period error nor does it change the classification of the remaining financial assets held in that business model. However, for future acquisitions past cash flows are considered and may give rise to change in the business model.

At initial recognition, the financial assets or financial liabilities are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable incremental transaction costs. All "regular way" purchases and sales of investments are recognised using settlement date accounting. The settlement date is the date when an asset is delivered to or by the Group. Settlement date accounting refers to the recognition of an asset on the day it is transferred to the Group and to the de-recognition of an asset, on the day that it is transferred by the Group.

Financial assets and liabilities measured at amortised cost

For a financial asset to be measured at amortised cost it should both be held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost are carried at amortised cost using the effective interest rate method, less any allowance for impairment. The impairment allowance for financial assets that are not-credit impaired (stage 1 and stage 2 classified) is measured as the present value of all cash shortfalls which is the difference between the cash flows due to the Group in accordance with contract and the cash flows that the Group expects to receive discounted at the effective interest rate of a financial asset. The impairment allowance for financial assets that are credit impaired at the reporting date (stage 3 classified) is measured as the difference between the gross carrying amount and the present value of estimated future cash flows discounted at the effective interest rate of the financial asset. For the purchased or originated credit-impaired financial assets the credit-adjusted effective interest rate is applied from initial recognition.

A gain or loss on a financial asset that is measured at amortised cost is recognised in the profit or loss when the financial asset is derecognised, reclassified, through the amortisation process or to recognise impairment gains or losses. Financial assets at amortised cost are recognised on drawdown. From the date of signing a contractual agreement till drawdown, the contractually committed amounts are accounted for as off-balance sheet commitments.

Modification or renegotiation of contractual cash flows of a financial asset that does not result in de-recognition of that financial asset, requires the Group to recalculate the gross carrying amount of the financial asset and recognise a modification gain or loss in profit or loss. The gross carrying amount is recalculated as the present value of the renegotiated or modified contractual cash flows through the expected life of the asset that are discounted at the financial asset's original effective interest rate or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets. When estimating the expected cash flows, all contractual terms and payments are considered, except for the expected credit losses, unless the financial asset is a purchased or originated credit-impaired financial asset. Costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

When the financial asset or part of it cannot be recovered, it or the respective part is written-off and charged against impairment for credit losses. The Group makes the decision regarding any write-off of financial assets based on existence and valuation of collateral available for a foreclosure, and the likelihood and the amount of any other expected future cash flows. Recoveries of previously written-off assets or parts of assets are credited to the statement of income.

The Group classifies all financial liabilities as subsequently measured at amortised cost using the effective interest rate method, except for derivatives and certain deposit components of the insurance plan liabilities which are measured at fair value through profit or loss. A gain or loss on a financial liability that is measured at amortised cost is recognised in profit or loss when the financial liability is derecognised and through the amortisation process.

Financial assets measured at fair value through other comprehensive income

For a financial asset to be measured at fair value through other comprehensive income it should both be held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset should give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group's financial assets measured at fair value through other comprehensive income are intended to be held for an undefined period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets measured at fair value through other comprehensive income are subsequently re-measured at fair value based on available market prices. A revaluation gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. For debt securities the difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income and is recognised in profit or loss; on derecognising the cumulative fair value revaluation gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

For non-equity financial instruments measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount in the balance sheet. Impairment gains or losses are recognised in profit or loss.

For equity instruments that are neither held for trading nor acquired in a business combination, the Group at initial recognition, has to make an irrevocable election to present subsequent changes in the fair value of each instrument in other comprehensive income or profit or loss. This election is made on an instrument-by-instrument basis. Amounts presented in other comprehensive income subsequently are not transferred to profit or loss, but cumulative gain or loss on disposal is transferred directly to retained earnings. Dividends on equity instruments classified at fair value through other comprehensive income are recognised in the statement of income. Such equity instruments are not tested for impairment, but carried at fair value.

Financial assets and liabilities measured at fair value through profit or loss

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. For equity instruments that would otherwise be measured at fair value through profit or loss an irrevocable election at initial recognition on instrument-by-instrument basis is made to present subsequent changes in fair value in other comprehensive income. Also a financial asset or liability, at initial recognition, may be irrevocably designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces “accounting mismatch” that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, or when a group of financial liabilities or a group of financial assets and financial liabilities are managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the management.

Excluding interest on interest rate swaps, interest on financial assets measured at fair value through profit or loss is included in net interest income. Revaluation and trading gains or losses arising from changes in fair value of financial assets or financial liabilities that are measured at fair value through profit or loss, as well as interest on interest rate swaps, are recognised directly in the statement of income as net financial income. Such financial assets and liabilities are subsequently re-measured at fair value based on available market prices or quotes of brokers.

Included in this category are (a) unit-linked investment contract liabilities and respective investments and (b) certain life insurance contract liabilities, which are managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. According to unit-linked investment contract terms, the credit risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering into the insurance agreement and not the underwriter. As such, by designating both assets acquired and liabilities undertaken at fair value through profit or loss, a potential accounting mismatch is avoided.

Financial assets and liabilities which are held for trading are measured at fair value through profit or loss. Financial assets and liabilities are held for trading if they are either acquired in a business model which is characterised by generation of a profit from short-term fluctuations in price or dealer’s margin, or a pattern of short-term profit taking exists.

Derivative Financial Instruments

In the ordinary course of business, the Group engages as a party to contracts for forward foreign exchange rate, currency and sometimes interest rate swap instruments and other derivative financial instruments. All derivatives are classified as measured at fair value through profit or loss.

Subsequent to initial recognition, outstanding forward foreign exchange rate contracts, currency swaps and other derivative financial instruments are carried in the balance sheet at their fair value. The fair value of these instruments is recognised on the balance sheet as derivative assets and liabilities.

Gains or losses from changes in the fair value of outstanding forward foreign exchange rate contracts, currency and interest rate swaps and other derivative financial instruments are recognised in the statement of income as they arise.

k) Sale and repurchase agreements

These agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group is the transferor, assets transferred remain on the Group’s balance sheet and are subject to the Group’s usual accounting policies, with the purchase price received included as a liability owed to the transferee. Assets in the balance sheet are shown separately from other assets when the transferee has the right by contract or custom to sell or re-pledge the collateral.

Where the Group is the transferee, the assets are not included in the Group’s balance sheet, but the purchase price paid by it to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognised in the statement of income over the term of the agreement.

l) De-recognition of financial assets and liabilities

Financial assets

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

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

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

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for de-recognition are therefore not met.

Financial liabilities

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

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

Debt securities issued and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

After an initial measurement, being a fair value minus directly attributable transaction costs, in the case of a financial liability not at fair value through profit or loss, debt issued, subordinated liabilities and borrowings are measured at amortised cost and any difference between net proceeds and value at redemption is recognised in the statement of income over the period of borrowing using the effective interest rate.

m) Fair values of financial assets and liabilities

Fair value is the price that would be received from the sale of 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 has access at that date. The fair value of a liability reflects its non-performance risk. Where available and reasonably reliable, fair values are determined by reference to observable market prices. Where representative market prices are not available or are unreliable, fair values are determined by using valuation techniques which refer to observable market data. These include prices obtained from independent market surveys, comparisons with similar financial instruments, discounted cash flow analyses and other valuation techniques commonly accepted and used by market participants.

Future events may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. Furthermore, changes and movements in market conditions may affect accuracy of the fair value calculations so that the actual outcome of a transaction is different from the one reported in the financial statements. Also, when changed, management estimates used in preparing these financial statements could impact the reported results of the Group.

n) Leases

Finance leases – Group as lessor

Finance leases, which transfer substantially all the risks and rewards incidental to ownership of the assets, are recognised as assets at amounts equal at the inception of the lease to the net investment in the lease. The finance income is allocated over time period in-line with the lease term to produce a constant return on the net investments outstanding in respect of the finance leases. Finance lease receivables are presented as loans to public.

Operating leases – Group as lessor

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognised in statement of income over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

The depreciation policy for depreciable leased assets is consistent with the lessor's normal depreciation policy for similar assets, and depreciation is calculated in accordance with accounting policies, used for the Group's tangible assets.

Group as lessee

A lease is a contract, or a part of a contract, that conveys the right to use asset (the lease asset) for a period of time in exchange for consideration. For qualifying lease assets, upon lease commencement, a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs. Subsequently the right-of-use asset is measured using a cost model. A right-of-use asset is measured at cost less any accumulated depreciation and impairment. The lease liability is initially measured as a discounted value of payments agreed over the lease term. An incremental borrowing rate which discounts future payments to estimated present value is applied. The Group presents right-of-use assets in the same line items in which it presents assets of the same nature that it owns. Lease liabilities are presented within other liabilities. The Group uses the practical expedient of low-value items where any item generating cash outflows of less than EUR 5 thousand during the lease term is expensed as incurred with no right-of-use asset or lease liability recognition.

When estimating lease term, the Group's intentions as well as contractual early termination and extension options of lessee and lessor are considered. When a previously recognised lease is modified and the scope of the lease increases and the increase in compensation is commensurate, a new separate lease is recognised. If the increase in compensation is not commensurate or the scope of the lease decreases the current right-of-use asset and corresponding lease liability is re-measured. In case of a decrease in scope of the lease a gain or loss (if any) is recognised in the income statement.

For lease contracts with eligible extension or early termination clauses a lease term equal to the planning horizon of three years is often applied unless the lease term is shorter already. In case of branches this is based on a plan to move towards a more digital model less dependent on the physical presence. For lease of the headquarters building and certain other lease items a three years lease term assumption is applied linking this to the business planning horizon of the Group. Incremental borrowing rate, derivate from the Bank's deposit rate, but adjusted for additional spread for absence of deposit guarantee for leases, is applied.

When a transfer of an asset by the seller-lessee satisfies the requirements of IFRS 15 to be accounted for as a sale of the asset, the seller-lessee measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, on the day of sale the seller-lessee recognises only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. The Group accounts for the deferred sales gain as a reduction of the right of use asset that would be recognised otherwise, in effect presenting the leaseback right of use asset at the before sales carrying value, though applying the most recent expectations when determining lease period. The deferred sales gain is amortised to income statement over the lease period, but not as a gain, but as a reduction in the right of use depreciation charges.

o) Renegotiated loans and debt forbearances

For economic or legal reasons, the Group might enter into a forbearance agreement with borrowers in financial difficulties in order to ease the contractual obligation for a limited period of time. By taking into account exposure specifics, an individual approach is practised. Generally, debt forbearance will take a form of payment deferral to a later time with the amount payable and interest due re-compensated at a later date. Renegotiated loans are considered non-overdue as long as contractual payments are made on contractually due dates. When the terms of a financial asset are renegotiated or modified a de-recognition assessment is made. When modifications result in de-recognition of the existing financial asset, than the estimated fair value of the asset is treated as cash inflow from the existing financial asset and a new contract is recognised at fair value plus any eligible transaction costs. When modification results in de-recognition, a new loan is recognised and allocated to Stage 1, if not credit-impaired at that time. When modification or renegotiation of contractual cash flows of a financial asset does not result in de-recognition of financial asset, the Group recalculate the gross carrying amount of the financial asset and recognise a modification gain or loss in profit or loss. For discounting expected future cash flows the financial asset's original effective interest rate or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets is applied.

p) Impairment of loans to public and provisions for loan commitments, guarantees and letters of credit

The economic conditions of the markets the Group operates in may have an impact on the borrowers' ability to repay their debts. The Management of the Group considers both specific exposures and portfolio-level risks in determining the balance of impairment allowance for expected credit losses. The expected credit loss assessment is forward-looking and is based on unbiased and probability-weighted information about past events, current conditions and forecasts of future economic conditions. Impairment allowance for expected credit losses is recognised even if no credit loss event has happened. A loan or portfolio of loans to public is impaired and impairment losses are incurred if, and only if, there is objective evidence that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans to public, and it can be reliably estimated.

Loss allowances for expected credit losses on loan commitments and financial guarantee contracts are recognised as provisions. The provisioning principles for expected losses arising from off-balance sheet financial commitments and contingent liabilities are consistent with the principles and methods applied for on-balance sheet exposures. Additional considerations are applied to adjustments for expected conversion and future use patterns of the committed limits and the Group's performance in timely identification and termination of limits for deteriorating exposures.

Expected credit losses are recognised based on the stage in which the exposure is allocated at the reporting date. 12-month expected credit losses are recognised for Stage 1 exposures, where credit risk has not increased since initial recognition. Lifetime expected credit losses are recognised for Stage 2 exposures whose credit risk has increased significantly since initial recognition and for Stage 3 exposures which are credit impaired. Days past due is one of the main quantitative indicators used to assess the 'significant increase in credit risk' (proxy for transferring exposures from Stage 1 to Stage 2) augmented by other additional risk factors (e.g. internal credit rating grade, forbearance, breach of financial covenants). Significant increase in credit risk in comparison to the initial credit risk is the criteria for transfer to Stage 2. The 'default' is defined in line with the prudential definition of the default: exposure delayed for certain amount of days or more, exposure is individually impaired, significant forbearance and other unlikeliness to pay indicators. The 'default' is the criteria for a transfer to Stage 3. Exposure is no longer considered to have significantly increased credit risk (transfer from Stage 2 to Stage 1) or default (transfer from Stage 3 to Stage 2) when specific time period has passed (in some instances up to 2 years) from the moment when all increased risk or default factors are no longer observed. Significant forbearance measures are within risk factors for which an extended monitoring period applies. The length of the monitoring period is proportionate to the significance of the risk factor observed and forbearance measures undertaken. The models are calibrated for transfer of exposures to lower stage to happen only when a significant reduction in the risk of non-performance has been observed beforehand.

The Group first assesses whether objective evidence of impairment exists individually for loans to public that are individually significant, and individually or collectively for loans that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes that loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. As soon as information is available that specifically identifies losses on individually impaired loans included in a group of loans with similar credit risk characteristics, those loans are removed from the group. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For collective measurement of expected credit losses, the Group has selected to use EAD x PD x LGD approach, where EAD stands for exposure at default, PD – probability of default, and LGD – loss given default. To estimate probability weighted cash flows, the Group uses single scenario expected cash flow method with overlays for alternative scenarios for macroeconomic factors. The major macroeconomic factors considered are unemployment rate, average monthly wage, year-on-year change in inflation rate, real gross domestic product and real estate prices. PDs and LGDs are derived from historic performance of the loans to public. 'Point in time' probabilities (probability of default in the current economic conditions, as opposed to economic cycle-neutral 'through the cycle' probabilities of default as often used for regulatory purposes) are used for PDs. Correspondingly, estimated PDs are expected to change through the economic cycle. For measurement of expected credit loses financial instruments are grouped on the basis of shared credit risk characteristics. The grouping considers distinct characteristics in industry, product type, collateral type and geographical location of the borrower.

A loan is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a loan is credit-impaired includes observable data about the following events:

- significant financial difficulty of the borrower;

- a breach of contract, such as a default or delinquency in interest or principal payments, persistent and major covenant noncompliance;
- granting to the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, a material concession that the lender would not otherwise consider;
- the borrower entering bankruptcy or other financial reorganisation becomes highly probable;
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- a combination of several other events that cause a loan to become credit-impaired.

For a loan that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, the expected credit losses are measured as the difference between the loan's gross carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Any adjustment is recognised as an impairment gain or loss. The assessment of whether lifetime expected credit losses should be recognised is based on significant increases in the likelihood (Stage 2) or risk of a default (Stage 3) occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring. In most cases, there will be a significant increase in credit risk before a financial asset becomes credit-impaired or an actual default occurs (Stage 3), thus default (Stage 3) and credit-impaired loan classification will be closely aligned and will indicate non-performance of the borrower or significance of forbearance measures undertaken, but classification will not necessarily equal in all cases.

For loans to public, the amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The amount of the loss is recognised in the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying value of the loan does not exceed what its amortised cost would have been absent the impairment at the reversal date.

For purchased or originated credit-impaired financial assets, expected credit losses are discounted using the credit-adjusted effective interest rate determined at initial recognition. For purchased or originated credit-impaired financial assets only the cumulative changes in lifetime expected credit losses since initial recognition are recognised as a loss allowance. Favourable changes in lifetime expected credit losses are recognised as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

Fully impaired loans to public, recovery of which may become economically unviable, may be written-off and charged against impairment allowance. They are not written-off until the necessary legal procedures have been completed and the amount of the loss is determined. When a loan or receivable is written-off, the claim against the borrower normally is not forgiven. Subsequent recoveries of amounts previously written-off are reported in the statement of income as recovered written-off assets within net credit losses on financial instruments.

q) Impairment of debt securities and loans to credit institutions and central banks

Similarly as for loans to public, the Group estimates expected credit losses to reflect changes in credit risk since initial recognition of debt securities, loans to credit institutions and central banks exposures and commitments to extend credit. Impairment provisioning requirements apply to financial assets at amortised cost, but do not apply to financial assets measured at fair value through profit or loss. For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount in the balance sheet.

Impairment allowances are recognised based on forward looking information, even if no credit loss event has happened. The assessment considers broad range of information, but as most of these types of exposures are rated, it relies heavily on external credit ratings and rating agencies' reported default rates derived by calculating multi-period rating transition matrices. If unavailable for evaluation purposes, external credit ratings may be substituted by internally calculated credit quality levels. Credit risk triggers (event of insolvency, any delay of payments, restructuring of debt) and individual credit risk analysis of the issuer are also considered. The Group deems investment grade rated exposures as low credit risk, thus these are assumed no to have experienced a significant increase in credit risk. For non-investment grade exposures decrease in external credit rating by more than 3 notches since acquisition is deemed significant increase in credit risk. Expected credit losses are recognised based on the stage in which the exposure is allocated at the reporting date. 12-month expected credit losses are recognised for Stage 1 exposures, where credit risk since initial recognition has not increased significantly. Lifetime expected credit losses are recognised for Stage 2 exposures whose credit risk has increased significantly since initial recognition and Stage 3 exposures which are credit impaired. Stage 3 exposures, if any were identified, would additionally be subjected to comprehensive evaluation, including comparison to market valuations for similar exposures, analysis of market depth of the respective security, past trading performance and all other available information.

r) Tangible assets

Property and equipment initially is measured at acquisition cost or creation cost. After initial measurement property and equipment is carried at cost less any accumulated depreciation and any accumulated impairment losses. Property and equipment is periodically reviewed for impairment according to principles described in the paragraph *w) Impairment of non-financial assets*. If the recoverable value of an asset is lower than its carrying amount, the asset is written down to its recoverable amount.

Depreciation is calculated using straight-line method based on the estimated useful life of the asset. The following depreciation rates have been applied:

Category	Annual depreciation rate
Buildings	1% - 10%
Transport vehicles	14% - 20%
Other	14% - 33%

Leasehold improvements are capitalised and depreciated over the remaining lease contract period on a straight-line basis. Land and assets under construction are not depreciated.

Certain reconstruction and renovation costs of buildings, which improve their quality and performance, are capitalised and amortised over the estimated useful life on a straight-line basis. Maintenance and repair costs are charged to the statement of income as incurred.

s) Intangible assets

Intangible assets comprise software, both purchased and internally generated. Separately acquired intangible assets are measured at cost. The cost of separately acquired intangible assets also comprises directly attributable costs of preparing the asset for its intended use. These include payroll and professional fees arising directly from bringing the asset to its working condition and costs of testing whether the asset is functioning properly. The cost of separately acquired intangible assets doesn't include future payments of variable fees which are dependent on achievement of key performance indicators. Variable fees are capitalised into the cost of intangible asset when relevant key performance indicators are achieved and fees become payable and amortised over the estimated remaining useful life on a straight-line basis.

The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Subsequent to the initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss. Annual amortisation rates applied on a straight-line basis to software and other intangible assets range from 10% to 33%. All intangible assets, except for goodwill, are with definite lives.

t) Inventories

From time to time the Group repossesses from its customers certain assets serving as collateral, when the customer cannot otherwise meet his payment obligations and other loan work-out measures have been unsuccessful. Such repossessed assets which are expected to be sold in the ordinary course of business and are not held for capital appreciation or rental income are classified as inventories. Inventories mainly encompass real estate purchased and held for sale in near future by the Group's real estate workout companies.

Group's inventories are accounted at individual cost. The costs of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition. Inventories are held at the lower of purchase cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of write-down of inventories to net realisable value is recognised as expense in the period the write-down occurs. When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

u) Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount is to be recovered through a sale transaction rather than continuing use and the management has committed to an active plan that is expected to result in a complete sale within one year from the date of classification.

Non-current assets classified as held for sale also include assets of a class that an entity would normally regard as non-current that are acquired exclusively with a view to resell in the near term but are not expected to be sold in the ordinary course of business.

Assets classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell of the non-current asset. At least at each reporting date, the Group assesses, whether the value of the non-current assets classified as held for sale is impaired. The impairment loss reduces carrying amount of the asset and is included in the statement of income's line 'Other impairment losses'. In the same line of the statement of income a gain from any subsequent increase in fair value less cost to sell of an asset is recognised, but not in excess of the cumulative impairment loss that has been recognised either for non-current asset held for sale or previously for the non-current asset.

v) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group are classified as investment properties. The Group initially measures investment properties at cost, including transaction costs.

For subsequent measurements the Group has opted for a cost model which requires an investment property to be measured at depreciated cost. Depreciation is calculated using the straight-line method based on the estimated useful life of the respective asset. Depreciation method and rates as for Group's property and equipment are applicable. Investment properties are periodically reviewed for impairment.

If the recoverable value of an asset is lower than its carrying amount, the respective asset is written down to its recoverable amount. Any subsequent reversal of the impairment loss is recognised in the statement of income, to the extent that the carrying amount of an asset does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods

w) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (e.g. inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cost generating units (CGUs).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows. Discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

x) Insurance business

The Group's exposure to insurance relates to life insurance contracts. Life insurance contracts may contain both financial and insurance risk. The part of contracts that do not contain significant insurance risk is accounted as investment contracts. The corresponding liability to clients is shown within deposits and borrowings from customers. Insurance reserves are shown as other liabilities. The Group monitors the underlying assumptions in the calculations of insurance related risks regularly and seeks risk mitigation measures such as reinsurance if the Group deems this appropriate.

An insurance contract is a contract in which the insurer assumes a significant insurance risk from the policyholder, the insurer agrees to indemnify the policyholder for losses in the event of an insured uncertain event specified in the contract, such as the death of the insured person. The Policyholder undertakes to pay insurance premiums in the scope, terms and amount specified in the insurance contract, as well as to fulfil other obligations specified in the insurance contract.

Insurance reserves for annuity pension products are recognized when the premium is received in the amount of estimated future annuity claims and related expense. The estimated contractual future cash flows from for annuity pension products (taking into consideration assumptions about mortality, service costs and investment income) are discounted as per methodology specified by the FCMC. Any re-estimation gain or loss in insurance reserves is recognized in income statement as *Net insurance result* within *Net other income*.

y) Off-balance sheet financial commitments and contingent liabilities

In the ordinary course of business, the Group extends off-balance sheet financial commitments and contingent liabilities comprising commitments to issue loans to public, commitments for unutilised credit lines and credit card limits, as well as financial guarantees and commercial letters of credit.

Off-balance sheet commitments are recognised when the Group commits the limit to the client. Financial guarantees and letters of credit are recognised as contingent off-balance sheet liabilities when the Group is exposed to risk under the contract. Off-balance sheet items are recognised on-balance sheet on drawdown of commitment or for guarantees and letters of credit, when these in rare cases become payable by the Group. Commitments generally have fixed expiration dates, or other termination clauses; in some cases, the Group may terminate these unilaterally. Since commitments may expire without being drawn down, the total committed amounts do not necessarily represent certain future cash outflows.

On initial recognition financial guarantee contracts are measured at fair value. Subsequently, they are carried at the higher of the amount initially recognised less cumulative amortisation over the life of the guarantee and the amount determined in accordance with the accounting policy for provisions when enforcement of the guarantee has become probable.

The methodology for provisioning against possible losses arising from off-balance sheet financial commitments and contingent liabilities is consistent with that described in the paragraph *z)*.

z) Provisions

Provisions are recognised when the Group has 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.

Loss allowance for expected credit losses on loan commitments and financial guarantee contracts is recognised as provisions. For details on methodology of calculation, refer to section *p)* of the *Note 3* (*Impairment of loans to public and provisions for loan commitments, guarantees and letters of credit*). In addition to considerations applicable to on-balance exposures, for expected credit loss assessment of off-balance sheet commitments a conversion and expected future use patterns, the Group's reaction time in identifying deteriorating exposures and a realistic past performance on timely termination of these limits is considered.

aa) Asset management

Funds managed by the Group on behalf of individuals, corporate customers, trusts and other institutions are not regarded as assets of the Group and, therefore, are not separately included in the balance sheet. Funds under management are presented in financial statements only for disclosure purposes. Commission for asset management is recognised on accrual basis and generally is dependent on the volume of assets managed.

bb) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as the amounts comprising cash and demand balances with central banks and other credit institutions with an insignificant risk of changes in value, less demand deposits due to credit institutions and central banks.

cc) Offsetting of assets and liabilities

Financial assets and liabilities are offset, and the net amount is reported in the balance sheet when there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

dd) Events after the reporting date

Post-period-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the financial statements. Post-period-end events that are not adjusting events are disclosed in the notes if material.

ee) Changes in classification

In 2020 Citadele reclassified certain exposure from Loans to public to Debt securities. This exposure is a fixed income security with cash flows representing payments from underlying private consumption loans originated trough lending platforms. The revised classification better aligns presentation with external expectations.

Adjustments to comparatives due to changes in presentation

	2019 EUR thousands					
	Group			Bank		
	Restated	Adjustment	Initial	Restated	Adjustment	Initial
Debt securities	1,208,479	4,848	1,203,631	972,315	4,848	967,467
Loans to public	1,567,898	(4,848)	1,572,746	1,589,255	(4,848)	1,594,103

ff) Use of estimates and judgements in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards as adopted by EU, requires management to make estimates and judgements that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The management has applied reasonable and prudent estimates and judgments in preparing these financial statements. Significant areas of estimation used in the preparation of the accompanying financial statements relate to evaluation of impairment losses for assets, determination of the control of investees for consolidation purposes, evaluation of recognisable amounts of deferred tax assets and liabilities, determination of time when control over UniCredit leasing was obtained, re-assessment of held to collect business model and assessing the leaseback period.

Impairment of loans to public

The Group regularly reviews its loans to public for assessment of impairment. The estimation of impairment losses is inherently uncertain and dependent upon many factors. Two distinct approaches are applied for expected credit loss estimation – individual evaluation, mostly applied to large exposures, and collectively estimated expected credit losses for homogeneous groups of smaller exposures.

On an on-going basis expected credit losses are identified promptly as a result of large loan exposures being individually monitored. For these loan exposures expected credit losses are calculated on an individual basis with reference to expected future cash flows including those arising from the sale of collateral. The Group uses its experienced judgement to estimate the amount of any expected credit loses considering future economic conditions and the resulting trading performance of the borrower and the value of collateral. As a result, the individually assessed expected credit losses can be subject to variation as time progresses and the circumstances change or new information becomes available. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between expected credit loss estimates and actual credit loss experience.

Changes in net present value of estimated future cash flows by +/-5% for loans to public for which expected credit losses are individually assessed would result in EUR +/-0.05 million change in impairment allowance for the Bank (2019: EUR +/-0.1 million) and EUR +/-0.05 million for the Group (2019: EUR +/-0.1 million). Change in estimated value of collateral by +/-5% for loans to public for which expected credit losses are individually assessed would result in EUR +/-0.44 million change in impairment allowance for the Bank (2019: EUR +/-1.2 million) and EUR +/-0.44 million for the Group (2019: EUR +/-1.2 million).

For majority of the loans to public the Group collectively estimates impairment allowance to cover expected losses inherent in the loan portfolio. The collective impairment assessment is based on observable data derived from historic and applied to current loans to clients with similar credit risk characteristics. For this assessment loans to clients are segmented into homogeneous groups based on product type (mortgage, consumer loan etc.) and customer type (private individual, legal entity, public entity etc.). Historical loss experience is adjusted for current observable market data using the Group's experienced judgement to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The major parameters of the collectively estimates expected credit loss calculation methodology are PD, LGD, EAD and staging outcome. The model also incorporates forward-looking macroeconomic information to arrive to point in time instead of over the cycle expected credit loss estimates. The future credit quality of the loan portfolio for which the expected credit losses are estimated collective is subject to uncertainties that could cause actual credit losses to differ from expected credit losses. These uncertainties include factors such as international and local economic conditions, borrower specific factors, industry and market trends, interest rates, unemployment rates and other external factors.

Within the annual ECL model reassessment, several incremental improvements were made to the ECL framework as was an annual recalibration exercise carried out. The management has recognised a significant uncertainty regarding duration and severity of Covid-19 situation and associated possible disruptions to the Baltic economies and customers of the Group. Consequently, a prudent new impairment overlay for Stage 1 customer loan exposures was introduced. The impairment overlay represents an additional loss reserve over the modelled ECL amounts to account for other economic uncertainties. It addresses increased uncertainty regarding the forward-looking economic conditions in the current Covid-19 situation. Such future uncertainties which point in time ECL models calibrated on historical data, despite being adjusted with forward looking information, might not be fully capturing in the current unusual environment. As of 31 December 2020, impairment overlay of EUR 3.2 million for the Bank and EUR 4.1 million for the Group has been recognised to address these modelling uncertainties.

The Group participates in Covid-19 loan moratoria within which upon qualifying client request a deferral of loan principal repayment for a short period of time is allowed. The loan principal payment deferrals requested within Covid-19 moratoria framework are exempt from events triggering re-assessment of loan staging. Similarly, individual requests to defer principal repayment for short period of time which were not formally requested under Covid-19 moratoria, but in their nature are similar, are also excluded. In both cases other risk parameters (including, but not limited to days past due and covenant breaches) are monitored and loan staging applied according to standard procedure.

Changes in all applied LGD rates by 500 basis points would result in change in collectively estimated impairment allowance and provisions by EUR +3.1/-3.1 million for the Bank and EUR +3.6/-3.6 million for the Group (2019: EUR +3.3/-3.5 million for the Bank and EUR +3.7/-3.9 million for the Group). Changes in the PD rates for not overdue category by 100 basis points would result in change in collectively estimated impairment allowance by EUR +3.5/-3.4 million for the Bank and EUR +3.9/-3.5 million for the Group (2019:

EUR +3.0/-2.3 million for the Bank and EUR +3.6/-2.8 million for the Group) and provisions for off-balance sheet commitments and guarantees by EUR +0.3/-0.3 million for the Bank and EUR +0.3/-0.3 million for the Group (2019: EUR +0.6/-0.6 million for the Bank and EUR +0.6/-0.6 million for the Group).

The Group has implemented forward-looking information in the measurement of expected credit losses. The forward-looking adjustment incorporates two economic scenarios with distinct economic consequences: a base case scenario which comprises most likely future economic development and a less likely adverse scenario. The GDP annual growth rates, which are derived form a combination of internal end external macroeconomic forecasts and which are one of the key variables, are summarized below.

	Base case scenario		**Adverse scenario**	
	2021	**2022**	**2021**	**2022**
GDP (annual growth)				
Latvia	2.8%	4.7%	(12.2%)	5.1%
Lithuania	2.1%	5.0%	(12.9%)	5.3%
Estonia	2.4%	4.6%	(12.9%)	5.3%

The current implementation, based on an expert judgement, weights base case scenario with 55% likelihood and the adverse scenario at 45% likelihood (2019: 70% vs. 30%). The 55% vs. 45% weighted augmented scenario is used for forward-looking adjustment. If the weighting of the adverse scenario was to increase to 50%, the expected credit loss allowance of the Bank would increase by EUR 0.6 million and for the Group by EUR 0.6 million as of 31 December 2020. If the weighting of the base case scenario was to increase to 100%, the expected credit loss allowance of the Bank would decrease by EUR 5.4 million and for the Group by EUR 5.9 million as of 31 December 2020. As of 31 December 2019, the weighting of base case and adverse scenarios was 70% vs. 30%. If the weighting of the adverse scenario was to increase to 50%, the expected credit loss allowance of the Bank would increase by EUR 0.8 million and for the Group by EUR 0.9 million as of 31 December 2019. If the weighting of the base case scenario was to increase to 100%, the expected credit loss allowance of the Bank would decrease by EUR 1.2 million and for the Group by EUR 1.4 million as of 31 December 2019.

Impairment of other assets

The Bank and the Group at the end of each reporting period assesses whether there is any indication that a non-financial asset may be impaired other than inventory and deferred tax. If any such indication exists, the recoverable amount of the particular asset or cash generating unit is estimate. Recoverable amount estimates depend on uncertainties in future free cash flow estimates and discount rates applied. For more details on the approach and key assumptions in recoverable amount estimates of the Bank's investments in subsidiaries refer to Note 19 (*Investments in Related Entities*).

Consolidation group

The Group consolidates all entities where it controls the investee. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. For list of investees included in the consolidation group refer to Note 19 (*Investments in Related Entities*). For investments in securities which are not consolidated refer to Note 18 (*Equity and Other Financial Instruments*).

In the ordinary course of business IPAS CBL Asset Management (CBL AM) provides management services to several funds where its interest held is only fees from servicing. The Bank has made an investment solely with a view to diversify its securities portfolio also in funds managed by CBL AM. According to the prospectus of the funds, the investment decisions are made collectively by CBL AM Investment Committee. The Bank has no intention to participate in decision making regarding the asset allocation of any of the funds. Moreover, interfering with Investment Committee's decision-making process would be against the corporate governance principles maintained by that Bank since its inception. As such, the Bank believes it does not have the control over the funds, as per IFRS 10, and the funds should not be consolidated.

Deferred tax assets and liabilities

The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term financial forecast prepared by management and extrapolated results thereafter. The aforementioned forecasts indicate that the Bank will have sufficient taxable profits in the future periods to realise the recognised deferred tax asset. For more details refer to Note 13 (*Taxation*).

Date when control over UniCredit leasing was obtained

In 2019 AS Citadele banka entered into a binding agreement with UniCredit S.p.A. to acquire UniCredit's Baltic leasing operations through the acquisition of 100% of the shares in SIA UniCredit Leasing. The acquisition transaction was closed after the reporting date, with Citadele obtaining full control from the beginning of January 2021. To conclude on the date when the control was obtained an analysis of the management and governance framework in the context of the sale-purchase agreement and general legislative setup was performed. After completion of the acquisition transaction in 2021, the acquired entity was renamed to SIA Citadele Leasing.

Re-assessment of held to collect business model

In 2020 Citadele sold securities out of held to collect business model due to two separate one-off events. Sales within one coordinated sales plan were due to unexpected risk profile readjustment decision and surplus liquidity accumulation in preparation for acquisition of UniCredit's Baltic leasing operations and another – a coordinated sales plan due to global Covid-19 crisis and related credit quality deterioration of specific exposures. Both events had one-off nature, are not expected to repeat and were a response to an unexpected change requiring immediate action. Thus, those sales do not reflect a change in the Group's held to collect business model.

Leaseback period

For qualifying leaseback transactions, the seller-lessee measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. The right of use retained by the seller-lessee is sensitive to the assumptions applied in determining lease period which consequently influences the proportion of the sales gain being deferred. The Group in sale of its Latvian headquarters building has recognised changing dynamics in office space requirements as well as consistently adhered to its established planning horizon principle and recognised right of use asset for the leaseback transaction with a three-year lease term.

NOTE 4. OPERATING SEGMENTS

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or the group that allocates resources to and assesses the performance of the operating segments of the Group. The Management Board of the Bank is the chief operating decision maker.

All transactions between operating segments are on an arm's length basis. Funds Transfer Pricing (FTP) adjusted net interest income of each operating segment is calculated by applying internal transfer rates to the assets and the liabilities of the segment. Maturity, currency and timing of the transaction are components of the internal transfer rate calculation. Income and expense are reported in the segment by originating unit and at estimated fair price. Both direct and indirect expenses are allocated to the business segments, including overheads and non-recurring items. The indirect expense from internal services is charged to the internal consumers of the service and credited to provider of the service. The internal services are charged at estimated fair price or at full cost.

The comparative balance sheet information as of 31 December 2019 has been restated as disclosed in *Note 3 ee*. The comparative information after reclassification is comparable.

Main business segments of the Group are:

Private customers

Private individuals serviced in Latvia, Lithuania and Estonia. Operations of the segment include full banking and advisory services provided through branches, internet bank and mobile banking application.

SME

Small and medium-sized companies in Latvia, Lithuania and Estonia serviced through branches, internet bank and mobile banking application.

Corporates

Large customers serviced in Latvia, Lithuania and Estonia. Yearly turnover of the customer is above EUR 7 million or total risk exposure with Citadele Group is above EUR 2 million or the customer needs complex financing solutions.

Wealth management

Private banking, advisory, investment and wealth management services provided to clients serviced in Latvia, Lithuania and Estonia. This segment includes operations of IPAS CBL Asset Management, AS CBL Atklātais Pensiju Fonds and AAS CBL Life.

Swiss

This segment comprises operations of AP Anlage & Privatbank AG.

Leasing

Leasing and factoring services provided to private individuals and companies in Latvia, Lithuania and Estonia.

Other

Group's treasury functions and other business support functions, including results of the subsidiaries of the Group operating in non-financial sector.

Segments of the Group

	Group 2020, EUR thousands							
	Reportable segments							
	Private customers	**SME**	**Corporates**	**Wealth**	**Swiss**	**Leasing**	**Other**	**Total**
Interest income	36,973	9,878	23,285	2,281	2,716	10,194	4,797	90,124
Interest expense	(2,003)	(51)	(625)	(2,961)	(482)	-	(16,462)	(22,584)
Net interest income	**34,970**	**9,827**	**22,660**	**(680)**	**2,234**	**10,194**	**(11,665)**	**67,540**
Fee and commission income	14,304	10,511	9,183	12,648	3,153	361	1,601	51,761
Fee and commission expense	(9,311)	(4,001)	(5,165)	(1,710)	(429)	(174)	(790)	(21,580)
Net fee and commission income	**4,993**	**6,510**	**4,018**	**10,938**	**2,724**	**187**	**811**	**30,181**
Net financial income	683	1,399	764	1,849	(379)	1	(21,780)	(17,463)
Net other income	(1,589)	(295)	(460)	(495)	(529)	(218)	17,995	14,409
Operating income	**39,057**	**17,441**	**26,982**	**11,612**	**4,050**	**10,164**	**(14,639)**	**94,667**
Net funding allocation	(1,764)	(635)	(2,783)	319	392	(154)	4,625	-
FTP adjusted operating income	**37,293**	**16,806**	**24,199**	**11,931**	**4,442**	**10,010**	**(10,014)**	**94,667**
Net credit losses	(3,169)	(1,373)	(608)	(5,005)	41	1,252	(489)	(9,351)
Net result before operating expense	**34,124**	**15,433**	**23,591**	**6,926**	**4,483**	**11,262**	**(10,503)**	**85,316**
Not allocated income and expense, net								(81,708)
Net profit / (loss)								**3,608**

	Group 2019, EUR thousands							
	Reportable segments							
	Private customers	SME	Corporates	Wealth	Swiss	Leasing	Other	Total
Interest income	39,149	7,455	28,841	2,616	3,890	10,232	8,372	100,555
Interest expense	(2,183)	(59)	(313)	(2,319)	(754)	-	(10,286)	(15,914)
Net interest income	**36,966**	**7,396**	**28,528**	**297**	**3,136**	**10,232**	**(1,914)**	**84,641**
Fee and commission income	14,806	8,607	12,674	15,114	3,949	187	1,051	56,388
Fee and commission expense	(8,597)	(4,026)	(8,512)	(2,362)	(395)	(80)	(1,495)	(25,467)
Net fee and commission income	**6,209**	**4,581**	**4,162**	**12,752**	**3,554**	**107**	**(444)**	**30,921**
Net financial income	851	708	612	2,866	702	-	2,457	8,196
Net other income	(297)	(101)	(291)	(317)	-	(254)	1,432	172
Operating income	**43,729**	**12,584**	**33,011**	**15,598**	**7,392**	**10,085**	**1,531**	**123,930**
Net funding allocation	(2,052)	(336)	(2,787)	3,276	760	(384)	1,523	-
FTP adjusted operating income	**41,677**	**12,248**	**30,224**	**18,874**	**8,152**	**9,701**	**3,054**	**123,930**
Net credit losses	(489)	(3,958)	4,407	(2,541)	16	(93)	253	(2,405)
Net result before operating expense	**41,188**	**8,290**	**34,631**	**16,333**	**8,168**	**9,608**	**3,307**	**121,525**
Not allocated income and expense, net								(85,021)
Net profit / (loss)								**36,504**

	Group as of 31/12/2020, EUR thousands							
	Reportable segments							
	Private customers	SME	Corporates	Wealth	Swiss	Leasing	Other	Total
Assets								
Cash, balances at central banks	-	-	-	-	15,598	-	1,131,008	1,146,606
Loans to credit institutions	-	-	-	2,702	8,296	-	40,289	51,287
Debt securities	-	-	10,415	38,766	157,749	-	1,553,260	1,760,190
Loans to public	594,040	155,979	519,527	37,674	6,711	218,527	8,765	1,541,223
Equity instruments	-	-	-	-	-	-	4,764	4,764
Other financial instruments	-	-	-	29,509	-	-	13,834	43,343
Total segmented assets	**594,040**	**155,979**	**529,942**	**108,651**	**188,354**	**218,527**	**2,751,920**	**4,547,413**
Liabilities								
Deposits from banks	-	-	-	-	-	-	449,991	449,991
Deposits from customers	1,285,217	492,840	826,638	705,140	184,951	-	176,604	3,671,390
Debt securities issued	-	-	-	-	-	-	60,080	60,080
Total segmented liabilities	**1,285,217**	**492,840**	**826,638**	**705,140**	**184,951**	**-**	**686,675**	**4,181,461**

	Group as of 31/12/2019, EUR thousands (Reclassified)							
	Reportable segments							
	Private customers	SME	Corporates	Wealth	Swiss	Leasing	Other	Total
Assets								
Cash, balances at central banks	-	-	-	-	16,459	-	691,455	707,914
Loans to credit institutions	-	-	-	7,005	18,369	-	96,021	121,395
Debt securities	-	-	4,848	16,903	219,261	-	967,467	1,208,479
Loans to public	586,345	128,333	559,205	47,671	9,431	217,226	19,687	1,567,898
Equity instruments	-	-	-	-	-	-	5,092	5,092
Other financial instruments	-	-	-	33,657	-	-	6,315	39,972
Total segmented assets	**586,345**	**128,333**	**564,053**	**105,236**	**263,520**	**217,226**	**1,786,037**	**3,650,750**
Liabilities								
Deposits from banks	-	-	-	-	-	-	1,637	1,637
Deposits from customers	1,132,738	321,644	695,176	761,748	273,874	-	104,354	3,289,534
Debt securities issued	-	-	-	-	-	-	60,044	60,044
Total segmented liabilities	**1,132,738**	**321,644**	**695,176**	**761,748**	**273,874**	**-**	**166,035**	**3,351,215**

NOTE 5. INTEREST INCOME AND EXPENSE

	EUR thousands			
	2020 Group	2019 Group	2020 Bank	2019 Bank
Interest income calculated using the effective interest method:				
Financial assets at amortised cost:				
Loans to public	71,985	78,581	75,582	83,008
Debt securities	2,977	3,891	2,586	3,170
Cash balances at and lending to/from central banks and credit institutions (including TLTRO-III)	1,704	1,075	1,706	850
Debt securities at fair value through other comprehensive income	3,264	6,776	1,270	4,098
Interest income on finance leases (part of loans to public)	10,194	10,232	-	-
Total interest income	**90,124**	**100,555**	**81,144**	**91,126**
Interest expense on:				
Financial liabilities at amortised cost:				
Deposits and borrowing from public	(14,095)	(9,566)	(13,725)	(8,904)
Debt securities issued	(3,637)	(3,633)	(3,637)	(3,633)
Deposits from/to credit institutions and central banks	(3,991)	(1,862)	(4,337)	(2,678)
Financial liabilities at fair value through profit or loss				
Deposits and borrowing from public	(129)	(151)	-	-
Lease liabilities	(41)	(41)	(94)	(137)
Other interest expense	(691)	(661)	(691)	(661)
Total interest expense	**(22,584)**	**(15,914)**	**(22,484)**	**(16,013)**
Net interest income	**67,540**	**84,641**	**58,660**	**75,113**

Effective interest rate on high-quality liquid assets is negative in certain central bank, central government and credit institution exposures. As the interest resulting from a negative effective interest rate on financial assets reflects an outflow of economic benefits, this is presented as interest expense. Similarly, an inflow of economic benefits from liabilities with negative effective interest rates (including TLTRO-III financing) is presented as interest income.

	EUR thousands			
	2020 Group	2019 Group	2020 Bank	2019 Bank
Interest income recognised on credit impaired assets	1,153	4,868	1,105	4,767

Credit impaired financial assets are defined as all stage 3 classified assets. These besides overdue or specifically impaired assets also include non-overdue, non-restructured assets under monitoring period and similar contracts where there are indications that the credit risk has increased significantly since origination.

NOTE 6. FEE AND COMMISSION INCOME AND EXPENSE

	EUR thousands			
	2020 Group	2019 Group	2020 Bank	2019 Bank
Fee and commission income:				
Cards	27,284	30,474	27,224	30,417
Payments and transactions	12,079	14,791	10,169	11,783
Asset management and custody	7,391	7,280	1,615	1,554
Securities brokerage	1,518	700	955	573
Other fees	1,474	1,619	1,441	1,550
Total fee and commission income from contracts with customers	**49,746**	**54,864**	**41,404**	**45,877**
Guarantees, letters of credit and loans	2,015	1,524	2,041	1,529
Total fee and commission income	**51,761**	**56,388**	**43,445**	**47,406**
Fee and commission expense on:				
Cards	(16,897)	(20,645)	(16,897)	(20,645)
Asset management, custody and securities brokerage	(1,046)	(892)	(759)	(687)
Payments, transactions and other fees	(3,637)	(3,930)	(3,089)	(3,504)
Total fee and commission expense	**(21,580)**	**(25,467)**	**(20,745)**	**(24,836)**
Net fee and commission income	**30,181**	**30,921**	**22,700**	**22,570**

NOTE 7. NET FINANCIAL INCOME

	EUR thousands			
	2020 Group	2019 Group	2020 Bank	2019 Bank
Foreign exchange trading and related derivatives	6,076	6,719	6,587	6,588
Assets at amortised cost	211	29	211	29
Assets at fair value through other comprehensive income	1,123	1,284	1,023	589
Non-trading assets and liabilities at fair value through profit or loss	3,803	503	3,264	-
Other derivatives	(28,836)	-	(28,836)	-
Modifications in cash flows which do not result in derecognition	160	(339)	160	(339)
Total net financial income	**(17,463)**	**8,196**	**(17,591)**	**6,867**

In 2020 some debt securities classified at amortised cost were disposed before maturity. These sales constitute a part of a larger one-off plan to de-risk due to Covid-19 uncertainty and in a separate event in preparation for acquisition. Due to the one-off nature of these events, the specific business model's objective to hold financial assets in order to collect contractual cash flows still holds.

As a response to a fast developing Covid-19 situation, in April 2020 Citadele acquired option contracts. Among the acquired option contracts were derivative instruments linked to stock market and high yield bond indexes with exercise dates in July and September 2020. The objective of the acquired option contracts was to implement a tail risk defensive measures to protect the Group and to mitigate the downside risk of a sharp and severe recession with a slow recovery. According to an internal risk assessment the chosen option instruments provided for an insurance in a tail risk in a negative macro-economic development scenario. The acquired option contracts did not qualify for hedge accounting. EUR 28.8 million loss on other derivatives (options) reflects the loss incurred on negative revaluation on the acquired option contracts over the period from acquisition until exercise date or close-out in late 2020. With recovery proving stronger than anticipated and consequently market indexes fluctuating in ranges above option exercise prices, the acquired options stayed out-of-money, market value of the option contracts declined significantly, but so did the likelihood of a sharp and severe recession. As of 31 December 2020, Citadele has no derivative option contracts outstanding.

NOTE 8. NET OTHER INCOME

	EUR thousands			
	2020 Group	2019 Group	2020 Bank	2019 Bank
Sale of tangible assets (Note 20)	17,491	-	813	-
Rental income from investment properties	1,041	1,205	-	-
Net insurance result	71	125	-	-
Dividend income	42	43	42	3,348
Other income	548	968	2,817	3,164
Total other income	**19,193**	**2,341**	**3,672**	**6,512**
Supervisory fees	(1,912)	(1,582)	(1,806)	(1,484)
Other expenses	(2,872)	(587)	(2,029)	(317)
Total other expense	**(4,784)**	**(2,169)**	**(3,835)**	**(1,801)**
Total net other income	**14,409**	**172**	**(163)**	**4,711**

In 2019 a dividend income of EUR 1.5 million from subsidiaries IPAS CBL Asset Management and EUR 1.8 million from UAB Citadele faktoringas ir lizingas was received. No dividends from subsidiaries were received in 2020. Other income includes net result from disposal of repossessed collaterals and other miscellaneous items which may not be considered interest or fee and commission income. Supervisory fees include annual and quarterly fees payable to Financial and Capital Market Commission, European Central Bank, Single Resolution Board and similar. These directly dependent on the size of the banking business (mostly total assets).

NOTE 9. STAFF COSTS

Personnel costs include remuneration for work to the personnel, related social security contributions, bonuses and costs of other benefits. Other personnel expense includes health insurance, training, education and similar expenditure.

	EUR thousands			
	2020 Group	2019 Group	2020 Bank	2019 Bank
Remuneration:				
- management	4,248	3,497	1,766	1,888
- other personnel	37,829	40,767	34,528	37,319
Total remuneration for work	**42,077**	**44,264**	**36,294**	**39,207**
Social security and solidarity tax contributions:				
- management	766	618	404	442
- other personnel	7,230	7,620	6,691	7,205
Total social security and solidarity tax contributions	**7,996**	**8,238**	**7,095**	**7,647**
Other personnel expense	**815**	**817**	**752**	**718**
Total personnel expense	**50,888**	**53,319**	**44,141**	**47,572**
Number of full-time equivalent employees at the period end	1,230	1,369	1,152	1,292

Non-share-based remuneration with deferred pay-out

Part of the remuneration for work is deferred up to a one-year period and subsequent pay-outs may be conditional. As at 31 December 2020 the Group and the Bank has a compulsory non-share-based deferred remuneration commitment (including related social security and solidarity tax contributions) to its employees in the amount of EUR 659 thousand and EUR 393 thousand which will become payable in 2021 if certain conditions are met (2019: EUR 562 thousand and EUR 524 thousand payable in 2020, respectively).

Share-based long-term incentive plans

Citadele has opened several share-based long-term incentive plans for its employees starting from 2018. Expense for share-based remuneration is measured at fair value at the grant date. Fair value is derived from market prices of reference group of publicly traded bank shares. The grant date is the date at which the entity and the participating employee agree to a share-based payment arrangement and an internal approval is obtained. The fair value is the estimated share price reduced by the present value of dividends that participants will not receive and value of other restricting terms of the compensation agreed. Expense for share-based remuneration is re-measured only if the compensation arrangement is modified so that the fair value after modification has increased compared to the fair value before modification. Such increase is recognised as compensation expense at the re-measurement date. The expense is recognised on a straight-line basis over the period of the remuneration program as intention is to receive services from employees over the whole period. For share options granted a corresponding increase in equity is recognised as other reserves. Estimates of actual or expected forfeitures are re-estimated at each reporting date and if necessary previously recognised other reserves are reversed directly to the retained earnings. After deferral period, when vesting conditions are met and conditional share option exercised, previously recognised other reserves are transferred to issued share capital and share premium accounts

Under the equity-based long-term incentive plans 1,952 thousand of share options with value for accounting purposes of EUR 3.5 million are outstanding. From total amount outstanding EUR 3.0 million are granted to the management. In the reporting period 564 thousand options were awarded and 295 thousand options were forfeited. No options are exercisable as of 31 December 2020.

To qualify for the share options (vesting requirement), among other conditions the participant in most cases is required to remain employed until the end of the respective deferral period. The personnel options were issued in line with the meaning of Article 2481 of the Latvian Commercial Law. Each option has the following parameters: registered share with the nominal value of EUR 1 (one euro); convertible to the ordinary shares of Citadele (all Citadele's ordinary shares have equal voting rights, equal rights to dividend and equal liquidation quota), an exercise price of null euros, vesting dates are predetermined. Clawback and malus provisions apply in the event of a material misstatement, an act of gross misconduct or an error in the assessment of performance targets. For options granted performance is measured over a pre-agreed period ranging from tree-years to five-years. The expense is recognised as the service is rendered. At the end of the performance measurement period, the Remuneration Committee of the Supervisory Board has absolute discretion to determine the extent to which the awards will vest, if at all, on account of underlying Group, individual and share price performance. The Remuneration Committee of the Supervisory Board may, in its absolute discretion, adjust upwards or downwards and including to nil the number of options which would otherwise vest. The first vesting will occur not earlier than 2021. Performance targets relate to both financial and non-financial measures linked to the long-term business strategy of the Group, including but not limited to: Group net income, return on capital, and strategic objectives of the Group.

NOTE 10. OTHER OPERATING EXPENSES

	EUR thousands			
	2020 Group	2019 Group	2020 Bank	2019 Bank
Information technologies and communications	(5,670)	(6,184)	(4,280)	(5,184)
Consulting and other services	(6,316)	(5,932)	(5,992)	(4,509)
Rent, premises and real estate	(2,770)	(3,463)	(1,648)	(2,150)
Advertising and marketing	(1,872)	(2,237)	(1,732)	(1,954)
Non-refundable value added tax	(2,779)	(1,922)	(2,563)	(1,562)
Other	(1,650)	(2,044)	(1,325)	(1,807)
Total other expenses	**(21,057)**	**(21,782)**	**(17,540)**	**(17,166)**

Audit and other fees paid to the Group's independent audit company (excluding VAT, including fees for subsidiaries outside EU)

	EUR thousands			
	2020 Group	2019 Group	2020 Bank	2019 Bank
Annual and interim audit fees	367	331	130	196
Other audit and similar fees	24	102	20	10
Tax advisory fees	-	4	-	4
Other advisory, training, and similar fees	7	4	7	4

NOTE 11. NET CREDIT LOSSES

Total net impairment allowance charged to the income statement

	EUR thousands			
	2020 Group	2019 Group Reclassified	2020 Bank	2019 Bank Reclassified
Loans to credit institutions	(16)	(34)	(16)	(35)
Debt securities	(609)	(217)	(644)	(227)
Loans to public	(16,371)	(7,130)	(17,008)	(6,507)
Including impairment overlay (Note 3, section ff)	*(4,130)*	-	*(3,233)*	-
Loan commitments, guarantees and letters of credit	2,037	(1,393)	2,073	(1,352)
Recovered written-off assets	5,608	6,369	5,216	7,679
Total net losses on financial instruments	**(9,351)**	**(2,405)**	**(10,379)**	**(442)**

Allowances for credit losses are recognised based on the future loss expectations. The forward-looking information in the measurement of expected credit losses is implemented through adjustment for future economic development scenarios. As a result of recent events related to Covid-19 the adjustment for expected impact from future economic scenarios was revised. Subsequently, in the reporting period allowance charges for the expected credit losses (including management's impairment overlay) for the Group and the Bank increased by EUR 6.2 million and EUR 7.5 million compared to the prior year. Due to the forward looking nature of the credit loss estimation, the increase in loss allowances does not necessarily represent an observable deterioration in the current credit quality of the loan portfolio (for detail refer to Note 16 (*Loans to Public*)), but is more a representation of a deterioration in the forward looking economic scenarios component. Despite increase in overall risk charges, ECL allowances for unutilised part of the loan commitments decreased. The decrease in ECL allowances for unutilised part of the loan commitments is a result of a combination of the annual ECL model recalibration, within which conversion factors for unutilised loan commitments were updated, and decrease in the total loan commitments of the Group outstanding by EUR 69.2 million and for the Bank by EUR 134.8 million; for details refer to Note 27 (*Off-balance Sheet Items*).

In 2020 the Group and the Bank has recognised an impairment overlay for Stage 1 classified loans to public exposures. The impairment overlay addresses increased uncertainty regarding the forward-looking economic conditions in the current unusual environment where duration and severity of Covid-19 situation and associated possible disruptions to the Baltic economies and customers of the Group is uncertain. The impairment overlay accounts for economic risks which point in time ECL models calibrated on historical data, despite being adjusted with forward looking information, might not be fully capturing. For details refer to section ff) of Note 3 (*Summary of Significant Accounting Policies*).

When a loan is fully or partially written-off, the claim against the borrower normally is not forgiven. From time to time previously written-off assets are recovered due to repayment, sale of pool of overdue assets to companies specialising in recoveries of balances in arrears or as a result of other resolution. Such recoveries are reported as recovered written-off assets.

Classification of impairment stages

Stage 1 – Financial instruments without significant increase in credit risk since initial recognition
Stage 2 – Financial instruments with significant increase in credit risk since initial recognition but not credit-impaired
Stage 3 – Credit-impaired financial instruments

Changes in the allowances for credit losses and provisions

	Group, EUR thousands				
	Opening balance 01/01/2020	**Charged to statement of income**	**Write-offs of allow-ances**	**Other adjust-ments**	**Closing balance 31/12/2020**
Stage 1					
Loans to credit institutions	97	16	-	(9)	104
Debt securities	584	609	-	(2)	1,191
Loans to public	12,348	7,317	-	(3)	19,662
Including impairment overlay	-	*4,130*	-	-	*4,130*
Loan commitments, guarantees and letters of credit	3,420	(1,516)	-	(1)	1,903
Total stage 1 credit losses and provisions	**16,449**	**6,426**	**-**	**(15)**	**22,860**
Stage 2					
Loans to public	5,568	(1,510)	-	-	4,058
Loan commitments, guarantees and letters of credit	172	(130)	-	(1)	41
Total stage 2 credit losses and provisions	**5,740**	**(1,640)**	**-**	**(1)**	**4,099**
Stage 3					
Loans to public	38,785	10,564	(11,756)	(1,873)	35,720
Loan commitments, guarantees and letters of credit	558	(391)	-	-	167
Total stage 3 credit losses and provisions	**39,343**	**10,173**	**(11,756)**	**(1,873)**	**35,887**
Total allowances for credit losses and provisions	**61,532**	**14,959**	**(11,756)**	**(1,889)**	**62,846**
Including for debt securities classified at fair value through other comprehensive income	*116*				*135*

Write-offs of allowances refer to reduction of previously recognised ECL balances due to exit of exposures from the balance sheet. The write-offs of allowances are not representative of the impact on profit or loss due to allowances being raised in previous periods as well as offsetting recoveries. In 2020 recoveries of previously written-off balances, which were directly recognised in the income statement amounted to EUR 5.6 million for the Group (2019: EUR 6.4 million).

	Group, EUR thousands (Reclassified)				
	Opening balance 01/01/2019	Charged to statement of income	Write-offs of allowances	Other adjust-ments	Closing balance 31/12/2019
Stage 1					
Loans to credit institutions	61	34	-	2	97
Debt securities	352	227	-	5	584
Loans to public	12,394	(45)	-	(1)	12,348
Loan commitments, guarantees and letters of credit	2,102	1,321	-	(3)	3,420
Total stage 1 credit losses and provisions	**14,909**	**1,537**	**-**	**3**	**16,449**
Stage 2					
Debt securities	10	(10)	-	-	-
Loans to public	7,415	(1,848)	-	1	5,568
Loan commitments, guarantees and letters of credit	411	(240)	-	1	172
Total stage 2 credit losses and provisions	**7,836**	**(2,098)**	**-**	**2**	**5,740**
Stage 3					
Loans to public	46,985	9,023	(17,972)	749	38,785
Loan commitments, guarantees and letters of credit	249	312	-	(3)	558
Total stage 3 credit losses and provisions	**47,234**	**9,335**	**(17,972)**	**746**	**39,343**
Total allowances for credit losses and provisions	**69,979**	**8,774**	**(17,972)**	**751**	**61,532**
Including for debt securities classified at fair value through other comprehensive income	*145*				*116*

	Bank, EUR thousands				
	Opening balance 01/01/2020	Charged to statement of income	Write-offs of allowances	Other adjust-ments	Closing balance 31/12/2020
Stage 1					
Loans to credit institutions	97	16	-	(9)	104
Debt securities	484	644	-	(1)	1,127
Loans to public	10,543	6,842	-	(1)	17,384
Including impairment overlay (Note 3, section ff)	-	*3,233*	-	-	*3,233*
Loan commitments, guarantees and letters of credit	3,378	(1,551)	-	(2)	1,825
Total stage 1 credit losses and provisions	**14,502**	**5,951**	**-**	**(13)**	**20,440**
Stage 2					
Debt securities	-				-
Loans to public	5,184	(1,283)	-	-	3,901
Loan commitments, guarantees and letters of credit	172	(130)	-	(1)	41
Total stage 2 credit losses and provisions	**5,356**	**(1,413)**	**-**	**(1)**	**3,942**
Stage 3					
Loans to public	36,616	11,449	(11,737)	(1,853)	34,475
Loan commitments, guarantees and letters of credit	558	(392)	-	1	167
Total stage 3 credit losses and provisions	**37,174**	**11,057**	**(11,737)**	**(1,852)**	**34,642**
Total allowances for credit losses and provisions	**57,032**	**15,595**	**(11,737)**	**(1,866)**	**59,024**
Including for debt securities classified at fair value through other comprehensive income	*42*				*81*

	Bank, EUR thousands (Reclassified)					
	Opening balance 01/01/2019	Integration of AB Citadele	Charged to statement of income	Write-offs of allow-ances	Other adjust-ments	Closing balance 31/12/2019
Stage 1						
Loans to credit institutions	61	-	35	-	1	97
Debt securities	245	-	237	-	2	484
Loans to public	9,634	1,323	(414)	-	-	10,543
Loan commitments, guarantees and letters of credit	1,984	113	1,279	-	2	3,378
Total stage 1 credit losses and provisions	**11,924**	**1,436**	**1,137**	**-**	**5**	**14,502**
Stage 2						
Debt securities	10	-	(10)	-	-	-
Loans to public	6,433	837	(2,087)	-	1	5,184
Loan commitments, guarantees and letters of credit	386	25	(238)	-	(1)	172
Total stage 2 credit losses and provisions	**6,829**	**862**	**(2,335)**	**-**	**-**	**5,356**
Stage 3						
Loans to public	38,508	6,264	9,008	(17,936)	772	36,616
Loan commitments, guarantees and letters of credit	246	1,413	311	(1,481)	69	558
Total stage 3 credit losses and provisions	**38,754**	**7,677**	**9,319**	**(19,417)**	**841**	**37,174**
Total allowances for credit losses and provisions	**57,507**	**9,975**	**8,121**	**(19,417)**	**846**	**57,032**
Including for debt securities classified at fair value through other comprehensive income	*68*					*42*

NOTE 12. OTHER IMPAIRMENT LOSSES AND OTHER PROVISIONS

Changes in impairment allowances for investments in subsidiaries, tangible, intangible and other assets

	Group, EUR thousands			
	Opening balance 01/01/2020	Charged to statement of income	Write-offs and other adjustments	Closing balance 31/12/2020
Other impairment allowances and other provisions				
Tangible and intangible assets (*Note 20*)	113	263	(23)	353
Other assets	976	743	(286)	1,433
Non-ECL provisions	-	100	-	100
Total other impairment allowance and other provisions	**1,089**	**1,106**	**(309)**	**1,886**

	Group, EUR thousands			
	Opening balance 01/01/2019	Charged to statement of income	Write-offs and other adjustments	Closing balance 31/12/2019
Other impairment allowances and other provisions				
Tangible and intangible assets (*Note 20*)	1,047	113	(1,047)	113
Other assets	1,283	1,192	(1,499)	976
Non-ECL provisions	434	-	(434)	-
Total other impairment allowance and other provisions	**2,764**	**1,305**	**(2,980)**	**1,089**

	Bank, EUR thousands			
	Opening balance 01/01/2020	Charged to statement of income	Write-offs and other adjustments	Closing balance 31/12/2020
Other impairment allowances and other provisions				
Tangible and intangible assets (*Note 20*)	-	342	-	342
Investments in related entities	37,196	(12,970)	(49)	24,177
Other assets	689	723	(62)	1,350
Non-ECL provisions	-	100	-	100
Total other impairment allowance and other provisions	**37,885**	**(11,805)**	**(111)**	**25,969**

	Bank, EUR thousands			
	Opening balance 01/01/2019	Charged to statement of income	Write-offs and other adjustments	Closing balance 31/12/2019
Other impairment allowances and other provisions				
Investments in related entities	40,902	(3,706)	-	37,196
Other assets	1,226	1,221	(1,758)	689
Non-ECL provisions	-	-	-	-
Total other impairment allowance and other provisions	**42,128**	**(2,485)**	**(1,758)**	**37,885**

For more details on the investments in subsidiaries refer to Note 19 (*Investments in Related Entities*).

NOTE 13. TAXATION

Corporate income tax expense

	EUR thousands			
	2020 Group	2019 Group	2020 Bank	2019 Bank
Current corporate income tax	388	954	117	248
Deferred income tax	(82)	375	-	-
Total corporate income tax expense	**306**	**1,329**	**117**	**248**

In Latvia and Estonia corporate income tax (CIT) is payable when the profits are distributed, not when the profits are earned. The deferred tax is calculated at tax rate which applies to undistributed earnings which is 0%. Thus, the effective tax rate in the reporting period for the Bank in Latvia and Estonia and the Group in Latvia was close to 0%. In Latvia incremental CIT expense does not arise on dividend distribution from retained earnings generated under the previous tax regime (EUR 81.8 million distributable earnings for the Bank), and there is no expiry date for this distribution right. In Latvia for actual and implied dividend distributions from profits earned under the current tax regime a 20% CIT rate applies; the tax base is calculated by dividing taxable distribution with a 0.8 coefficient.

In other jurisdictions where the Group operates earnings are taxable when earned. The effective tax rate in the reporting period for the Swiss operations of the Group was closed to zero (2019: 20%); for Lithuanian operations it was 4% (2019: close to zero), primarily driven by positive impact from revised estimates of recognisable unutilized tax loss. As at period end a part of the Group's and Bank's unutilised tax loss is not recognised for deferred tax asset purposes as there is uncertainty about availability of sufficient future taxable profits with which to offset the accumulated tax loss at the level of the particular entity. The assessment of the recognisable amount of the tax asset is based on reasonably certain three year forecast to utilised accumulated tax loss by the respective entities. The recognised deferred tax asset mostly represents unutilised tax loss in Lithuania.

Income tax assets and liabilities

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Deferred income tax assets	2,387	2,429	2,179	2,179
Current income tax assets	885	707	878	707
Tax assets	**3,272**	**3,136**	**3,057**	**2,886**
Deferred income tax liabilities	(464)	(676)	-	-
Current income tax liabilities	(213)	(581)	(115)	-
Tax liabilities	**(677)**	**(1,257)**	**(115)**	**-**

The Estonian leasing subsidiary OU Citadele Leasing & Factoring has recognised a deferred tax liability of EUR 0.4 million as it anticipates paying out dividends to the Bank which at distribution will become taxable.

Change in net deferred corporate income tax asset / (liability)

	EUR thousands			
	2020 Group	2019 Group	2020 Bank	2019 Bank
As at the beginning of the period	1,753	2,387	2,179	-
Integration of AB Citadele bankas (Lithuania)	-	-	-	2,179
Charge to statement of income	82	(375)	-	-
Charge to statement of comprehensive income	88	(259)	-	-
Net deferred income tax asset at the period end	**1,923**	**1,753**	**2,179**	**2,179**

Recognised deferred income tax assets and liabilities

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Deferred income and accrued expense	405	344	332	344
Unutilised tax loss carry-forward	3,114	3,533	2,983	3,211
Unrecognised tax loss	(1,136)	(1,448)	(1,136)	(1,376)
Expected distribution of retained earnings	(375)	(375)	-	-
Other items. net	(85)	(301)	-	-
Deferred income tax assets, net	**1,923**	**1,753**	**2,179**	**2,179**

Reconciliation of the pre-tax profit to the corporate income tax expense

	EUR thousands			
	2020 Group	2019 Group	2020 Bank	2019 Bank
Profit before corporate income tax	3,914	37,833	(4,644)	39,224
Corporate income tax (at 20%)	**783**	**7,567**	**(929)**	**7,845**
Undistributed earnings taxable on distribution	4	(6,829)	1,517	(7,800)
Effect of tax rates in foreign jurisdictions	(518)	153	(147)	12
Non-taxable income	(707)	(420)	(247)	(241)
Non-deductible expense	930	551	112	499
Expected distribution of retained earnings	-	375	-	-
Other tax differences, net (incl. changes in unrecognised deferred tax asset)	(186)	(68)	(189)	(67)
Total effective corporate income tax	**306**	**1,329**	**117**	**248**

Part of the Group's unutilised tax losses are not recognised for deferred tax asset purposes as there is uncertainty about availability of sufficient future taxable profits with which to offset accumulated tax losses at particular subsidiary's level. The recognisable amount assessment is based on reasonably certain 3 year forecast of the respective subsidiary's ability to utilised tax losses. Most of the recognised deferred tax asset represents unutilised tax loss carry forward in Lithuania.

NOTE 14. CASH AND CASH BALANCES AT CENTRAL BANKS

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Cash	37,810	45,190	37,810	45,189
Balances with the Bank of Latvia	1,016,446	446,527	1,016,446	446,527
Balances with other central banks	92,350	216,197	76,752	199,739
Total cash and balances with central banks	**1,146,606**	**707,914**	**1,131,008**	**691,455**

Credit institutions should comply with the compulsory reserve requirement calculated based on attracted funding. The Bank's compulsory minimum reserve must be exceeded by a credit institution's average monthly EUR balance on its correspondent account with the Bank of Latvia. Similar requirements also apply to the funding attracted by the Bank's branch in Estonia and Lithuania and the banking subsidiary in Switzerland. During the reporting period, the Group's was in compliance with this requirement. Demand deposits with other central banks include balances with central banks of Lithuania, Switzerland and Estonia. In the reporting period no amounts due from central banks were overdue.

NOTE 15. DEBT SECURITIES

Debt securities by credit rating grade, classification and profile of issuer

	Group, EUR thousands					
	31/12/2020			31/12/2019 (Reclassified)		
	At fair value through other comprehensive income	At amortised cost	Total	At fair value through other comprehensive income	At amortised cost	Total
Investment grade:						
AAA/Aaa	67,640	108,929	176,569	66,691	89,429	156,120
AA/Aa	78,451	251,826	330,277	111,325	106,277	217,602
A	204,857	988,657	1,193,514	169,597	545,489	715,086
BBB/Baa	25,763	23,389	49,152	50,182	62,346	112,528
Lower ratings or unrated	263	10,415	10,678	266	6,877	7,143
Total debt securities	**376,974**	**1,383,216**	**1,760,190**	**398,061**	**810,418**	**1,208,479**
Including general government	*197,816*	*1,036,342*	*1,234,158*	*164,761*	*491,501*	*656,262*
Including credit institutions	*79,665*	*176,665*	*256,330*	*106,280*	*135,237*	*241,517*
Including classified in stage 1	*376,974*	*1,383,216*	*1,760,190*	*398,061*	*810,418*	*1,208,479*

	Bank, EUR thousands					
	31/12/2020			31/12/2019 (Reclassified)		
	At fair value through other comprehensive income	At amortised cost	Total	At fair value through other comprehensive income	At amortised cost	Total
Investment grade:						
AAA/Aaa	27,671	93,808	121,479	26,284	74,235	100,519
AA/Aa	33,067	238,556	271,623	55,375	92,197	147,572
A	162,938	974,237	1,137,175	141,593	523,372	664,965
BBB/Baa	1,034	21,949	22,983	2,941	49,441	52,382
Lower ratings or unrated	-	10,415	10,415	-	6,877	6,877
Total debt securities	**224,710**	**1,338,965**	**1,563,675**	**226,193**	**746,122**	**972,315**
Including general government	*158,559*	*1,016,650*	*1,175,209*	*137,229*	*468,479*	*605,708*
Including credit institutions	*27,505*	*167,613*	*195,118*	*42,122*	*121,610*	*163,732*
Including classified in stage 1	*224,710*	*1,338,965*	*1,563,675*	*226,193*	*746,122*	*972,315*

Debt securities by country of issuer

	Group, EUR thousands					
	31/12/2020			31/12/2019 (Reclassified)		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Lithuania	594,762	6,951	601,713	222,723	6,813	229,536
Latvia	417,450	3,526	420,976	291,654	7,377	299,031
Netherlands	14,641	81,459	96,100	12,690	97,554	110,244
Poland	71,716	5,574	77,290	5,478	8,511	13,989
Germany	16,011	60,846	76,857	15,889	31,056	46,945
Estonia	48,027	20,480	68,507	10,008	13,434	23,442
United States	11,680	50,395	62,075	14,387	81,960	96,347
Canada	5,192	43,718	48,910	6,701	39,759	46,460
Sweden	3,107	42,602	45,709	4,141	21,335	25,476
Finland	4,998	32,819	37,817	11,632	27,130	38,762
Multilateral development banks	-	49,650	49,650	-	39,221	39,221
Other countries	46,574	128,012	174,586	60,959	178,067	239,026
Total debt securities	**1,234,158**	**526,032**	**1,760,190**	**656,262**	**552,217**	**1,208,479**

	Bank, EUR thousands					
	31/12/2020			31/12/2019 (Reclassified)		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Lithuania	586,259	5,411	591,670	220,452	5,412	225,864
Latvia	408,536	2,067	410,603	287,598	5,918	293,516
Netherlands	10,870	64,664	75,534	8,920	64,732	73,652
Poland	68,507	3,092	71,599	2,237	4,619	6,856
Estonia	48,027	18,823	66,850	10,008	11,616	21,624
Germany	9,999	46,280	56,279	9,998	13,932	23,930
United States	9,999	29,813	39,812	10,792	54,887	65,679
Sweden	-	39,177	39,177	-	15,335	15,335
Finland	4,998	31,163	36,161	9,431	26,680	36,111
Canada	-	35,181	35,181	2,070	28,255	30,325
Multilateral development banks	-	37,262	37,262	-	27,188	27,188
Other countries	28,014	75,533	103,547	44,202	108,033	152,235
Total debt securities	**1,175,209**	**388,466**	**1,563,675**	**605,708**	**366,607**	**972,315**

All fixed income securities as of 31 December 2020 and 31 December 2019 are listed. Further, no payments on the above instruments are past due. Total exposure to any single country within “Other countries” group as of 31 December 2020 is smaller than with any of the above disclosed countries.

NOTE 16. LOANS TO PUBLIC

Loans by customer profile, industry profile and product type

	EUR thousands			
	31/12/2020 Group	31/12/2019 Reclassified Group	31/12/2020 Bank	31/12/2019 Reclassified Bank
Financial and non-financial corporations				
Real estate purchase and management	215,831	239,530	212,639	277,196
Manufacturing	146,386	131,880	117,009	107,298
Transport and communications	100,920	116,141	38,161	44,781
Trade	109,635	109,673	86,307	85,501
Agriculture and forestry	79,927	75,474	56,156	54,698
Construction	40,760	38,712	29,761	27,567
Electricity, gas and water supply	46,059	41,229	43,727	38,748
Hotels, restaurants	43,108	47,760	41,321	45,510
Financial intermediation	22,470	39,237	219,877	240,287
Other industries	44,023	53,396	24,401	28,964
Total financial and non-financial corporations	**849,119**	**893,032**	**869,359**	**950,550**
Households				
Mortgage loans	541,636	501,581	541,636	501,581
Credit for consumption	68,721	87,919	68,721	87,919
Card lending	58,411	65,391	58,411	65,391
Finance leases	42,848	39,532	-	-
Other lending	20,204	23,904	16,515	22,996
Total households	**731,820**	**718,327**	**685,283**	**677,887**
General government	**19,724**	**13,240**	**19,431**	**13,161**
Total gross loans to public	**1,600,663**	**1,624,599**	**1,574,073**	**1,641,598**
Impairment allowance and provisions	(59,440)	(56,701)	(55,760)	(52,343)
Total net loans to public	**1,541,223**	**1,567,898**	**1,518,313**	**1,589,255**

Loans by overdue days and impairment stage

Group, EUR thousands	31/12/2020					31/12/2019 (Reclassified)				
	Gross amount			Expected credit loss allowance	Net carrying amount	Gross amount			Expected credit loss allowance	Net carrying amount
	Stage 1	Stage 2	Stage 3			Stage 1	Stage 2	Stage 3		
Loans to public										
Not past due	1,429,589	84,151	13,780	(25,946)	1,501,574	1,368,510	123,569	22,148	(21,697)	1,492,530
Past due <=30 days	22,496	4,736	1,095	(1,321)	27,006	37,752	9,404	2,622	(2,733)	47,045
Past due >30 and ≤90 days	-	4,043	1,873	(1,701)	4,215	-	7,120	2,867	(2,648)	7,339
Past due >90 days	-	-	38,900	(30,472)	8,428	-	-	50,607	(29,623)	20,984
Total loans to public	**1,452,085**	**92,930**	**55,648**	**(59,440)**	**1,541,223**	**1,406,262**	**140,093**	**78,244**	**(56,701)**	**1,567,898**
Guarantees and letters of credit	22,418	-	51	(142)	22,327	21,479	-	303	(136)	21,646
Financial commitments	258,432	1,814	408	(1,969)	258,685	320,470	8,333	1,005	(4,014)	325,794
Total credit exposure to public	**1,732,935**	**94,744**	**56,107**	**(61,551)**	**1,822,235**	**1,748,211**	**148,426**	**79,552**	**(60,851)**	**1,915,338**

Off-balance sheet credit exposure comprises various committed financing facilities to the borrowers. For details refer to Note 27 (*Off-balance Sheet Items*).

Bank, EUR thousands	31/12/2020					31/12/2019 (Reclassified)				
	Gross amount			Expected credit loss allowance	Net carrying amount	Gross amount			Expected credit loss allowance	Net carrying amount
	Stage 1	Stage 2	Stage 3			Stage 1	Stage 2	Stage 3		
Loans to public										
Not past due	1,425,915	81,574	11,803	(23,180)	1,496,112	1,416,084	121,111	19,981	(18,731)	1,538,445
Past due <=30 days	7,870	2,969	902	(1,105)	10,636	18,688	6,295	2,142	(2,191)	24,934
Past due >30 and ≤90 days	-	3,155	1,674	(1,554)	3,275	-	5,268	2,603	(2,356)	5,515
Past due >90 days	-	-	38,211	(29,921)	8,290	-	-	49,426	(29,065)	20,361
Total loans to public	**1,433,785**	**87,698**	**52,590**	**(55,760)**	**1,518,313**	**1,434,772**	**132,674**	**74,152**	**(52,343)**	**1,589,255**
Guarantees and letters of credit	21,761	-	51	(142)	21,670	20,777	-	303	(136)	20,944
Financial commitments	273,867	1,814	408	(1,891)	274,198	401,590	8,333	1,005	(3,972)	406,956
Total credit exposure to public	**1,729,413**	**89,512**	**53,049**	**(57,793)**	**1,814,181**	**1,857,139**	**141,007**	**75,460**	**(56,451)**	**2,017,155**

Stage 3 loans to public ratio

EUR thousands	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Stage 3 loans to public ratio, gross	**3.5%**	**4.8%**	**3.3%**	**4.5%**
Stage 3 loans to public ratio, net	**1.3%**	**2.5%**	**1.2%**	**2.4%**
Stage 3 impairment ratio	**64%**	**50%**	**66%**	**49%**

Stage 3 loans to public ratio is calculated as stage 3 loans to public divided by total loans to public as of the end of the relevant period. All loans overdue by more than 90 days are classified as stage 3. Non-overdue loans and loans overdue less than 90 days which have been forborne or impairment loses have been identified based on individual assessment or financial condition of the borrower has deteriorated significantly are classified as stage 3. Part of the loans classified as stage 3 do not have any current default indicators but are put under monitoring period for a specific time before being reclassified out of stage 3. Loans under recovery are also classified as stage 3.

Stage 3 impairment ratio is calculated as impairment allowance for stage 3 exposures divided by gross loans to public classified as stage 3. Impairment allowance is the amount of expected credit loss expensed in the income statement as credit loss and is derived from historic loss rates and future expectations, and where available considering fair value of the loan collateral.

NOTE 17. LEASES

Finance leases (a part of loans to public) by type of assets financed

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Transport vehicles	156,895	161,327	-	-
Manufacturing equipment	30,051	30,231	-	-
Real estate	1,674	2,031	-	-
Industrial, office and other equipment	9,545	10,142	-	-
Total present value of finance lease payments, excluding impairment	**198,165**	**203,731**	**-**	**-**
Impairment allowance	(3,527)	(4,344)	-	-
Net present value of finance lease payments	**194,638**	**199,387**	**-**	**-**

Reconciliation of the gross investment in the finance leases and the present value of minimum lease payments receivable

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Gross investment in finance leases receivable:				
within one year	77,812	83,653	-	-
in year two	57,115	59,698	-	-
in year three	42,568	42,384	-	-
in year four	24,057	25,338	-	-
In year five	12,642	11,601	-	-
later than in five years	311	347	-	
Total gross investment in finance leases	**214,505**	**223,021**	**-**	**-**
Unearned finance income receivable:				
within one year	(6,557)	(7,388)	-	-
in year two	(4,902)	(5,712)	-	-
in year three	(3,050)	(3,751)	-	-
in year four	(1,394)	(1,954)	-	-
In year five	(432)	(478)	-	-
later than in five years	(5)	(7)	-	-
Total	**(16,340)**	**(19,290)**	**-**	**-**
Present value of minimum lease payments receivable:				
within one year	71,255	76,265	-	-
in year two	52,213	53,986	-	-
in year three	39,518	38,633	-	-
in year four	22,663	23,384	-	-
In year five	12,210	11,123	-	-
later than in five years	306	340	-	-
Total	**198,165**	**203,731**	**-**	**-**

NOTE 18. EQUITY AND OTHER FINANCIAL INSTRUMENTS

Shares and other non-fixed income securities by issuers profile and classification

	Group, EUR thousands							
	31/12/2020				31/12/2019			
	Mutual investment funds	Foreign equities	Latvian equities	Total	Mutual investment funds	Foreign equities	Latvian equities	Total
Non-trading financial assets at fair value through profit or loss	43,343	4,497	-	47,840	33,538	-	-	33,538
Financial assets at fair value through other comprehensive income	-	143	124	267	6,434	3,968	1,124	11,526
Total non-fixed income securities, net	**43,343**	**4,640**	**124**	**48,107**	**39,972**	**3,968**	**1,124**	**45,064**
Including unit-linked insurance plan assets	*21,026*	*-*	*-*	*21,026*	*24,816*	*-*	*-*	*24,816*

All exposures in mutual investment funds which are classified as financial assets designated at fair value through profit or loss are related to life insurance business, most of these with unit-linked insurance plan assets. According to unit-linked investment contract terms the risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter.

As of 31 December 2020, the Bank and the Group has investments in mutual investment funds with carrying amount of EUR 13.8 million (2019: EUR 6.4 million) and EUR 27.2 million (2019: EUR 21.6 million) which are managed by IPAS CBL Asset Management. Further, EUR 10.8 million (2019: EUR 12.6 million) of these Group's investments relate to unit-linked contracts, where the risk associated with the investments made is fully attributable to the counterparty entering the insurance agreement and not the underwriter. These exposures have been acquired only with investment intentions. The Bank has no exposure to investments related to unit-linked contracts.

	Bank, EUR thousands							
	31/12/2020				31/12/2019			
	Mutual investment funds	Foreign equities	Latvian equities	Total	Mutual investment funds	Foreign equities	Latvian equities	Total
Non-trading financial assets at fair value through profit or loss	13,834	4,497	-	18,331	-	-	-	-
Financial assets at fair value through other comprehensive income	-	143	124	267	6,434	3,968	1,124	11,526
Total non-fixed income securities, net	**13,834**	**4,640**	**124**	**18,598**	**6,434**	**3,968**	**1,124**	**11,526**

NOTE 19. INVESTMENTS IN RELATED ENTITIES

Changes in investments in related entities of the Bank

	EUR thousands	
	2020	2019
Balance at the beginning of the period, net	**34,161**	**71,614**
Integration of AB Citadele bankas, Lithuania	-	(43,838)
Equity investments in the existing subsidiaries	-	2,679
Investments in associates accounted for using the equity method	274	-
Liquidation of subsidiary	(649)	-
Change in impairment allowance	12,970	3,706
Balance at the end of the period, net	**46,756**	**34,161**
Including investments in associates accounted for using the equity method	*274*	-
Gross investment in subsidiaries as of the end of the period	*70,660*	*71,357*

In the reporting period as a result of a sale of the Group's Latvian headquarters building (for details refer to Note 20 (*Tangible and Intangible Assets*)), the valuation of subsidiary SIA Citadeles moduļi was reassessed. The accelerated timing and the amount of the realised sales gain versus previous valuation assumptions contributed to the release of the previously recognised impairment. In total EUR 13.1 million release of impairment of the investment in this subsidiary was recognised. Group company SIA Hortus RE was liquidated on 26 February 2020 with no direct income statement impact.

In 2019 AB Citadele bankas (Lithuania) was transform from subsidiary to branch. The decision was taken to ensure increased operational efficiency across the Group and allow Citadele to maximize its client offerings and service output across the Baltics. In 2019 all assets, liabilities and business of AB Citadele bankas (Lithuania) was integrated in the Lithuanian branch of AS Citadele banka.

Acquisition of UniCredit leasing operations in the Baltics

In 2019 AS Citadele banka entered into a binding agreement with UniCredit S.p.A. to acquire UniCredit's Baltic leasing operations through the acquisition of 100% of the shares in SIA UniCredit Leasing. The acquisition transaction was closed after 31 December 2020 with Citadele obtaining full control from the beginning of January 2021. After completion of the acquisition transaction in 2021, the acquired entity was renamed to SIA Citadele Leasing. The acquisition includes Estonian and Lithuanian branches of the leasing entity and a subsidiary SIA CL Insurance Broker (former legal name SIA UniCredit Insurance Broker). All regulatory approvals have been obtained and the acquisition transaction has been closed as of publishing these financial statements. For more details refer to Note 34 *(Events after the Reporting Date)*.

Consolidation Group subsidiaries for accounting purposes

Company	Registration number	Registration address and country	Company type*	Basis for inclusion in the Group**	The Group's share (%)	% of total voting rights	Carrying value EUR thousands 31/12/2020	Carrying value EUR thousands 31/12/2019
AS Citadele banka	40103303559	Latvia, Riga, Republikas laukums 2A	BNK	MAS	-	-	-	-
AP Anlage & Privatbank AG	130.0.007.738-0	Switzerland, Limmatquai 4, CH-8001, Zurich	BNK	MS	100	100	13,805	13,805
SIA Citadele Līzings un Faktorings	50003760921	Latvia, Riga, Republikas laukums 2A	LIZ	MS	100	100	6,921	6,921
OU Citadele Leasing & Factoring	10925733	Estonia, Tallinn 10152, Narva mnt. 63/1	LIZ	MS	100	100	445	445
UAB Citadele faktoringas ir lizingas	126233315	Lithuania, Vilnius LT-03107, K.Kalinausko 13	LIZ	MS	100	100	2,149	2,149
IPAS CBL Asset Management	40003577500	Latvia, Riga, Republikas laukums 2A	IPS	MS	100	100	5,906	5,906
AS CBL Atklātais Pensiju Fonds	40003397312	Latvia, Riga, Republikas laukums 2A	PFO	MS	100	100	646	646
AAS CBL Life	40003786859	Latvia, Riga, Republikas laukums 2A	APS	MMS	100	100	-	-
SIA Citadeles moduļi	40003397543	Latvia, Riga, Republikas laukums 2A	PLS	MS	100	100	15,932	2,836
SIA Hortus Land	40103460961	Latvia, Riga, Republikas laukums 2A	PLS	MS	100	100	8	-
SIA Hortus Residential	40103460622	Latvia, Riga, Republikas laukums 2A	PLS	MS	100	100	670	804
SIA Hortus RE (liquidated in 2020)	40103752416	-	-	-	-	-	-	649
					Total net investments in subsidiaries		**46,482**	**34,161**

Consolidation Group subsidiaries in liquidation process in foreign jurisdictions

Company	Registration number	Registration address and country	Company type*	Basis for inclusion in the Group**	The Group's share (%)	% of total voting rights	Carrying value EUR thousands 31/12/2020	Carrying value EUR thousands 31/12/2019
Calenia Investments Limited (in liquidation)	HE156501	Cyprus, Nicosia 1075, 58 Arch. MakariosIII Avenue, Iris Tower, 6th floor, office 602	PLS	MS	100	100	-	-
OOO Mizush Asset Management Ukraina (in liquidation)	32984601	Ukraine, Kiev 03150, Gorkovo 172	IBS	MMS	100	100	-	-

*BNK – bank, IBS – investment brokerage company, IPS – investment management company, PFO – pension fund, CFI – other financial institution, LIZ – leasing company, PLS – company providing various support services, APS – insurance company. ** MS – subsidiary company, MMS – subsidiary of the subsidiary company, MAS – parent company.

Calenia Investments Limited and OOO Mizush Asset Management Ukraina are in liquidation as these Group subsidiaries had no ongoing business operations.

For Calenia Investments Limited a liquidator (Moore Stephens Stylianou & Co) has been appointed in 2019 and a voluntary liquidation commenced. As of the year-end the appointed liquidator awaits official tax clearance letter. Due to Covid-19 situation's induced slowdown in the document turnaround speeds, delays are experienced. Withing 3 months after the issuance of the tax clearance letter a formal final announcement from the statutory register on the liquidation of the Calenia Investments Limited is expected.

For OOO Mizush Asset Management Ukraina a liquidator (AA PricewaterhouseCoopers Legal) has been appointed. Final tax audit has been completed and a tax clearance letter is being awaited. After that final report will be prepared and submitted as per statutory requirement, in due time a formal liquidation decision from statutory register is expected.

Valuation of certain subsidiaries

Carrying value of the investment in SIA Citadeles moduļi is estimated as a residual interest in the assets of the entity (mostly cash) after deducting all of its liabilities, adjusted for future cash flows. Previously the major asset of the entity was the Group's Latvian headquarters building. The property in the Group's consolidated accounts was presented as tangible asset and carried at amortised cost. After sale of the property the major asset of the company is cash. 31 December 2020 the valuation of the company is not sensitive to any significant key inputs. Sensitivity scenarios as of 31 December 2019: if the expected yield was +/-100 basis points than the carrying value would change by EUR +7.5/-5.5 million, if undiscounted shareholders cash flows were +/-10% than the carrying value would change by EUR +/-4.1 million.

Carrying value of the investment in SIA Citadele Līzings un Faktorings is derived from present value of expected free equity distributable to the shareholders, after required equity allocation for capital adequacy compliance. The target capital adequacy ratio is set at 12% and includes allocated charges for all banking risks inherent in the business model of the leasing plus full set of regulatory buffers as applicable for the Group consolidated and on top of that a managements buffer. Other key inputs of the model are 12.0% (2019: 12.0%) discount rate and future profitability of the operations of the entity. Sensitivity scenarios: if discount rate was +/-100 basis points than the carrying value EUR +/-0.2 million (2019: EUR +/-0.1 million), if net result was +/-10% than the carrying value EUR +/-0.04 million (2019: EUR +/-0.1 million).

NOTE 20. TANGIBLE AND INTANGIBLE ASSETS

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Right-of-use assets	7,360	3,087	8,881	10,811
IT and other equipment	3,368	4,126	3,329	3,661
Leasehold improvements	1,194	663	1,194	643
Land and buildings	864	31,308	641	2,955
Transport vehicles	144	243	98	161
Investment properties	-	10,522	-	-
Prepayments for property and equipment	-	40	-	-
Total tangible assets	**12,930**	**49,989**	**14,143**	**18,231**
Software	5,042	4,499	4,923	4,384
Other intangible assets	127	149	127	146
Prepayments for intangible assets	812	50	782	41
Total intangible assets	**5,981**	**4,698**	**5,832**	**4,571**
Total tangible and intangible assets	**18,911**	**54,687**	**19,975**	**22,802**

In 2020 Group's Latvian headquarters building with a carrying value of EUR 36.8 million was sold to Lords LB Baltic Green Fund (V). Several sections of the building qualify for a lease-back transaction, therefore, requiring deferral of recognition of some sales gains. The deferred sales gain of EUR 1.7 million is to be recognised over the estimated lease-back period as a deduction from depreciation expense of the lease-back right of use asset. In total a sales gain of EUR 18.4 million was registered with EUR 16.7 million qualifying as sales-day profits of the Group in 2020. The deferred part is allocated to the lease-back right of use asset. The sales decision was a result of a review of the Group's expected future office needs, assessment of several potential buyers' proposals and acknowledgment that the dynamics of office space are changing. Before the sales transaction, own use part of the building in the Group's accounts was classified as Land and buildings while the remainder as Investment properties (held for capital appreciation and rental income). Also, in 2020 Group's Lithuanian headquarters building with a carrying value of EUR 1.9 million was sold. A profit of EUR 0.8 million was recognised on the sale.

Changes in tangible and intangible assets of the Group

	Leasehold improve-ments	Land and buildings	Trans-port vehicles	Right-of-use assets	Invest-ment proper-ties	IT and other equipment	Software	Other intangible assets	Total excluding prepayments
Historical cost									
As at 31 December 2018	**999**	**71,191**	**848**	**-**	**-**	**25,192**	**21,859**	**1,422**	**121,511**
Initial application (IFRS 16)	-	-	-	3,716	-	-	-	-	3,716
Additions	280	168	102	857	-	1,807	2,268	6	5,488
Disposals and write-offs	(111)	-	(188)	(1,486)	-	(3,755)	(229)	(221)	(5,990)
Transfers	-	(18,273)	-	-	18,273	-	856	(856)	-
As at 31 December 2019	**1,168**	**53,086**	**762**	**3,087**	**18,273**	**23,244**	**24,754**	**351**	**124,725**
Additions	813	4	9	8,901	-	1,149	2,522	3	13,401
Disposals and write-offs	(62)	(51,424)	(228)	(4,628)	(18,273)	(9,245)	-	(50)	(83,910)
As at 31 December 2020	**1,919**	**1,666**	**543**	**7,360**	**-**	**15,148**	**27,276**	**304**	**54,216**
Accumulated depreciation									
As at 31 December 2018	**401**	**26,959**	**511**	**-**	**-**	**20,916**	**17,418**	**1,024**	**67,229**
Charge for the year	215	1,890	131	1,486	680	1,362	1,892	34	7,690
Disposals	(111)	-	(123)	(1,486)	-	(3,160)	(24)	-	(4,904)
Transfers	-	(7,071)	-	-	7,071	-	856	(856)	-
As at 31 December 2019	**505**	**21,778**	**519**	**-**	**7,751**	**19,118**	**20,142**	**202**	**70,015**
Charge for the year	277	1,982	87	1,989	124	1,469	2,092	24	8,044
Disposals	(57)	(23,300)	(207)	(1,989)	(7,875)	(8,817)	-	(49)	(42,294)
As at 31 December 2020	**725**	**460**	**399**	**-**	**-**	**11,770**	**22,234**	**177**	**35,765**
Impairment allowance									
As at 31 December 2018	**-**	**-**	**(45)**	**-**	**-**	**(582)**	**(199)**	**(221)**	**(1,047)**
Net reversal and write-offs	-	-	45	-	-	582	86	221	934
As at 31 December 2019	**-**	**-**	**-**	**-**	**-**	**-**	**(113)**	**-**	**(113)**
Net reversal and write-offs	-	(342)	-	-	-	(10)	113	-	(239)
As at 31 December 2020	**-**	**(342)**	**-**	**-**	**-**	**(10)**	**-**	**-**	**(352)**
Net carrying amount									
As at 31 December 2018	**598**	**44,232**	**292**	**-**	**-**	**3,694**	**4,242**	**177**	**53,235**
As at 31 December 2019	**663**	**31,308**	**243**	**3,087**	**10,522**	**4,126**	**4,499**	**149**	**54,597**
As at 31 December 2020	**1,194**	**864**	**144**	**7,360**	**-**	**3,368**	**5,042**	**127**	**18,099**

Changes in tangible and intangible assets of the Bank

	Leasehold improve-ments	Land and buildings	Trans-port vehicles	Right-of-use assets	Invest-ment proper-ties	IT and other equipment	Software	Other intangible assets	Total excluding prepayments
Historical cost									
As at 31 December 2018	**871**	**1,269**	**455**	**-**	**-**	**16,470**	**20,615**	**280**	**39,960**
Initial application (IFRS 16)	-	-	-	11,227	-	-	-	-	11,227
Integration of AB Citadele bankas	-	2,578	93	-	-	841	1,394	221	5,127
Additions	280	159	94	3,513	-	1,618	2,130	6	7,800
Disposals and write-offs	(111)	-	(89)	(3,929)	-	(3,692)	(200)	(221)	(8,242)
As at 31 December 2019	**1,040**	**4,006**	**553**	**10,811**	**-**	**15,237**	**23,939**	**286**	**55,872**
Additions	813	-	9	8,901	-	1,077	2,525	3	13,328
Disposals and write-offs	(62)	(2,578)	(195)	(10,831)	-	(1,448)	-	(49)	(15,163)
As at 31 December 2020	**1,791**	**1,428**	**367**	**8,881**	**-**	**14,866**	**26,464**	**240**	**54,037**
Accumulated depreciation									
As at 31 December 2018	**322**	**388**	**321**	**-**	**-**	**13,233**	**16,576**	**116**	**30,956**
Charge for the year	186	62	77	3,929	-	1,209	1,784	24	7,271
Integration of AB Citadele bankas	-	601	38	-	-	237	1,195	-	2,071
Disposals	(111)	-	(44)	(3,929)	-	(3,103)	-	-	(7,187)
As at 31 December 2019	**397**	**1,051**	**392**	**-**	**-**	**11,576**	**19,555**	**140**	**33,111**
Charge for the year	257	35	57	4,003	-	1,329	1,986	21	7,688
Disposals	(57)	(641)	(180)	(4,003)	-	(1,368)	-	(48)	(6,297)
As at 31 December 2020	**597**	**445**	**269**	**-**	**-**	**11,537**	**21,541**	**113**	**34,502**
Impairment allowance									
As at 31 December 2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net reversal and write-offs	-	-	-	-	-	-	-	-	-
As at 31 December 2019	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net reversal and write-offs	-	(342)	-	-	-	-	-	-	(342)
As at 31 December 2020	**-**	**(342)**	**-**	**-**	**-**	**-**	**-**	**-**	**(342)**
Net carrying amount									
As at 31 December 2018	**549**	**881**	**134**	**-**	**-**	**3,237**	**4,039**	**164**	**9,004**
As at 31 December 2019	**643**	**2,955**	**161**	**10,811**	**-**	**3,661**	**4,384**	**146**	**22,761**
As at 31 December 2020	**1,194**	**641**	**98**	**8,881**	**-**	**3,329**	**4,923**	**127**	**19,193**

NOTE 21. OTHER ASSETS

	EUR thousands			
	31/12/2020 Group	**31/12/2019 Group**	**31/12/2020 Bank**	**31/12/2019 Bank**
Money in transit	10,383	18,373	10,383	18,373
Repossessed assets	3,945	4,682	-	-
Prepayments	5,993	2,483	2,606	1,862
Other assets	6,140	5,812	4,716	3,654
Total gross other assets	**26,461**	**31,350**	**17,705**	**23,889**
Impairment allowance	(1,433)	(977)	(1,350)	(689)
Total net other assets	**25,028**	**30,373**	**16,355**	**23,200**

As at 31 December 2020 and 2019 most of the impairment allowance for other assets relate to fully impaired overdue debt collection expenditure compensation receivable; net carrying amount of these assets is nil. As at 31 December 2020, the Group had no unimpaired delayed other assets (2019: EUR nil).

From time to time the Group repossesses from its customers certain assets serving as collateral, when the customers cannot otherwise meet their payment obligations and other loan work-out measures have been unsuccessful. Collateral obtained is recognised within other assets and are held for sale in near future. Real estate constitutes EUR 3.8 million of the repossessed assets as of 31 December 2020 (2019: EUR 4.3 million). Total net carrying value of the collateral obtained during the reporting period and still held at the end of the reporting period is EUR 0.5 million (2019: EUR 2.4 million). Other repossessed collaterals held at the end of the reporting period are from earlier periods.

Repossessed assets where the management has committed to an active plan that is expected to result in a complete sale within one year from the date of classification are classified as non-current assets held for sale.

NOTE 22. DEPOSITS FROM CREDIT INSTITUTIONS AND CENTRAL BANKS

Bank deposits and borrowings by type

	EUR thousands			
	31/12/2020 Group	**31/12/2019 Group**	**31/12/2020 Bank**	**31/12/2019 Bank**
ECB's targeted longer-term refinancing operations	438,833	-	438,833	-
Deposits from Citadele Group	-	-	20,968	37,650
Other credit institution deposits and collateral accounts	11,153	1,631	11,153	1,631
Other central bank deposits and accounts	5	6	5	6
Total deposits from credit institutions and central banks	**449,991**	**1,637**	**470,959**	**39,287**

On 24 June 2020, Citadele participated in the ECB's latest targeted longer-term refinancing operations (TLTRO-III) borrowing EUR 440 million. The maturity date of the facility is 28 June 2023 with an early repayment option starting on 29 September 2021. The Bank's total TLTRO-III borrowing allowance is EUR 452.96 million. Interest rate on TLTRO-III is -0.5% from 24 June 2020 to 23 June 2021. For banks meeting the ECB's specified lending criteria, interest rate can be as low as -1.0%.

Based on the analysis of the terms of the program and benchmarking of the expected effective interest payable to market pricing of similar instruments it was concluded that TLTRO-III borrowing does not contain a significant benefit relative to market pricing and thus is accounted for as a financial liabilities at amortised cost. If these estimates were to change materially, a revision would be recognised, and the presentation of re-estimated income reassessed.

NOTE 23. DEPOSITS AND BORROWINGS FROM CUSTOMERS

Deposits and borrowings by profile of the customer

	EUR thousands			
	31/12/2020 Group	**31/12/2019 Group**	**31/12/2020 Bank**	**31/12/2019 Bank**
Households	2,095,185	1,930,156	1,992,892	1,788,830
Non-financial corporations	1,280,670	1,087,395	1,187,775	918,231
Financial corporations	228,679	212,404	230,572	223,990
General government	49,576	46,344	49,576	46,344
Other	17,280	13,235	17,281	13,235
Total deposits from customers	**3,671,390**	**3,289,534**	**3,478,096**	**2,990,630**

Deposits and borrowings from customers by contractual maturity

	EUR thousands			
	31/12/2020 Group	**31/12/2019 Group**	**31/12/2020 Bank**	**31/12/2019 Bank**
Demand deposits	3,015,900	2,662,195	2,873,767	2,432,865
Term deposits due within:				
less than 1 month	100,229	42,294	94,722	34,100
more than 1 month and less than 3 months	130,020	60,148	124,224	51,193
more than 3 months and less than 6 months	53,559	85,666	47,918	76,493
more than 6 months and less than 12 months	255,437	261,683	250,857	252,291
more than 1 year and less than 5 years	105,619	153,748	81,248	134,996
more than 5 years	10,626	23,800	5,360	8,692
Total term deposits	655,490	627,339	604,329	557,765
Total deposits from customers	**3,671,390**	**3,289,534**	**3,478,096**	**2,990,630**

Deposits and borrowings from customers by categories

	EUR thousands			
	31/12/2020 Group	**31/12/2019 Group**	**31/12/2020 Bank**	**31/12/2019 Bank**
At amortised cost	3,635,380	3,251,634	3,478,096	2,990,630
At fair value through profit or loss	36,010	37,900	-	-
Total deposits from customers	**3,671,390**	**3,289,534**	**3,478,096**	**2,990,630**
Including unit-linked insurance plan liabilities	*21,629*	*24,916*	-	-

All the Group deposits from customers classified at fair value through profit or loss relate to the Group's life insurance business. It is the deposit component of the insurance plans. All unit-linked insurance plan liabilities are covered by financial assets designated at fair value through profit or loss. According to unit-linked investment contract terms, the risk associated with the investments made by the insurance underwriter is fully attributable to the counterparty entering the insurance agreement and not the underwriter.

NOTE 24. DEBT SECURITIES ISSUED

Publicly listed unsecured subordinated bond liabilities

ISIN code of the issued bond	Currency	Interest rate	Maturity date	Principal, EUR thousands	Amortised cost, EUR thousands 31/12/2020	31/12/2019
LV0000880011	EUR	5.50%	24/11/2027	20,000	20,070	20,064
LV0000802221	EUR	6.25%	06/12/2026	40,000	40,010	39,980
					60,080	**60,044**

Both issuances of unsecured subordinated securities qualify for inclusion in the Banks and the Groups Tier 2 capital. For details on capital adequacy refer to *Capital management* section of the Note 33 (*Risk Management*).

Profile of the bondholders as of the last coupon payment date

ISIN code of the issued bond	Last coupon payment date	Number of bondholders	Legal and professional investors Number	EUR th.	%	Private individuals Number	EUR th.	%
LV0000880011	24/11/2020	77	42	16,770	84%	35	3,230	16%
LV0000802221	06/12/2020	102	32	32,220	81%	70	7,780	19%

NOTE 25. OTHER LIABILITIES

	EUR thousands 31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Insurance reserves:				
Annuity pension products	30,940	15,935	-	-
Unearned premiums – life insurance	93	93	-	-
Unearned premiums – other insurance	55	56	-	-
IBNR, RBNS and other	42	24	-	-
Accrued expense	16,516	16,274	13,530	13,727
Lease liabilities	8,769	2,937	8,699	10,702
Other liabilities	7,783	9,574	4,774	6,103
Total other liabilities	**64,198**	**44,893**	**27,003**	**30,532**

Insurance liabilities mostly comprise estimated present value of future cash outflows from defined benefit annuity pension products sold to customers by AAS CBL Life. The annuity products are subject to terms, conditions and limitations. Estimated cash outflows are conditional to life longevity assumptions and defined benefit payment structure. Most of the defined payments are due within five years period.

NOTE 26. SHARE CAPITAL

As of period end, the Bank's registered, authorised and paid-in share capital was EUR 156,555,796 (2019: EUR 156,555,796). The Bank has one class ordinary shares. All ordinary shares as of 31 December 2020 and 31 December 2019 were issued and fully paid and the Bank did not possess any of its own shares. No dividends were proposed and paid during the reporting period. Each ordinary share carries one vote, a share in profits and is eligible for dividends.

Shareholders of the Bank

	31/12/2020 Paid-in share capital (EUR)	31/12/2020 Total shares with voting rights	31/12/2019 Paid-in share capital (EUR)	31/12/2019 Total shares with voting rights
European Bank for Reconstruction and Development	39,138,948	39,138,948	39,138,948	39,138,948
RA Citadele Holdings LLC[1]	35,082,302	35,082,302	35,082,302	35,082,302
Delan S.à.r.l.[2]	15,597,160	15,597,160	15,597,160	15,597,160
EMS LB LLC[3]	13,864,142	13,864,142	13,864,142	13,864,142
NNS Luxembourg Investments S.à.r.l.[4]	13,864,142	13,864,142	13,864,142	13,864,142
Amolino Holdings Inc.[5]	13,863,987	13,863,987	13,863,987	13,863,987
Shuco LLC[6]	10,998,979	10,998,979	10,998,979	10,998,979
Other shareholders	14,146,136	14,146,136	14,146,136	14,146,136
Total	**156,555,796**	**156,555,796**	**156,555,796**	**156,555,796**

[1] RA Citadele Holdings LLC (United States) is a wholly owned subsidiary of Ripplewood Advisors LLC and is beneficially owned by Mr Timothy Collins
[2] Delan S.à.r.l. is beneficially owned by the Baupost Group LLC
[3] EMS LB LLC is beneficially owned by Mr Edmond M. Safra
[4] NNS Luxembourg Investments S.à.r.l. is beneficially owned by Mr Nassef O. Sawiris
[5] Amolino Holdings Inc. is beneficially owned by Mr James L. Balsilie
[6] Shuco LLC is beneficially owned by Mr Stanley S. Shuman

All shares other than these owned by European Bank for Reconstruction and Development and RA Citadele Holdings LLC are owned by an international consortium of twelve investors.

After the period end, in February 2021, the number of shares owned by RA Citadele Holdings LLC increased to 46,951,083 (35,082,302 shares as of 31 December 2020). The number of shares owned by NNS Luxembourg Investments S.a.r.l. decreased to 1,995,361 (13,864,142 shares as of 31 December 2020).

Earnings per share

Basic earnings per share are calculated by dividing the net profit that is attributable to the ordinary shareholders by the weighted average number of the ordinary shares outstanding during the period. Diluted earnings per share are determined by adjusting the net profit that is attributable to the ordinary shareholders and the weighted-average number of the ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees in the long-term incentive programs. The part of the performance-based employee share options for which the services under the approved long-term incentive programs have been received are included in the calculation of diluted earnings per share. The remaining part of the performance-based employee share options, issuance of which is contingent upon satisfying specific conditions, in addition to the passage of time, are treated as contingently issuable shares and are not included in the calculation of diluted earnings per share.

	2020 Group	2019 Group	2020 Bank	2019 Bank
Profit for the period, EUR thousands	3,608	36,504	(4,761)	38,976
Weighted average number of the ordinary shares outstanding during the period in thousands	156,556	156,556	156,556	156,556
Basic earnings per share in EUR	**0.02**	**0.23**	**(0.03)**	**0.25**
Weighted average number of the ordinary shares (basic) outstanding during the period in thousands	156,556	156,556	156,556	156,556
Effect of share options in issue in thousands	886	460	886	460
Weighted average number of the ordinary shares (diluted) outstanding during the period in thousands	**157,442**	**157,016**	**157,442**	**157,016**
Profit for the period, EUR thousands	3,608	36,504	(4,761)	38,976
Weighted average number of the ordinary shares (diluted) outstanding during the period in thousands	157,442	157,016	157,442	157,016
Diluted earnings per share in EUR	**0.02**	**0.23**	**(0.03)**	**0.25**

NOTE 27. OFF-BALANCE SHEET ITEMS

Off-balance sheet items comprise contingent liabilities, financial commitments, notional amounts payable or receivable from transactions with foreign exchange contracts and other derivative financial instruments.

Contingent liabilities and financial commitments outstanding

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Contingent liabilities:				
Outstanding guarantees	18,138	21,525	17,481	20,822
Outstanding letters of credit with public	4,331	257	4,331	258
Letters of credit with credit institutions	1,434	1,027	1,434	1,027
Total contingent liabilities	**23,903**	**22,809**	**23,246**	**22,107**
Provisions for credit risk	(142)	(136)	(142)	(136)
Maximum credit risk exposure for guarantees and letters of credit	**23,761**	**22,673**	**23,104**	**21,971**
Financial commitments:				
Card commitments	124,135	132,087	124,140	132,095
Unutilised credit lines and overdraft facilities	50,723	100,747	88,818	196,562
Loans granted, not fully drawn down	63,131	72,271	63,131	72,271
Factoring commitments	22,665	14,703	-	-
Other commitments	396	10,442	-	10,000
Total financial commitments	**261,050**	**330,250**	**276,089**	**410,928**
Provisions for financial commitments	(1,969)	(4,014)	(1,891)	(3,972)
Maximum credit risk exposure for financial commitments	**259,081**	**326,236**	**274,198**	**406,956**

Lending commitments are a time limited and binding promise that a specified amount of loan or credit line will be made available to the specific borrower on specific pre-agreed terms. For part of the committed lending promises clients have to perform certain obligations before the balance committed becomes available to them. Some lending commitments and undrawn credit facilities may be cancelled unconditionally by the Group at any time without notice, or in accordance with lending terms and conditions may effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness.

Notional amounts and fair values of derivatives of the Group

	Notional amount EUR thousands		Fair value EUR thousands			
	31/12/2020	31/12/2019	31/12/2020		31/12/2019	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Swaps	253,819	219,591	1,152	(4,124)	1	(40)
Forwards	24,661	6,489	322	(337)	959	(488)
Total foreign exchange contracts	**278,480**	**226,080**	**1,474**	**(4,461)**	**960**	**(528)**
Derivatives	**278,480**	**226,080**	**1,474**	**(4,461)**	**960**	**(528)**

Notional amounts and fair values of derivatives of the Bank

	Notional amount EUR thousands		Fair value EUR thousands			
	31/12/2020	31/12/2019	31/12/2020		31/12/2019	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Swaps	253,819	219,591	1,152	(4,124)	1	(40)
Forwards	24,661	6,489	322	(337)	959	(488)
Total foreign exchange contracts	**278,480**	**226,080**	**1,474**	**(4,461)**	**960**	**(528)**
Derivatives	**278,480**	**226,080**	**1,474**	**(4,461)**	**960**	**(528)**

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with a private individual or a company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2020, 29% (2019: 83%) of the fair value of derivative assets on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2020, none (2019: nil) of the receivables arising out of derivative transactions were past due.

NOTE 28. ASSETS UNDER MANAGEMENT

Fair value of assets managed on behalf of customers by investment type

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Fixed income securities:				
Corporate bonds	206,766	149,065	-	-
Government bonds	68,552	65,532	-	-
Credit institution bonds	30,566	21,336	-	-
Other financial institution bonds	21,787	14,422	-	-
Total investments in fixed income securities	**327,671**	**250,355**	**-**	**-**
Other investments:				
Investment funds	485,557	407,398	-	-
Deposits with credit institutions	61,923	36,309	-	-
Compensations for distribution on behalf of deposit guarantee fund	17,284	30,657	17,284	30,657
Shares	71,771	37,227	-	-
Real estate	4,247	4,884	-	-
Loans	681	722	681	722
Other	91,774	104,541	-	-
Total other investments	**733,237**	**621,738**	**17,965**	**31,379**
Total assets under management	**1,060,908**	**872,093**	**17,965**	**31,379**

Customer profile on whose behalf the funds are managed

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Pension plans	745,174	570,021	-	-
Insurance companies, investment and pension funds	161,338	131,214	-	-
Other companies and government	54,057	74,352	17,965	31,379
Private individuals	100,339	96,506	-	-
Total liabilities under management	**1,060,908**	**872,093**	**17,965**	**31,379**

In 2020 the Group acquired rights to manage 2nd tier Latvian pension investment plans of former AS PNB banka. As a result of this acquisition assets under management of the Group increased by more than EUR 100 million. To benefit from full economies of scale, the above PNB pension investment plans in 2021 are expected to be merged with existing CBL pension investment plans. The merger is conditional to regulatory approvals. Management right asset in the amount of consideration paid was recognised by the Group and will be amortised to expenses proportionally to the acquired asset expected management income streams.

NOTE 29. FINANCIAL ASSETS PLEDGED

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Loans to credit institutions	1,802	359	1,470	-
Debt securities	461,670	1,804	459,965	-
Loans to customers and other assets	9,374	7,834	9,374	7,834
Total financial assets pledged	**472,846**	**9,997**	**470,809**	**7,834**
Total liabilities secured by pledged assets	**438,833**	**-**	**438,833**	**-**

All pledged amounts consist of placements to secure various Bank's and Group's transactions in the ordinary course of business. As at the period end, substantial part of the collateral is placed with the Bank of Latvia to secure EUR 440 million financing in the ECB's latest targeted longer-term refinancing operations (TLTRO-III). For details on TLTRO-III financing received refer to Note 22 (*Deposits from Credit Institutions and Central Banks*).

NOTE 30. CASH AND CASH EQUIVALENTS

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Cash and cash balances with central banks	1,146,606	707,914	1,131,008	691,455
Loans on demand to credit institutions	31,018	92,781	20,019	68,306
Demand deposits from central banks and credit institutions	(1,074)	(1,637)	(2,830)	(5,391)
Total cash and cash equivalents	**1,176,550**	**799,058**	**1,148,197**	**754,370**

NOTE 31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received for an asset sold 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 has access at that date. The fair value of a liability reflects its non-performance risk.

For illiquid financial assets and liabilities, including loans and advances to customers, there are no active markets. Accordingly, fair value for these has been estimated using appropriate valuation techniques. The methods used to determine the fair value of balance sheet items are as follows:

Cash and balances at central banks

The fair value of cash and balances with central banks is their carrying amount as these balances may be withdrawn without notice.

Loans to credit institutions and deposits from credit institutions and central banks

The fair value of on-demand balances with credit institutions is their carrying amount as these balances may be withdrawn without notice. The fair value of overnight placements is their carrying amount. The fair value of other amounts due from banks is calculated by discounting expected cash flows using current market rates. The carrying value is a close representation of fair value due to short-term maturity profiles and low interest rates.

Loans to public

The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rates is the sum of money market rates as of the end of the reporting period and credit margins, which are adjusted for current market conditions. If all the Bank's assumed discount rates would change by 10%, the fair value of the loan portfolio would change by EUR 16.4 million (2019: EUR 17.5 million).

Debt securities

Debt securities classified as at fair value through profit or loss and at fair value through other comprehensive income are accounted at unadjusted quoted prices in active markets which is their fair value. Debt securities classified at amortised cost are not accounted at fair value; the disclosed fair value for these is their unadjusted quoted prices in active markets.

Equity instruments and other financial instruments at fair value

Investments in mutual investment funds (presented as other financial instruments at fair value) are valued using unadjusted quoted prices in active markets.

Equity instruments include Visa Inc. preferred C shares which have been valued by reference to consideration, which is contingent upon future events. The valuation is dependent on exchange rate, Visa Inc. stock price and preferred stocks' conversion ratio as well as liquidity discount. If the applied liquidity discount was decreased by 1000bp, the estimated fair value would increase by EUR 0.4 million as of 31 December 2020 (2019: EUR 0.8 million). The instrument is categorised as Level 3.

Derivatives

Derivatives are valued using techniques based on observable market data.

Deposits and borrowings from customers

Deposits and borrowing from customers include part which is carried at amortised cost and part which is carried at fair value. The entire portfolio of deposits and borrowing from customers which is carried at fair value is deposit part of the life insurance contracts.

The fair value of deposits and borrowings from customers repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at the period-end. If all the assumed discount rates would change by 10%, the fair value of the non-subordinated non-life insurance deposit portfolio would change by EUR 0.10 million (2019: EUR 0.26 million).

The fair value of unit-linked investment contract liabilities is their carrying amount which equals fair value of unit-linked insurance plan assets. The fair value of other life insurance deposits carried at fair value through profit or loss is calculated by discounting expected cash flows using current effective deposit rates. If the assumed discount rates would increase by 10%, the fair value of the portfolio would decrease by EUR 1 thousand (2019: EUR 11 thousand).

Debt securities issued

The fair value of publicly listed unsecured subordinated bonds is estimated based on the quoted prices.

Fair value hierarchy

Quoted market prices (Level 1)
Financial instruments are valued using unadjusted quoted prices in active markets.

Valuation technique - observable market inputs (Level 2)
Financial instruments are valued using techniques based on observable market data. In some instances, valuations received from independent third party are used.

Valuation technique - non-market observable inputs (Level 3)
Financial instruments are valued using techniques for which significant inputs are not based on observable market data.

Fair values of financial assets and liabilities of the Group on 31 December 2020

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Financial assets measured at fair value:					
Debt securities	376,974	376,974	376,974	-	-
Equity instruments	4,764	4,764	-	3,516	1,248
Other financial instruments	43,343	43,343	43,343	-	-
Derivatives	1,474	1,474	-	1,474	-
Financial assets not measured at fair value:					
Cash and balances at central banks	1,146,606	1,146,606	-	-	-
Loans to credit institutions	51,287	51,287	-	-	-
Debt securities	1,383,216	1,400,002	1,389,587	-	10,415
Loans to public	1,541,223	1,561,421	-	-	1,561,421
Total assets	**4,548,887**	**4,585,871**	**1,809,904**	**4,990**	**1,573,084**
Financial liabilities measured at fair value:					
Derivatives	4,461	4,461	-	4,461	-
Deposits and borrowings from customers	36,010	36,010	21,629	-	14,381
Financial liabilities not measured at fair value:					
Deposits from credit institutions and central banks	449,991	449,991	-	-	-
Deposits and borrowings from customers	3,635,380	3,638,069	-	-	3,638,069
Debt securities issued	60,080	61,775	-	61,775	-
Total liabilities	**4,185,922**	**4,190,306**	**21,629**	**66,236**	**3,652,450**

Fair values of financial assets and liabilities of the Group on 31 December 2019 (Reclassified)

	Carrying value	Total fair value	Fair value hierarchy (where applicable) Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Financial assets measured at fair value:					
Debt securities	398,061	398,061	398,061	-	-
Equity instruments	5,092	5,092	-	-	5,092
Other financial instruments	39,972	39,972	39,972	-	-
Derivatives	960	960	-	960	-
Financial assets not measured at fair value:					
Cash and balances at central banks	707,914	707,914	-	-	-
Loans to credit institutions	121,395	121,395	-	-	-
Debt securities	810,418	816,234	811,386	-	4,848
Loans to public	1,567,898	1,577,965	-	-	1,577,965
Total assets	**3,651,710**	**3,667,593**	**1,249,419**	**960**	**1,587,905**
Financial liabilities measured at fair value:					
Derivatives	528	528	-	528	-
Deposits and borrowings from customers	37,900	37,900	24,916	-	12,984
Financial liabilities not measured at fair value:					
Deposits from credit institutions and central banks	1,637	1,637	-	-	-
Deposits and borrowings from customers	3,251,634	3,255,798	-	-	3,255,798
Debt securities issued	60,044	60,597	-	60,597	-
Total liabilities	**3,351,743**	**3,356,460**	**24,916**	**61,125**	**3,268,782**

Fair values of financial assets and liabilities of the Bank on 31 December 2020

	Carrying value	Total fair value	Fair value hierarchy (where applicable) Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Financial assets measured at fair value:					
Debt securities	224,710	224,710	224,710	-	-
Equity instruments	4,764	4,764	-	3,516	1,248
Other financial instruments	13,834	13,834	13,834	-	-
Derivatives	1,474	1,474	-	1,474	-
Financial assets not measured at fair value:					
Cash and balances at central banks	1,131,008	1,131,008	-	-	-
Loans to credit institutions	40,289	40,289	-	-	-
Debt securities	1,338,965	1,353,890	1,343,475	-	10,415
Loans to public	1,518,313	1,538,511	-	-	1,538,511
Total assets	**4,273,357**	**4,308,480**	**1,582,019**	**4,990**	**1,550,174**
Derivatives measured at fair value	4,461	4,461	-	4,461	-
Financial liabilities not measured at fair value:					
Deposits from credit institutions and central banks	470,959	470,959	-	-	-
Deposits and borrowings from customers	3,478,096	3,480,835	-	-	3,480,835
Debt securities issued	60,080	61,775	-	61,775	-
Total liabilities	**4,013,596**	**4,018,030**	**-**	**66,236**	**3,480,835**

Fair values of financial assets and liabilities of the Bank on 31 December 2019 (Reclassified)

	Carrying value	Total fair value	Fair value hierarchy (where applicable) Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Financial assets measured at fair value:					
Debt securities	226,193	226,193	226,193	-	-
Equity instruments	5,092	5,092	-	-	5,092
Other financial instruments	6,434	6,434	6,434	-	-
Derivatives	960	960	-	960	-
Financial assets not measured at fair value:					
Cash and balances at central banks	691,455	691,455	-	-	-
Loans to credit institutions	96,021	96,021	-	-	-
Debt securities	746,122	750,285	745,437	-	4,848
Loans to public	1,589,255	1,599,322	-	-	1,599,322
Total assets	**3,361,532**	**3,375,762**	**978,064**	**960**	**1,609,262**
Derivatives measured at fair value	528	528	-	528	-
Financial liabilities not measured at fair value:					
Deposits from credit institutions and central banks	39,287	39,287	-	-	-
Deposits and borrowings from customers	2,990,630	2,994,825	-	-	2,994,825
Debt securities issued	60,044	60,597	-	60,597	-
Total liabilities	**3,090,489**	**3,095,237**	**-**	**61,125**	**2,994,825**

Changes in fair value of securities accounted for at fair value and categorised as Level 3

	EUR thousands 2020 Group	2019 Group	2020 Bank	2019 Bank
As of the beginning of the period, net	**5,092**	**2,901**	**5,092**	**2,875**
Total comprehensive income				
Revaluation gain	*515*	*1,191*	*515*	*1,191*
Transfer to income statement on settlement	*(3,359)*	*-*	*(3,359)*	*-*
New exposure	-	1,000	-	1,000
Transfer to associates accounted for using the equity method	(1,000)	-	(1,000)	-
Integration of AB Citadele bankas (Lithuania)	-	-	-	26
As of the end of the period, net	**1,248**	**5,092**	**1,248**	**5,092**

Fair value for equity instruments which fair value is calculated based on non-market observable inputs is categorised as Level 3 as these financial instruments are not listed on an exchange and there are insufficient recent observable transactions on the market.

Changes in fair value of deposits and borrowings from customers measured at fair value and categorised as Level 3

	EUR thousands 2020 Group	2019 Group
Balance as at the beginning of the period	**12,984**	**12,378**
Premiums received	3,650	3,754
Commissions and risk charges	(377)	(333)
Paid to policyholders	(2,076)	(3,013)
Other	215	196
Currency revaluation result	(15)	2
Balance as at the end of the period	**14,381**	**12,984**

In the year ended 31 December 2020 from financial liabilities designated at fair value through profit or loss which are not unit-linked the Group has recognised net revaluation result of EUR -73 thousand in the net financial income line of the statement of income (2019: EUR -50 thousand). The amount of change in 2020 in the fair value of the financial liabilities that is attributable to changes in the credit risk of the liabilities measured at fair value is EUR 101 thousand (2019: EUR 59 thousand). Most of the insurance business the Group is involved in relates to investment contracts rather than insurance risk; therefore, premiums received are recognised as liabilities of the Group since settlement in due course is expected. The amount of insurance risk generated by the Group currently is not significant and, therefore, not further disclosed in detail in these financial statements.

NOTE 32. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Group, members of the Supervisory Board and Management Board, key Management personnel, their close relatives and companies in which they have a controlling interest as well as the Group's subsidiaries and associated companies. For the purpose of this disclosure, the key management of the Group and the Bank and their related companies are stated in one line. All transactions with related parties were made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances and terms of the Group's and the Bank's transactions in this note are shown with related parties which were related parties at that time.

Assets and liabilities from transactions with related parties

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Credit exposures to related parties, net				
Loans to public and credit institutions				
Management	302	437	267	374
Consolidated subsidiaries	-	-	202,328	248,014
Investments in subsidiaries	-	-	46,482	34,161
Investments in associates	274	-	274	-
Right-of-use and other assets	-	1	61	8,266
Financial commitments and guarantees outstanding	100	98	38,153	95,765
Credit exposures to related parties, net	**676**	**536**	**287,565**	**386,580**
Liabilities to related parties				
Deposits and borrowings from customers and credit institutions				
Management	1,116	917	1,019	818
Consolidated subsidiaries	-	-	48,634	50,520
Other liabilities (including lease liabilities) and provisions for expected credit losses	3	-	241	8,173
Liabilities to related parties	**1,119**	**917**	**49,894**	**59,511**

As at 31 December 2020 no assets with consolidated subsidiaries were credit impaired. The recognised expected credit losses on non-credit impaired loans from consolidated subsidiaries as at 31 December 2020 was EUR 250 thousand (2019: EUR 401 thousand).

In 2020 a release of EUR 151 thousand on allowances for expected credit losses for loans from consolidated subsidiaries was recognised (2019: EUR 224 thousand release of impairment loss allowance recognised). The ultimate recoverability of the loans issued to subsidiaries depends on the performance of the underlying business of the respective subsidiaries. For information on investments in subsidiaries refer to Note 19 (*Investments in Related Entities*).

Income and expense from transactions with related parties

	EUR thousands			
	2020 Group	2019 Group	2020 Bank	2019 Bank
Interest income				
Management	12	12	10	10
Consolidated subsidiaries	-	-	4,167	4,924
Interest expense				
Consolidated subsidiaries	-	-	(512)	(1,003)
Fee and commission income	4	8	981	1,027
Fee and commission expense	(2)	(3)	(4)	(6)
Net financial income	-	-	4	(519)
Dividends received from consolidated subsidiaries	-	-	-	3,305
Administrative and other expense (excluding management's remuneration, Note 9)	2,054	2,293	4,558	5,449
All other income	-	-	2,472	2,525

For information on the management's remuneration refer to Note 9 (*Staff Costs*). The Group's and the Bank's administrative expense mostly relates to rent and utility fees paid to the Group's companies and Advisory Services Agreement fee. The Bank has entered into the Advisory Services Agreement with Ripplewood Advisors LLC, where Ripplewood is paid EUR 2.0 million per annum for the services provided to the Bank. These advisory services include business plan development, strategic analysis, capital allocation, risk advisory, operating efficiency, human resource management, and other services.

NOTE 33. RISK MANAGEMENT

Risk management polices

The Group considers risk management to be an essential component of its management process. The Group believes that it pursues prudent risk management policies that are aligned with its business and which aim to achieve effective risk mitigation. In order to assess and monitor complex risk exposures, the Group applies a wide range of risk management tools in conjunction with risk committees. Members of risk committees represent key operations of the Group in order to balance business and risk orientation within respective risk committees. The Group's risk management principles are set out in its Risk Management Policy. The Group adheres to the following key risk management principles:

- The Group aims to ensure that it maintains low overall risk exposure, diversified asset portfolio, limited risks in financial markets and low levels of operational risk;
- The Group aims to ensure an acceptable risk level in all operations. Risks are always assessed in relation to their expected return. Risk exposures that are not acceptable are avoided, limited or hedged;
- The Group does not assume high or uncontrollable risks irrespective of the return they provide, and assumes risks only in economic fields and geographical regions in relation to which it believes it has sufficient knowledge and expertise;
- Risk management is based on each Group's employee's responsibility for the transactions carried out by him/her and awareness of the related risks;
- Risk limit system and strict controls are essential risk management elements. Control over risk levels and compliance with the imposed limits is achieved by the existence of structured risk limit systems for all material risks.

The aim of the risk management in the Group is to facilitate the achievement of the Group's goals, successful development, long-term financial stability and to protect the Group from unidentified risks. Risk management within the Group is controlled by an independent unit – the Risk Sector.

The main risks to which the Group is exposed are: credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. For each of these risks the Group has approved risk management policies and other internal regulations defining key risk management principles and processes, functions and responsibilities of units, risk concentration limits, as well as control and reporting system. The Group's risk management policies for each of the above-mentioned risks are briefly summarised below.

Credit risk

Credit risk is the risk that the Group will incur a loss from debtor's non-performance or default. The Group is exposed to credit risk in its lending, investing and transaction activities, as well as in respect of the guarantees issued to or received from third parties and other off-balance sheet commitments to third parties. Credit risk management is performed pursuant to the Credit Risk Management Policy. The goal of credit risk management is to achieve a diversified asset portfolio which generates profits that correspond to the assumed level of risk.

Credit risk management is based on an adequate assessment of a credit risk and a proper decision-making in relation to such risk. In cases when significant risk is to be undertaken, the credit risk analysis is performed by independent units of the Risk Sector. The credit risk analysis consists of an assessment of customer's creditworthiness and collateral quality and liquidity. The analysis of a legal entity's creditworthiness includes an assessment of the industry in which it operates, as well as an analysis of its credit history and current and forecasted financial situation. The assessment of a private individual's creditworthiness consists of the analysis of its credit history, income and debt-to-income ratio analysis, as well as an analysis of applicable social and demographic factors. In cases of material risks, lending decisions are taken by the Credit Committee and approved by the Bank's Management Board.

In relation to the acquisition of corporate bonds, the Group always analyses the business profile and financial performance of the issuer, taking into consideration the credit ratings assigned to it by international rating agencies, as well as market-based indicators. Sovereign bonds are assessed similarly, but with an emphasis on different fundamental factors, including the country's economic strength, institutional strength, financial strength of the government, political risks and other relevant factors.

After a loan is issued or a fixed income security is acquired, the customer's financial position and the issuers' risk indicators, such as credit rating changes, are monitored on a regular basis in order to timely identify potential credit quality deterioration. The loan monitoring process covers monitoring of financial results, financial position and cash flows of the borrower, loan repayment discipline and assessment of collateral quality.

The Group reviews its loan portfolio and securities portfolio on a regular basis to assess its structure, quality and concentration levels, as well as to evaluate portfolio trends and to control credit risk level. The Group takes measures for limiting credit risk concentration by diversifying the portfolio and setting credit risk concentration limits. To limit its credit risk, the Group has set the following concentration limits: individual counterparty and issuer limits, maximum exposure limit linked to a particular risk class of counterparty/issuer, limit for internally risk weighted exposures in a particular country/sector combination, limit for groups of mutually related customers, limit for large risk exposures, limit for transactions with the Group's related parties, industry limit, limit by customer type, loan product type, collateral type, intragroup transactions. Control of compliance with credit risk concentration limits, credit risk identification, monitoring and reporting is the responsibility of the Risk Sector.

In addition to the credit risk, which is inherent in the Group's loan portfolio and fixed income securities portfolio, the Group is also exposed to credit risk as a result of its banking relationships with multiple credit institutions which it maintains in order to process customer transactions in a prompt and efficient manner. The Group manages its exposure to commercial banks and brokerage companies by monitoring on a regular basis the credit ratings of such institutions, conducting due diligence of their credit profiles and monitoring the individual exposure limits applicable to counterparties set by the Financial Market and Counterparty Risk Committee (FMCRC). The Group's exposures to derivative counterparties arise from its activities in managing liquidity and credit risks through short term derivatives that do not expose it to material counterparty risk.

Loan to value of loans to public

Estimated fair value of loan collateral is presented separately for those assets where collateral and other credit enhancements exceed carrying value of the asset (LTV < 100%) and those assets where collateral and other credit enhancements are equal to or less than the carrying value of the asset (LTV ≥ 100%).

	Group, EUR thousands							
	31/12/2020				31/12/2019 (Reclassified)			
	LTV < 100%		LTV ≥ 100% and unsecured		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	957,609	2,048,395	222,876	76,351	872,225	1,836,451	297,631	95,849
Credit lines	44,975	128,698	25,237	13,554	60,821	172,478	31,743	14,098
Finance leases	193,985	338,448	654	625	197,346	333,492	2,041	2,029
Card lending	229	304	67,951	13,789	160	395	77,577	14,209
Factoring	14,432	14,629	2,970	2,959	10,977	11,239	2,153	2,144
Other loans	-	-	10,305	-	-	-	15,224	-
Total net loans to public	**1,211,230**	**2,530,474**	**329,993**	**107,278**	**1,141,529**	**2,354,055**	**426,369**	**128,329**
Including Stage 3 classified exposures	*14,141*	*36,158*	*5,787*	*3,406*	*32,286*	*77,715*	*7,175*	*4,521*

	Bank, EUR thousands							
	31/12/2020				31/12/2019 (Reclassified)			
	LTV < 100%		LTV ≥ 100% and unsecured		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans	951,560	2,035,763	215,728	69,761	864,797	1,823,951	290,919	89,146
Credit lines	44,975	128,698	25,237	13,554	60,821	172,478	31,743	14,098
Card lending	229	304	67,951	13,789	160	395	77,577	14,209
Other loans	-	-	10,305	-	-	-	15,224	-
Loans to subsidiaries	-	-	202,328	1,206	-	-	248,014	43,794
Total net loans to public	**996,764**	**2,164,765**	**521,549**	**98,310**	**925,778**	**1,996,824**	**663,477**	**161,247**
Including Stage 3 classified exposures	*12,591*	*31,726*	*5,525*	*3,144*	*31,940*	*76,604*	*5,597*	*2,943*

For loans that are not development projects, collateral value is determined using both estimated fair value of the real estate and 50% of all assets, excluding fixed assets, under commercial pledge. For development projects future loan-to-value ratio is used. Mostly, loans falling into categories "regular loans" and "utilised credit lines" are secured by collateral or commercial pledges. In general, card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Similarly, consumer lending products, which are presented as regular loans, are unsecured and granted based on client's credit assessment. For loans to the leasing subsidiaries, all of which are 100% owned and controlled by the Bank, no formal tangible collateral is required; the financing is used to originate finance leases to clients. Finance leases are secured by the respective property leased out as are factoring balances, which in certain cases are insured instead. Insurance coverage is not considered collateral for purposes of this disclosure.

Assets, liabilities and off-balance sheet items by geographical profile

	Group as of 31/12/2020, EUR thousands					
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	Total
Assets						
Cash and cash balances at central banks	1,049,958	48,214	32,837	-	15,597	1,146,606
Loans to credit institutions	2,702	-	-	16,681	31,904	51,287
Debt securities	420,977	601,713	68,507	485,620	183,373	1,760,190
Loans to public	875,681	493,598	149,436	8,876	13,632	1,541,223
Equity instruments	124	-	-	143	4,497	4,764
Other financial instruments	27,151	-	-	15,880	312	43,343
Derivatives	1,139	7	-	327	1	1,474
Other assets	37,200	7,716	2,854	36	625	48,431
Total assets	**2,414,932**	**1,151,248**	**253,634**	**527,563**	**249,941**	**4,597,318**
Liabilities						
Deposits from credit institutions and central banks	448,926	-	-	86	979	449,991
Deposits and borrowings from customers	2,596,230	558,796	58,769	238,025	219,570	3,671,390
Debt securities issued	60,080	-	-	-	-	60,080
Derivatives	3,002	8	-	1,441	10	4,461
Other liabilities	56,395	6,072	2,074	15	2,530	67,086
Total liabilities	**3,164,633**	**564,876**	**60,843**	**239,567**	**223,089**	**4,253,008**
Off-balance sheet items						
Contingent liabilities	15,684	5,230	919	205	1,865	23,903
Financial commitments	177,199	78,293	4,809	136	613	261,050

For additional information on geographical distribution of securities exposures please refer to Note 15 (*Debt Securities*). EUR 15.6 million of Group's cash and deposit with central banks balances presented as "Other countries" is with Swiss National Bank (2019: EUR 16.5 million). From Group's loans to credit institutions presented as "Other countries" EUR 6.7 million are with Swiss credit institutions (2019: EUR 9.7 million), EUR 21.4 million with United States registered credit institutions (2019: EUR 22.2 million) and EUR 0.0 million are with Japanese credit institutions (2019: EUR 54.2 million) and. Investments in mutual funds are not analysed by their ultimate issuer and are classified as other financial instruments.

	Group as of 31/12/2019, EUR thousands (Reclassified)					
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	Total
Assets						
Cash and cash balances at central banks	486,754	96,512	108,189	-	16,459	707,914
Loans to credit institutions	7,057	-	-	16,361	97,977	121,395
Debt securities	299,030	229,536	23,443	356,465	300,005	1,208,479
Loans to public	948,091	418,995	152,514	12,832	35,466	1,567,898
Equity instruments	1,124	-	-	135	3,833	5,092
Other financial instruments	21,561	-	-	18,121	290	39,972
Derivatives	168	-	-	788	4	960
Other assets	80,040	7,361	2,913	419	325	91,058
Total assets	**1,843,825**	**752,404**	**287,059**	**405,121**	**454,359**	**3,742,768**
Liabilities						
Deposits from credit institutions and central banks	2	-	-	1,059	576	1,637
Deposits and borrowings from customers	2,222,445	429,600	79,464	217,417	340,608	3,289,534
Debt securities issued	60,044	-	-	-	-	60,044
Derivatives	288	-	-	165	75	528
Other liabilities	38,878	4,662	4,435	12	2,313	50,300
Total liabilities	**2,321,657**	**434,262**	**83,899**	**218,653**	**343,572**	**3,402,043**
Off-balance sheet items						
Contingent liabilities	15,778	1,688	2,209	221	2,913	22,809
Financial commitments	262,681	52,593	4,008	10,122	846	330,250

	Bank as of 31/12/2020, EUR thousands					
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	Total
Assets						
Cash and cash balances at central banks	1,049,957	48,214	32,837	-	-	1,131,008
Loans to credit institutions	-	-	-	15,070	25,219	40,289
Debt securities	410,603	591,670	66,850	375,827	118,725	1,563,675
Loans to public	870,136	488,202	144,289	8,775	6,911	1,518,313
Equity instruments	124	-	-	143	4,497	4,764
Other financial instruments	13,834	-	-	-	-	13,834
Derivatives	1,139	7	-	327	1	1,474
Other assets	60,535	9,582	3,125	7	13,840	87,089
Total assets	**2,406,328**	**1,137,675**	**247,101**	**400,149**	**169,193**	**4,360,446**
Liabilities						
Deposits from credit institutions and central banks	448,926	-	-	86	21,947	470,959
Deposits and borrowings from customers	2,586,803	558,818	58,209	173,238	101,028	3,478,096
Debt securities issued	60,080	-	-	-	-	60,080
Derivatives	3,002	8	-	1,441	10	4,461
Other liabilities	22,171	5,551	1,504	15	10	29,251
Total liabilities	**3,120,982**	**564,377**	**59,713**	**174,780**	**122,995**	**4,042,847**
Off-balance sheet items						
Contingent liabilities	15,662	5,230	919	-	1,435	23,246
Financial commitments	182,061	85,821	7,854	136	217	276,089

For additional information on geographical distribution of securities exposures please refer to Note 15 (*Debt Securities*). From Bank's loans to credit institutions presented as "Other countries" EUR 21.4 million with United States registered credit institutions (2019: EUR 22.2 million) and EUR 0.0 million are with Japanese credit institutions (2019: Japanese credit institutions EUR 54.2 million).

	Bank as of 31/12/2019, EUR thousands (Reclassified)					
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	Total
Assets						
Cash and cash balances at central banks	486,754	96,512	108,189	-	-	691,455
Loans to credit institutions	56	-	-	7,692	88,273	96,021
Debt securities	293,515	225,864	21,624	210,711	220,601	972,315
Loans to public	985,514	417,571	147,477	12,446	26,247	1,589,255
Equity instruments	1,124	-	-	135	3,833	5,092
Other financial instruments	6,434	-	-	-	-	6,434
Derivatives	168	-	-	788	4	960
Other assets	60,317	8,698	3,015	397	13,484	85,911
Total assets	**1,833,882**	**748,645**	**280,305**	**232,169**	**352,442**	**3,447,443**
Liabilities						
Deposits from credit institutions and central banks	2	-	-	1,059	38,226	39,287
Deposits and borrowings from customers	2,194,959	429,613	78,284	138,557	149,217	2,990,630
Debt securities issued	60,044	-	-	-	-	60,044
Derivatives	288	-	-	165	75	528
Other liabilities	27,155	3,962	3,507	12	4	34,640
Total liabilities	**2,282,448**	**433,575**	**81,791**	**139,793**	**187,522**	**3,125,129**
Off-balance sheet items						
Contingent liabilities	15,757	1,688	2,209	-	2,453	22,107
Financial commitments	295,871	85,976	18,555	10,122	404	410,928

Market risk

Market risk is the risk that the Group will incur a loss as a result of the mark-to-market revaluation of balance sheet and off-balance sheet items caused by changes in market values of financial instruments due to changes in foreign exchange rates, interest rates and other factors.

Position risk of financial instruments is assessed and limits are set by the Group's Investment Committee (GIC). The decisions of the GIC are approved by the Bank's Management Board. Market risk is managed by the Group's business units and subsidiaries which can accept market risk in line with the set limits and investment restrictions of the respective portfolio. Market risk is measured, monitored and risk levels are reported by the Risk Sector.

The Group manages market risk by developing investment guidelines for every significant portfolio, which restrict, among other things, the sensitivity against interest rate changes, the duration and credit quality profile of investments, as well as by setting individual limits for issuers and financial instruments, to keep limit volumes closely linked to the results of risk assessments. The Group places significant emphasis on managing concentration risk and applies a framework under which limits are set on risk adjusted exposures for every country and sector combination that the Group invests in. To assess position risk the Group uses sensitivity and scenario analysis, which identifies and quantifies the negative impact of adverse events on the portfolio of the Group, taking into consideration regional, sector profiles of the portfolio and credit rating risk profiles of issuers.

If market prices of the Groups investments in equities and mutual investment funds were to change by 5%, the net result of the Group would change by EUR 1.3 million (2019: EUR 0.4 million) and securities fair value revaluation reserve by EUR 0.0 million (2019: EUR 0.6 million) and the net result of the Bank would change by EUR 0.9 million (2019: EUR 0.0 million) and securities fair value revaluation reserve by EUR 0.0 million (2019: EUR 0.6 million).

Interest rate risk

Interest rate risk is related to the possible negative impact of changes in general interest rates on the Group's income and economic value.

Interest rate risk management in the Group is carried out in accordance with Interest Rate Risk Management Policy. Interest rate risk is assessed and decisions are taken by the Assets and Liabilities Management Committee (ALCO). The decisions of the ALCO are approved by the Bank's Management Board. The ALCO sets the acceptable interest rate risk level and the Group's internal limit system, monitors the compliance with the approved limits and use of the instruments for the management of interest rate risk. Interest rate risk measurement, management and reporting are responsibilities of the Treasury Sector, while the Risk Sector ensures proper oversight and prepares analytical reports to the ALCO and the Bank's Management Board.

The Group manages interest rate risk by using repricing gap analysis of the risk sensitive assets and liabilities, duration analysis of assets and liabilities as well as stress testing. The Group sets limits for impact of interest rate shock on economic value, net interest income and revaluation reserve. Based on the market analysis and the Group's financing structure, the ALCO sets the interest rates for customer deposits.

The following table represents the impact of a parallel change in yield curve by 100 basis points on the Group's and the Bank's profit before tax (over 12-month period) and revaluation reserve in equity arising from securities accounted at fair value. Scenarios incorporate zero floor interest rate if such a condition exists in the loan agreement. Customer deposit rates are assumed to be constrained by a zero-lower bound. Group's figures are estimated from entities that bear significant interest rate risk: AS Citadele banka and AP Anlage & Privatbank AG.

	31/12/2020, EUR thousands					
	Total for all currencies		EUR only		USD only	
	Profit / (loss) before taxation	Securities fair value revaluation reserve	Profit / (loss) before taxation	Securities fair value revaluation reserve	Profit / (loss) before taxation	Securities fair value revaluation reserve
Bank						
+100 basis points scenario	1,077	(7,152)	793	(6,107)	198	(1,039)
-100 basis points scenario	(62)	7,500	786	6,397	(558)	1,097
Group						
+100 basis points scenario	522	(9,679)	n/a	n/a	n/a	n/a
-100 basis points scenario	492	10,027	n/a	n/a	n/a	n/a

	31/12/2019, EUR thousands					
	Total for all currencies		EUR only		USD only	
	Profit / (loss) before taxation	Securities fair value revaluation reserve	Profit / (loss) before taxation	Securities fair value revaluation reserve	Profit / (loss) before taxation	Securities fair value revaluation reserve
Bank						
+100 basis points scenario	2,931	(3,637)	3,516	(3,225)	(563)	(408)
-100 basis points scenario	(1,825)	3,799	(1,787)	3,377	106	418
Group						
+100 basis points scenario	1,556	(6,129)	n/a	n/a	n/a	n/a
-100 basis points scenario	(1,825)	6,291	n/a	n/a	n/a	n/a

Currency risk

Currency risk is a risk of loss arising from fluctuations in currency exchange rates.

Currency risk management in the Group is carried out in accordance with Currency Risk Management Policy. Currency risk is assessed and decisions are made by the FMCRC. The decisions of the FMCRC are approved by the Bank's Management Board. The FMCRC defines the acceptable currency risk level and the Group's internal limit system, as well as monitors compliance with these limits.

Day-to-day currency risk management is the responsibility of the Treasury Sector, while risk monitoring and reporting is the responsibility of the Risk Sector.

The Group has a low risk appetite for foreign exchange risk. The Group aims to keep exposures at levels that would produce a small net impact even in periods of high volatility. Several well-known methodologies are used to measure and manage foreign exchange risk including a conservative limit for a daily value-at-risk exposure. The Group is in full compliance with the currency position requirements of Latvian legislation.

In the event of exchange rates for the following currencies in which the Group and the Bank has net open positions adversely change as per scenario below, the potential total decrease in the Group's and Bank's total equity (ignoring any tax effect) would amount approximately to the following:

	Group, EUR thousands					
	31/12/2020			31/12/2019		
Scenario:	**USD**	**CHF**	**Other currencies**	**USD**	**CHF**	**Other currencies**
2% adverse change	11	170	8	54	222	17
5% adverse change	27	425	20	135	554	41

	Bank, EUR thousands					
	31/12/2020			31/12/2019		
Scenario:	**USD**	**CHF**	**Other currencies**	**USD**	**CHF**	**Other currencies**
2% adverse change	11	1	-	44	-	8
5% adverse change	28	3	-	111	1	20

Assets, liabilities and off-balance sheet items by currency profile

	Group as of 31/12/2020, EUR thousands					
	EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and cash balances at central banks	1,128,528	1,271	15,598	95	1,114	1,146,606
Loans to credit institutions	10,817	32,006	299	2,133	6,032	51,287
Debt securities	1,591,949	144,177	10,764	10,496	2,804	1,760,190
Loans to public	1,529,117	9,329	2,777	-	-	1,541,223
Equity instruments	267	4,497	-	-	-	4,764
Other financial instruments	35,762	7,258	-	323	-	43,343
Derivatives	1,474	-	-	-	-	1,474
Other assets	46,738	171	548	3	971	48,431
Total assets	**4,344,652**	**198,709**	**29,986**	**13,050**	**10,921**	**4,597,318**
Liabilities						
Deposits from credit institutions and central banks	439,591	940	-	-	9,460	449,991
Deposits and borrowings from customers	3,284,103	328,817	9,239	18,419	30,812	3,671,390
Debt securities issued	60,080	-	-	-	-	60,080
Derivatives	4,461	-	-	-	-	4,461
Other liabilities	64,637	47	2,398	-	4	67,086
Total liabilities	**3,852,872**	**329,804**	**11,637**	**18,419**	**40,276**	**4,253,008**
Equity	343,585	705	6	7	7	344,310
Total liabilities and equity	**4,196,457**	**330,509**	**11,643**	**18,426**	**40,283**	**4,597,318**
Net balance sheet position	***148,195***	***(131,800)***	***18,343***	***(5,376)***	***(29,362)***	***-***
Net off-balance sheet foreign exchange contracts	(159,507)	131,252	(9,849)	5,780	29,361	(2,963)
Net long/ (short) total position	***(11,312)***	***(548)***	***8,494***	***404***	***(1)***	***(2,963)***

	Group as of 31/12/2019, EUR thousands (Reclassified)					
	EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and cash balances at central banks	686,355	2,629	16,539	860	1,531	707,914
Loans to credit institutions	21,321	35,612	551	1,104	62,807	121,395
Debt securities	870,912	271,219	13,542	6,597	46,209	1,208,479
Loans to public	1,530,826	35,259	-	1,635	178	1,567,898
Equity instruments	1,259	3,833	-	-	-	5,092
Other financial instruments	30,781	8,837	-	354	-	39,972
Derivatives	960	-	-	-	-	960
Other assets	87,726	2,044	617	4	667	91,058
Total assets	**3,230,140**	**359,433**	**31,249**	**10,554**	**111,392**	**3,742,768**
Liabilities						
Deposits from credit institutions and central banks	972	576	-	-	89	1,637
Deposits and borrowings from customers	2,816,550	413,664	7,485	19,636	32,199	3,289,534
Debt securities issued	60,044	-	-	-	-	60,044
Derivatives	528	-	-	-	-	528
Other liabilities	47,396	593	2,241	-	70	50,300
Total liabilities	**2,925,490**	**414,833**	**9,726**	**19,636**	**32,358**	**3,402,043**
Equity	337,937	2,785	-	-	3	340,725
Total liabilities and equity	**3,263,427**	**417,618**	**9,726**	**19,636**	**32,361**	**3,742,768**
Net balance sheet position	***(33,287)***	***(58,185)***	***21,523***	***(9,082)***	***79,031***	***-***
Net off-balance sheet foreign exchange contracts	25,373	55,485	(10,437)	9,458	(79,480)	399
Net long/ (short) total position	***(7,914)***	***(2,700)***	***11,086***	***376***	***(449)***	***399***

	Bank as of 31/12/2020, EUR thousands					
	EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and cash balances at central banks	1,128,528	1,271	-	95	1,114	1,131,008
Loans to credit institutions	4,972	28,815	19	1,913	4,570	40,289
Debt securities	1,466,675	86,511	-	7,946	2,543	1,563,675
Loans to public	1,508,984	9,329	-	-	-	1,518,313
Equity instruments	267	4,497	-	-	-	4,764
Other financial instruments	13,834	-	-	-	-	13,834
Derivatives	1,474	-	-	-	-	1,474
Other assets	72,211	105	13,805	1	967	87,089
Total assets	**4,196,945**	**130,528**	**13,824**	**9,955**	**9,194**	**4,360,446**
Liabilities						
Deposits from credit institutions and central banks	440,554	19,745	687	3	9,970	470,959
Deposits and borrowings from customers	3,189,404	241,040	3,354	15,721	28,577	3,478,096
Debt securities issued	60,080	-	-	-	-	60,080
Derivatives	4,461	-	-	-	-	4,461
Other liabilities	29,201	46	-	1	3	29,251
Total liabilities	**3,723,700**	**260,831**	**4,041**	**15,725**	**38,550**	**4,042,847**
Equity	317,190	399	-	3	7	317,599
Total liabilities and equity	**4,040,890**	**261,230**	**4,041**	**15,728**	**38,557**	**4,360,446**
Net balance sheet position	***156,055***	***(130,702)***	***9,783***	***(5,773)***	***(29,363)***	***-***
Net off-balance sheet foreign exchange contracts	(159,507)	131,252	(9,849)	5,780	29,361	(2,963)
Net long/ (short) total position	***(3,452)***	***550***	***(66)***	***7***	***(2)***	***(2,963)***

	Bank as of 31/12/2019, EUR thousands (Reclassified)					
	EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and cash balances at central banks	686,355	2,629	80	860	1,531	691,455
Loans to credit institutions	10,483	24,059	153	1,008	60,318	96,021
Debt securities	737,473	183,917	-	4,716	46,209	972,315
Loans to public	1,559,390	28,053	-	1,635	177	1,589,255
Equity instruments	1,259	3,833	-	-	-	5,092
Other financial instruments	6,330	104	-	-	-	6,434
Derivatives	960	-	-	-	-	960
Other assets	69,440	1,992	13,806	4	669	85,911
Total assets	**3,071,690**	**244,587**	**14,039**	**8,223**	**108,904**	**3,447,443**
Liabilities						
Deposits from credit institutions and central banks	3,141	33,899	382	304	1,561	39,287
Deposits and borrowings from customers	2,676,033	265,743	3,238	17,369	28,247	2,990,630
Debt securities issued	60,044	-	-	-	-	60,044
Derivatives	528	-	-	-	-	528
Other liabilities	34,378	259	-	-	3	34,640
Total liabilities	**2,774,124**	**299,901**	**3,620**	**17,673**	**29,811**	**3,125,129**
Equity	319,916	2,395	-	-	3	322,314
Total liabilities and equity	**3,094,040**	**302,296**	**3,620**	**17,673**	**29,814**	**3,447,443**
Net balance sheet position	***(22,350)***	***(57,709)***	***10,419***	***(9,450)***	***79,090***	***-***
Net off-balance sheet foreign exchange contracts	25,373	55,485	(10,437)	9,458	(79,480)	399
Net long/ (short) total position	***3,023***	***(2,224)***	***(18)***	***8***	***(390)***	***399***

The investment in the Group's Swiss subsidiary AP Anlage & Privatbank AG, which is carried at cost, is shown as a CHF exposure, as the recoverability of this asset will ultimately depend on the Swiss currency's performance.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its legal payment obligations. The purpose of liquidity risk management is to ensure the availability of liquid assets to cover any possible gaps between cash inflows and outflows as well as to secure sufficient funding for lending and investment activities.

The Group manages its liquidity risk in accordance with Liquidity Risk Management Policy. The management and reporting of liquidity risk is coordinated by the Treasury Sector, and the risk is assessed and decisions are taken by the ALCO. The decisions of the ALCO are approved by the Bank's Management Board. The Risk Sector on a monthly basis provides information to the ALCO and the Bank's Management Board about the level of the assumed risk as part of the reporting and supervision process.

Liquidity risk for the Group is assessed in each currency in which the Group has performed a significant amount of transactions. Liquidity risk limits are reviewed at least once a year and also when there are major changes to the Group's operations or external factors affecting its operations. A liquidity crisis management plan has been developed and is updated on a regular basis.

One of the crucial tools used to evaluate liquidity risk is scenario analysis. Several scenarios of different severity and duration are employed by the Group with risk tolerances defined for the outcomes of those scenarios. Furthermore, the Group has developed a system of liquidity risk limits and early warning indicators and systematically prepares cash flow forecasts which incorporate assumptions about the most likely flow of funds over the period of one year. For general assessment of existing gaps between contractual maturities of assets and liabilities without any assumptions on customer behaviour, the Group regularly analyses liquidity term structure and sets corresponding risk tolerances.

The Group's balance sheet structure is planned for at least a one-year period and is aligned with development plans for the current period. The major current and potential funding sources are regularly analysed and controlled across the Group. The Group maintains regular contact with its interbank business partners and creditors with the aim of projecting possible deadlines for repayment or prolongation of funding sources as well as absorption of excess liquidity.

Liquidity coverage ratio

The general principles of the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) as measurements of the Bank's and the Group's liquidity position are defined in the Regulation (EC) No 575/2013. The Commission Delegated Regulation (EU) 2015/61 defines general LCR calculation principles in more details. The minimum LCR requirement is 100% and it represents the amount of liquidity available to cover calculated net future liquidity outflows. The Bank and the Group is compliant with LCR requirements.

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
1. Liquidity buffer	2,061,640	1,506,948	1,985,199	1,367,784
2. Net liquidity outflow	578,923	421,422	573,097	418,740
3. Liquidity coverage ratio	**356%**	**358%**	**346%**	**327%**

Assets, liabilities and off-balance sheet items by contractual maturity

	Group as of 31/12/2020, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and cash balances at central banks	1,108,796	-	-	-	-	37,810	1,146,606
Loans to credit institutions	31,016	20,271	-	-	-	-	51,287
Debt securities	26,919	73,616	53,455	60,067	1,189,189	356,944	1,760,190
Loans to public	54,860	70,781	81,397	161,186	684,006	488,993	1,541,223
Equity instruments	-	-	-	-	-	4,764	4,764
Other financial instruments	-	-	-	-	-	43,343	43,343
Derivatives	820	639	-	15	-	-	1,474
Other assets	13,101	197	194	241	1,258	33,440	48,431
Total assets	**1,235,512**	**165,504**	**135,046**	**221,509**	**1,874,453**	**965,294**	**4,597,318**
Liabilities							
Deposits from credit institutions and central banks	11,158	-	-	-	438,833	-	449,991
Deposits and borrowings from customers	3,116,129	130,020	53,559	255,437	105,619	10,626	3,671,390
Debt securities issued	-	-	-	-	-	60,080	60,080
Derivatives	3,101	1,263	96	1	-	-	4,461
Lease liabilities	102	587	880	1,587	5,613	-	8,769
Other liabilities	7,934	1,770	1,558	2,757	23,427	20,871	58,317
Total liabilities	**3,138,424**	**133,640**	**56,093**	**259,782**	**573,492**	**91,577**	**4,253,008**
Equity	-	-	-	-	-	344,310	344,310
Total liabilities and equity	**3,138,424**	**133,640**	**56,093**	**259,782**	**573,492**	**435,887**	**4,597,318**
Net balance sheet position – long/ (short)	(1,902,912)	31,864	78,953	(38,273)	1,300,961	529,407	-
Off-balance sheet items							
Contingent liabilities	23,903	-	-	-	-	-	23,903
Financial commitments	261,050	-	-	-	-	-	261,050

Liabilities and commitments are allocated to the earliest period in which the Group may be contractually required to settle the liabilities or the customer may draw down undrawn loan commitments. Issued financial guarantee contracts are allocated to the earliest period in which the guarantee could be called. Assets are allocated to the earliest period in which the Group may contractually require to settle receivables.

Financial liabilities by contractual undiscounted cash flows

	Group as of 31/12/2020, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	Over 1 year	Total	Carrying amount
Financial liabilities designated at fair value through profit or loss	277	1,232	3,374	4,583	26,557	36,023	36,010
Financial liabilities measured at amortised cost*	3,127,198	129,463	52,614	257,981	607,371	4,174,627	4,154,220
Off-balance sheet items							
Contingent liabilities	23,903	-	-	-	-	23,903	23,903
Financial commitments	261,050	-	-	-	-	261,050	261,050

** Includes Deposits from credit institutions and central banks, part of Deposits and borrowings from customers, Debt securities issued and Lease liabilities. Undiscounted contractual cash flows for other liabilities equal their carrying value.*

Assets, liabilities and off-balance sheet items by contractual maturity

	Group as of 31/12/2019, EUR thousands (Reclassified)						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and cash balances at central banks	662,725	-	-	-	-	45,189	707,914
Loans to credit institutions	99,233	22,162	-	-	-	-	121,395
Debt securities	85,908	114,652	99,044	87,216	624,558	197,101	1,208,479
Loans to public	89,535	66,543	95,532	196,229	681,935	438,124	1,567,898
Equity instruments	-	-	-	-	-	5,092	5,092
Other financial instruments	-	-	-	-	-	39,972	39,972
Derivatives	635	304	-	21	-	-	960
Other assets	21,197	166	403	147	133	69,012	91,058
Total assets	**959,233**	**203,827**	**194,979**	**283,613**	**1,306,626**	**794,490**	**3,742,768**
Liabilities							
Deposits from credit institutions and central banks	1,637	-	-	-	-	-	1,637
Deposits and borrowings from customers	2,704,489	60,148	85,666	261,683	153,748	23,800	3,289,534
Debt securities issued	-	-	-	-	-	60,044	60,044
Derivatives	309	219	-	-	-	-	528
Lease liabilities	17	252	374	682	1,612	-	2,937
Other liabilities	9,228	1,264	1,082	2,176	12,117	21,496	47,363
Total liabilities	**2,715,680**	**61,883**	**87,122**	**264,541**	**167,477**	**105,340**	**3,402,043**
Equity	-	-	-	-	-	340,725	340,725
Total liabilities and equity	**2,715,680**	**61,883**	**87,122**	**264,541**	**167,477**	**446,065**	**3,742,768**
Net balance sheet position – long/ (short)	(1,756,447)	141,944	107,857	19,072	1,139,149	348,425	-
Off-balance sheet items							
Contingent liabilities	22,809	-	-	-	-	-	22,809
Financial commitments	330,250	-	-	-	-	-	330,250

Financial liabilities by contractual undiscounted cash flows

	Group as of 31/12/2019, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	Over 1 year	Total	Carrying amount
Financial liabilities designated at fair value through profit or loss	194	2,584	1,457	4,855	29,174	38,264	37,900
Financial liabilities measured at amortised cost*	2,705,965	57,896	86,664	260,961	239,335	3,350,821	3,316,252
Off-balance sheet items							
Contingent liabilities	22,809	-	-	-	-	22,809	22,809
Financial commitments	330,250	-	-	-	-	330,250	330,250

** Includes Deposits from credit institutions and central banks, part of Deposits and borrowings from customers, Debt securities issued and Lease liabilities. Undiscounted contractual cash flows for other liabilities equal their carrying value.*

Assets, liabilities and off-balance sheet items by contractual maturity

	Bank as of 31/12/2020, EUR thousands						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**2-5 years**	**Over 5 years and undated**	**Total**
Assets							
Cash and cash balances at central banks	1,093,198	-	-	-	-	37,810	1,131,008
Loans to credit institutions	20,018	20,271	-	-	-	-	40,289
Debt securities	22,766	64,493	45,927	42,729	1,061,310	326,450	1,563,675
Loans to public	37,230	247,553	63,252	129,063	552,637	488,578	1,518,313
Equity instruments	-	-	-	-	-	4,764	4,764
Other financial instruments	-	-	-	-	-	13,834	13,834
Derivatives	820	639	-	15	-	-	1,474
Other assets	12,217	-	1	6	2	74,863	87,089
Total assets	**1,186,249**	**332,956**	**109,180**	**171,813**	**1,613,949**	**946,299**	**4,360,446**
Liabilities							
Deposits from credit institutions and central banks	19,993	4,564	2,268	-	444,134	-	470,959
Deposits and borrowings from customers	2,968,489	124,224	47,918	250,857	81,248	5,360	3,478,096
Debt securities issued	-	-	-	-	-	60,080	60,080
Derivatives	3,101	1,263	96	1	-	-	4,461
Lease liabilities	84	551	826	1,599	5,639	-	8,699
Other liabilities	4,050	-	-	-	-	16,502	20,552
Total liabilities	**2,995,717**	**130,602**	**51,108**	**252,457**	**531,021**	**81,942**	**4,042,847**
Equity	-	-	-	-	-	317,599	317,599
Total liabilities and equity	**2,995,717**	**130,602**	**51,108**	**252,457**	**531,021**	**399,541**	**4,360,446**
Net balance sheet position – long/ (short)	(1,809,468)	202,354	58,072	(80,644)	1,082,928	546,758	-
Off-balance sheet items							
Contingent liabilities	23,246	-	-	-	-	-	23,246
Financial commitments	276,089	-	-	-	-	-	276,089

Liabilities and commitments are allocated to the earliest period in which the Group may be contractually required to settle the liabilities or the customer may draw down undrawn loan commitments. Issued financial guarantee contracts are allocated to the earliest period in which the guarantee could be called. Assets are allocated to the earliest period in which the Group may contractually require to settle receivables.

Financial liabilities by contractual undiscounted cash flows

	Bank as of 31/12/2020, EUR thousands						
	Within 1 month	**2-3 months**	**4-6 months**	**7-12 months**	**Over 1 year**	**Total**	**Carrying amount**
Financial liabilities measured at amortised cost*	2,988,652	129,427	52,560	254,968	612,632	4,038,239	4,017,834
Off-balance sheet items							
Contingent liabilities	23,246	-	-	-	-	23,246	23,246
Financial commitments	276,089	-	-	-	-	276,089	276,089

** Includes Deposits from credit institutions and central banks, Deposits and borrowings from customers, Debt securities issued and Lease liabilities. Undiscounted contractual cash flows for other liabilities equal their carrying value.*

Assets, liabilities and off-balance sheet items by contractual maturity

	Bank as of 31/12/2019, EUR thousands (Reclassified)						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and cash balances at central banks	646,266	-	-	-	-	45,189	691,455
Loans to credit institutions	73,859	22,162	-	-	-	-	96,021
Debt securities	73,780	100,225	85,545	61,402	498,228	153,135	972,315
Loans to public	65,995	47,253	279,845	165,198	558,580	472,384	1,589,255
Equity instruments	-	-	-	-	-	5,092	5,092
Other financial instruments	-	-	-	-	-	6,434	6,434
Derivatives	635	304	-	21	-	-	960
Other assets	20,291	-	4	-	4	65,612	85,911
Total assets	**880,826**	**169,944**	**365,394**	**226,621**	**1,056,812**	**747,846**	**3,447,443**
Liabilities							
Deposits from credit institutions and central banks	14,065	6,373	7,717	4,553	6,579	-	39,287
Deposits and borrowings from customers	2,466,965	51,193	76,493	252,291	134,996	8,692	2,990,630
Debt securities issued	-	-	-	-	-	60,044	60,044
Derivatives	309	219	-	-	-	-	528
Lease liabilities	163	661	987	1,926	6,965	-	10,702
Other liabilities	5,172	-	-	-	-	18,766	23,938
Total liabilities	**2,486,674**	**58,446**	**85,197**	**258,770**	**148,540**	**87,502**	**3,125,129**
Equity	-	-	-	-	-	322,314	322,314
Total liabilities and equity	**2,486,674**	**58,446**	**85,197**	**258,770**	**148,540**	**409,816**	**3,447,443**
Net balance sheet position – long/ (short)	(1,605,848)	111,498	280,197	(32,149)	908,272	338,030	-
Off-balance sheet items							
Contingent liabilities	22,107	-	-	-	-	-	22,107
Financial commitments	410,928	-	-	-	-	-	410,928

Financial liabilities by contractual undiscounted cash flows

	Bank as of 31/12/2019, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	Over 1 year	Total	Carrying amount
Financial liabilities measured at amortised cost*	2,481,214	58,307	87,276	262,206	246,235	3,135,238	3,100,663
Off-balance sheet items							
Contingent liabilities	22,107	-	-	-	-	22,107	22,107
Financial commitments	410,928	-	-	-	-	410,928	410,928

** Includes Deposits from credit institutions and central banks, Deposits and borrowings from customers, Debt securities issued and Lease liabilities. Undiscounted contractual cash flows for other liabilities equal their carrying value.*

Derivative liabilities settled on a net basis and contractual undiscounted cash flows arising from derivatives settled on a gross basis

	Group as of 31/12/2020, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(958)	(76)	-	9	-	-	(1,025)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
Outflow	(73,462)	(74,500)	(3,130)	(1,641)	(81)	-	(152,814)
Inflow	72,142	73,959	3,037	1,644	81	-	150,863

	Group as of 31/12/2019, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	355	209	-	-	-	-	564
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
Outflow	(25,826)	(47,921)	-	(17,584)	-	-	(91,331)
Inflow	25,813	47,850	-	17,803	-	-	91,466

	Bank as of 31/12/2020, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(958)	(76)	-	9	-	-	(1,025)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
Outflow	(73,462)	(74,500)	(3,130)	(1,641)	(81)	-	(152,814)
Inflow	72,142	73,959	3,037	1,644	81	-	150,863

	Bank as of 31/12/2019, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	355	209	-	-	-	-	564
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
Outflow	(25,826)	(47,921)	-	(17,584)	-	-	(91,331)
Inflow	25,813	47,850	-	17,803	-	-	91,466

Comparison of contractual undiscounted cash flows and carrying amount of derivatives

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Contractual undiscounted cash flows of derivatives	(2,976)	699	(2,976)	699
Carrying value of derivatives, net	(2,987)	432	(2,987)	432

Anti-money laundering, counter terrorism financing, counter proliferation financing and sanctions compliance policy

The Group has adopted Money Laundering (ML)/Terrorism and Proliferation Financing (TF/PF) Risk Management Strategy, Anti-Money Laundering and Counter Terrorism and Proliferation Financing Policy and Sanctions compliance Policy to have an effective and comprehensive anti-money laundering (AML) and combating terrorist un proliferation financing (CTF/CPF) internal control system and to ensure compliance with sanctions imposed by international organizations and national authorities. The Group regularly reviews its AML/CTF/CPF and sanctions compliance policies and procedures with an aim to strengthen them and to update in line with changes in external regulatory requirements and international best practice. Internal control system of AML/CTF/CPF and Sanctions compliance of the Group is regularly reviewed by independent external and internal experts to ensure that the Group complies with applicable AML/CTF/CPF and Sanctions compliance requirements. The experts where appropriate provide recommendations on how to strengthen and improve AML/CTF/CPF and Sanctions compliance internal control systems. The recommendations are diligently evaluated and implemented.

The Group performs ML/TF/PF and Sanctions Risk Assessment on a regular basis to evaluate ML/TF/PF and Sanctions compliance risk of the Group. The assessment among others includes identification and assessment of the inherent ML/TF/PF and Sanctions compliance risk and effectiveness assessment of the existing AML/CTF/CPF and Sanctions compliance controls.

The Group has a dedicated Group's Chief Compliance Officer (Member of the Management Board responsible for compliance), Money Laundering Reporting Officer, Sanctions Officer and a special team with a duty of overseeing the Group policies, procedures and processes implemented to preventing money laundering, terrorist and proliferation financing and sanctions violations.

Know Your Customer, including customer risk scoring, customer due diligence, customer enhanced due diligence practices, on-going customer transactions monitoring, effective international and national sanctions screening is the priority of the Group. A sound risk culture across the Group and risk aware employees, besides implemented industry's best practice processes and systems, is the backbone of ML/TF/PF risk management. Each employee of the Group has a good knowledge of customers and their business partners and has a full understanding of the substance of transactions, thus is able to timely detect suspicious customer activity. Under the Sanctions compliance policy, it is strictly forbidden to knowingly and intentionally participate in activities whose purpose or effect is to evade the restrictions imposed by the sanctions, thus preventing the Group from been used to circumvent the sanctions. The Group enforces sanctions established by the United Nations Security Council, the European Union against specific countries and persons, national sanctions and the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury. The Group complies with OFAC sanctions in USD and all other currencies.

The Group has established AML/CTF/CPF and Sanctions compliance training program for all its employees. The training program consists of three parts: initial, regular and extraordinary employee training and is tailored to the necessary knowledge level of each function. For employees directly responsible for AML/CTF/CPF and Sanctions compliance, special advanced trainings, workshops and conferences are arranged to enhance their knowledge and skills necessary for their tasks. The Group supports and requires international certification in the AML/CTF/CPF and Sanctions compliance fields for at least the leading specialists involved in the ML/TF/PF risk management function (e.g. CAMS or ICA-certification).

In April 2020 the Bank and the FCMC signed an administrative agreement on audit of the Bank carried out by the FCMC during 2018. The scope of the audit was compliance of the Bank with applicable AML/CFT legislation. The agreement formalises required actions that the Bank has committed to take to further improve in respect to the AML/CFT, including an additional investment in the Bank's internal control systems. The agreement refers to a small number of alleged shortcomings on certain limited occasions whereby the client's beneficial owner was not sufficiently proved or documented or where, in certain limited occasions, it was not fully ensured that scope and quality of the documentation of the client's economic activity is sufficient. At that time all customers with the identified shortcomings were already closed or were in the closing process as per prior decisions of the Bank. The prior closing decisions were independent of the FCMC audit. The Bank has independently and on its own initiative developed a remediation plan to improve internal control systems of AML/CFT (the Remediation plan). The remediation plan was implemented to deliver on improvements desired by the FCMC. The Bank has complied with the agreed timeline and has taken all actions according to the Remediation plan, including de-risking of certain customer categories, setup of KYC Competence Centre, developed master training in AML/CTF area with certification to improve knowledge of its employees, further enhancements of documentation and IT systems and hiring of additional AML compliance staff.

Capital management

Capital adequacy is calculated in accordance with the current global standards of the bank capital adequacy (the Basel III international regulatory framework) as implemented by the European Union via a regulation (EU) 575/2013 and a directive 2013/36/EU, the Financial and Capital Markets Commission's (FCMC) rules and other relevant regulations.

Capital adequacy is a measure of sufficiency of the Group's eligible capital resources to cover credit risks, market risks, operational risk and other specific risks arising predominantly from asset and off-balance sheet exposures of the Group. The regulations require Latvian banks to maintain a Total Capital adequacy ratio of 8.0% of the total risk weighted exposure amounts. The rules also require 4.5% minimum Common Equity Tier 1 capital ratio and 6.0% minimum Tier 1 capital ratio.

Total SREP capital requirement (TSCR) requires capital to cover risks in addition to these covered by the regulation (EU) 575/2013. TSCR is established in a supervisory review and evaluation process (SREP) carried out by the national supervisory authority. The national supervisory authority determines TSCR on a risk-by-risk basis, using supervisory judgement, the outcome of supervisory benchmarking, ICAAP calculations and other relevant inputs. The additional pillar 2 capital requirement is re-assessed annually by the FCMC. As of the period end based on the FCMC's assessment an additional 2.30% capital requirement (TSCR) for the Group and the Bank is determined to cover pillar 2 risks. As of the period end the Bank and the Group is required to cover 56% of the TSCR with Common Equity Tier 1 capital (1.29% capital requirement), 75% with Tier 1 capital (1.73% capital requirement) and 100% with Total Capital (2.30% capital requirement).

On top of the minimum capital adequacy ratios and the pillar 2 capital requirements (TSCR), the Group and the Bank must comply with the capital buffer requirements. The buffer requirements must be reached by Common Equity Tier 1 capital. Capital conservation buffer both for the Group and the Bank is set at 2.50%, limiting dividend pay-out and certain other Tier 1 equity instrument buybacks, if the buffer threshold is not exceeded.

Citadele, being identified as "other systemically important institution" (O-SII), must also comply with the O-SII capital buffer requirement set by the FCMC at 1.50%.

Countercyclical capital buffer norms at each balance sheet date are calculated based on the actual risk exposure geographical distribution and the countercyclical buffer rates applicable for each geographical location. In the reporting period in reaction to the Covid-19 events most European countercyclical capital buffer requirements were decreased to 0%. Therefore, based on the regional distribution of the Group's exposures the effective countercyclical capital buffer requirement of the Group has decreased to almost 0%.

Since 2019 the Group and the Bank applies prudential provisioning requirements in line with the FCMC regulations (which implement the ECB guidance on prudential provisioning of non-performing exposures). Prudential provisioning is mathematically simplistic "calendar based" calculation and for certain legacy non-performing exposures may require additional prudential provisions on top of the ECL allowances recognised for accounting purposes. The additional prudential provisions are directly deductible from the regulatory capital. In light of Covid-19 events, the regulation has been recently revisited by the FCMC, temporarily softening prudential provisioning rules. As a result, the incremental prudential provisioning requirements have been effectively frozen at the level just before the Covid-19 events. Due to the Group's provisioning policy and portfolio structure, the prudential provisioning regulation has had minor impact on the Group's capital adequacy position.

The Bank has to comply with the regulatory requirements both at the Bank's standalone level and at the Group's consolidated level. As of the period end both the Bank and the Group have sufficient capital to comply with the FCMC's capital adequacy requirements. The long-term regulatory capital position of the Group and the Bank is planned and managed in line with these and other expected upcoming regulatory requirements.

Regulatory capital requirements of the Group on 31 December 2020

	Common equity Tier 1 capital ratio	**Tier 1 capital ratio**	**Total capital adequacy ratio**
Common equity Tier 1 ratio	4.50%	4.50%	4.50%
Additional Tier 1 ratio	-	1.50%	1.50%
Additional total capital ratio	-	-	2.00%
Individual TSCR, as determined by the FCMC (pillar 2 capital requirement)	1.29%	1.73%	2.30%
Capital buffer requirements:			
Capital conservation buffer	2.50%	2.50%	2.50%
O-SII capital buffer	1.50%	1.50%	1.50%
Countercyclical capital buffer	0.00%	0.00%	0.00%
Capital requirement	**9.79%**	**11.73%**	**14.30%**

As of the period end capital and capital buffer requirements for the Bank and the Group are the same.

Capital adequacy ratio (including net result for the period)

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Common equity Tier 1 capital				
Paid up capital instruments	156,556	156,556	156,556	156,556
Retained earnings	176,651	172,070	156,574	160,346
Regulatory deductions	(5,599)	(8,539)	(5,187)	(7,992)
Other capital components and transitional adjustments, net	13,405	15,505	8,746	10,605
Tier 2 capital				
Eligible part of subordinated liabilities	60,000	60,000	60,000	60,000
Total own funds	**401,013**	**395,592**	**376,689**	**379,515**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk	1,340,639	1,555,638	1,303,818	1,490,030
Total exposure amounts for position, foreign currency open position and commodities risk	13,690	16,643	4,747	5,213
Total exposure amounts for operational risk	187,358	209,649	146,960	171,299
Total exposure amounts for credit valuation adjustment	933	544	933	544
Total risk exposure amount	**1,542,620**	**1,782,474**	**1,456,458**	**1,667,086**
Total capital adequacy ratio	**26.0%**	**22.2%**	**25.9%**	**22.8%**
Common equity Tier 1 capital ratio	**22.1%**	**18.8%**	**21.7%**	**19.2%**

The consolidation Group for regulatory purposes is different from the consolidation Group for accounting purposes. As per regulatory requirements AAS CBL Life, a licensed insurer, is not included in the consolidation Group for capital adequacy purposes. Consequently, it is excluded from own funds calculation and individual assets of AAS CBL Life are not included as risk exposures in the Group's capital adequacy calculation. Instead, the carrying value of the Group's investment in AAS CBL Life constitutes a risk exposure in the Group's capital adequacy ratio calculation.

Transitional adjustments applied as of 31 December 2020

Capital adequacy calculation in accordance with the EU and the FCMC regulations permits transitional adjustments. The regulatory compliance is measured based on the transitional capital adequacy ratio. For transparency purposes fully loaded capital adequacy ratio (i.e. excluding transitional adjustments) is also disclosed. The expectation is that in the medium term the transitional capital adequacy ratio will converge with the fully loaded capital adequacy ratio, as the transitional provisions expire.

Most of the transitional provisions, if applied, allow for a favourable treatment of specific capital components or risk exposure items, resulting in a marginal improvement in the capital adequacy ratios. Application of the transitional provisions mostly is discretionary. Application decision is evaluated in the context of estimated positive impact on the capital adequacy ratio versus the resources required to develop the systems and the processes to implement each transitional provision.

The transitional provisions that the Group and the Bank has applied for the period end capital adequacy calculations:

The regulation (EU) 2017/2395 which permits specific proportion of the IFRS 9 implementation impact to be amortised over a five-year period (starting from 2018) for capital adequacy calculation purposes.

The temporary "freezing" of the additional prudential provisioning at the level just before the Covid-19 events as per FCMC regulations (which implement the ECB guidance on prudential provisioning of non-performing exposures).

All other transitional provisions for which the Group and the Bank is eligible are not applied as of the period end and are still in the assessment phase, implementation phase or have been decided not to be implemented.

Fully loaded capital adequacy ratio (i.e. excluding transitional adjustments, including net result for the period)

	EUR thousands			
	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Common equity Tier 1 capital, fully loaded	336,917	330,618	312,412	314,321
Tier 2 capital	60,000	60,000	60,000	60,000
Total own funds, fully loaded	**396,917**	**390,618**	**372,412**	**374,321**
Total risk exposure amount, fully loaded	**1,539,013**	**1,778,058**	**1,452,523**	**1,662,406**
Total capital adequacy ratio, fully loaded	**25.8%**	**22.0%**	**25.6%**	**22.5%**
Common equity Tier 1 capital ratio, fully loaded	**21.9%**	**18.6%**	**21.5%**	**18.9%**

Leverage ratio – fully loaded and transitional (including net result for the period)

Leverage ratio is calculated as Tier 1 capital versus the total exposure measure with the minimum requirement of 3%. The exposure measure includes both non-risk based on-balance sheet and off-balance sheet items calculated in accordance with the capital requirements regulation. The leverage ratio and the risk-based capital adequacy ratio requirements are complementary, with the leverage ratio defining the minimum capital to total exposure requirement and the risk-based capital adequacy ratios limiting bank risk-taking.

	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
Leverage Ratio – fully phased-in definition of Tier 1 capital	7.3%	8.7%	7.1%	8.9%
Leverage Ratio – transitional definition of Tier 1 capital	7.4%	8.8%	7.1%	9.0%

Minimum requirement for own funds and eligible liabilities (MREL) under BRRD

The European Commission has adopted the regulatory technical standards (RTS) on the criteria for determining the minimum requirement for own funds and eligible liabilities (MREL) under the Banking Package (CRR2/CRD5/BRRD2/SRMR2). In order to ensure the effectiveness of bail-in and other resolution tools introduced by BRRD 2, it requires that all institutions must meet an individual MREL requirement. The MREL requirement for each institution is comprised of several elements, including the required loss absorbing capacity of the institution, and the level of recapitalisation needed to implement the preferred resolution strategy identified during the resolution planning process. Items eligible for inclusion in MREL include institution's own funds (within the meaning of the capital requirements directive), along with eligible liabilities subject to conditions set in regulation 2019/876.

As a part of the new Banking Package in 2020 the SRB published an updated MREL policy, effective from 2021. It requires MREL to be calculated based on both total risk exposure amount (TREA) and leverage ratio exposure (LRE) amount. Statutory subordination requirements will be set depending on the Group's classification and will be communicated individually in a MREL decision.

SRB has determined the consolidated intermediate MREL target for Citadele Group at the level of 18.03% of TREA or 5.26% of LRE, whichever is higher, to be met by 1 January 2022 and the final calibrated MREL target to be met by 1 January 2024 at the level of 19.96% of TREA or 5.26% of LRE whichever is higher. After the transition period the Group shall comply with MREL at all times on the basis of evolving amounts of TREA/LRE.

The MREL targets were determined by the SRB using the financial and supervisory information as of 31 December 2019 and may be updated by the SRB in the future based on a more recent financial information of the Group.

Operational risk

The Group has adopted the Basel Committee on Banking Supervision's definition of operational risk: the probability of incurring losses due to failure or partial failure of internal processes to comply with the requirements of the laws and binding external regulations, as well as the requirements of internal regulations, due to the acts of the Group's employees and operation of systems, irregularities in internal processes, as well as due to the acts of third parties or other external conditions.

Further operational risk is divided into the following categories: personnel risk, process risk, IT and system risk, external risk.

Operational risk is managed using an integrated and comprehensive framework of policies, methodologies, procedures and regulations for identification, analysis, mitigation, control, and reporting of operational risk. The Group's operational risk management processes are integral to all business activities and are applicable to all employees and members of the Group. The Group's aim is to ensure that each of its employees knows not just how to perform specific transactions, but also understand the key areas where risk can arise and the processes and steps required to prevent, or otherwise mitigate such risk.

The goal of the Group's operational risk management framework is to maintain the lowest possible level of risk while ensuring that any remaining risk is economically justified in light of the need to sustain the Group's performance and profit in the long term. Whether a risk is economically justified depends on an assessment of the potential losses it could cause, the probability of its occurrence, the ability to implement mitigating measures and the cost of such measures, as well as the level of risk that would remain if such mitigating measures were to be put in place.

The Group aims to avoid operational risks with a potential impact which exceeds 10% of its net annual revenue and has a higher probability of occurrence than once per ten years, or risks with unquantifiable impact which are unmanageable, irrespective of the financial gains this could bring. Each accepted risk must be economically justified and, in cases where the assessment of operational risk in monetary terms is possible, the costs of the control measures required must be commensurate with the eventual loss that could be prevented by the existence of the control system.

Due to Covid-19 situation previously unseen measures have been undertaken by governments in the jurisdictions the Group operates. Citadele has worked tirelessly to implement the necessary operational and other measures to facilitate smooth and uninterrupted high-quality client services and to organise productive and safe work environment for its employees. As a result, operational risks are at levels comparable to pre Covid-19 levels with no substantial increase in risk events.

The Group applies following approaches for operational risk management:

- Assessing operational risk in development projects: new and updated services and products are introduced only after a thorough risk assessment has been carried out;
- Conducting regular operational risk-control self-assessment: the Group identifies and assesses potential operational risk events, assesses control systems which are in place, and analyses the necessary risk reduction measures;
- Determining operational risk indicators: the Group uses statistical, financial, and other indicators which represent the levels of operational risk in its various activities;
- Measuring, analysing, monitoring, reporting and escalating operational risk: the Group registers and analyses operational risk events, including their severity, causes and other important information in an operational risk loss and incident database;
- Conducting scenario analysis and stress-testing;
- Performing business continuity planning: the Group performs regular business impact analysis and has implemented a Disaster Recovery Plan;
- Assigning responsibilities: the operational risk management system includes assignment of responsibilities to certain individuals; and
- Documenting decisions: the Group maintains records in relation to the process undertaken to reach a particular decision or to prevent or mitigate a particular risk.

Operational risk management in the Group is carried out in accordance with Operational Risk Management Policy.

NOTE 34. EVENTS AFTER THE REPORTING DATE

Acquisition of UniCredit leasing operations in the Baltics

In 2019 AS Citadele banka entered into a binding agreement with UniCredit S.p.A. to acquire UniCredit's Baltic leasing operations through the acquisition of 100% of the shares in SIA UniCredit Leasing. The acquisition transaction was closed after the reporting date with Citadele obtaining full control from the beginning of January 2021. After completion of the acquisition transaction in 2021, the acquired entity was renamed to SIA Citadele Leasing. The acquisition includes Estonian and Lithuanian branches of the leasing entity and a subsidiary SIA CL Insurance Broker (former legal name SIA UniCredit Insurance Broker). After acquisition Citadele refinanced existing borrowings of the acquired entity in the amount of approximately EUR 740 million with total committed lending of up to EUR 880 million.

The acquired leasing subsidiary is one of the leaders in the Baltics, with more than 20 years of experience in the area of leasing and a demonstrated ability to deliver sustainable business growth. Following the acquisition Citadele's aggregate leasing portfolio exceeds EUR 1 billion, creating a stronger Baltic Leasing offering allowing for economies of scale, synergies and shareholder value.

As of publishing this report the sales price is being finalised per procedure agreed. Due to this the initial accounting for the business combination is so far incomplete. The final settlement is expected soon. Any acquisition discount, conditional to sales price finalisation procedure, based on preliminary assessment would be primarily allocated to the loan portfolio of the acquired entity. Expected lending yield and recoverability assessment of the loan portfolio would form a basis for allocation as would some other less important aspects; all this in the context of the current economic environment.

Consolidated assets and liabilities of the Group of acquired entities as of 31 December 2020 (audited)

	EUR thousands
Assets	
Cash and credit institution balances	23,709
Loans to public	806,789
Tangible and intangible assets	11,843
Other assets	11,065
Total assets	**853,406**
Liabilities and equity	
Loans from credit institutions	793,056
Other liabilities	16,547
Provisions	950
Equity	42,853
Total liabilities and equity	**853,406**

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Independent Auditors' Report

To the shareholders of AS "Citadele banka"

Report on the Audit of the Separate and Consolidated Financial Statements

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS "Citadele banka" ("the Bank") and accompanying consolidated financial statements of the Bank and its subsidiaries ("the Group") set out on pages 16 to 74 of the accompanying separate and consolidated Annual Report, which comprise:

- the separate and consolidated balance sheet as at 31 December 2020,
- the separate and consolidated statement of income and
- the separate and consolidated statement of comprehensive income for the year then ended
- the separate and consolidated statement of changes in equity for the year then ended,
- the separate and consolidated statement of cash flows for the year then ended, and
- the notes to the separate and consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Bank and the Group, respectively, as at 31 December 2020, and of their unconsolidated and consolidated financial performance and their unconsolidated and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the 'Law on Audit Services' of the Republic of Latvia 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 *Auditors' Responsibility for the Audit of the Separate and Consolidated Financial Statements* section of our report.

We are independent of the Bank and Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the separate and consolidated financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matter described below to be the key audit matter to be communicated in our report.

Impairment of loans, and provisions for off-balance sheet items (consolidated and separate financial statements)	
Key audit matter	*Our response*
The gross amount of loans to public in the consolidated financial statements as at 31 December 2020: EUR 1 600.7 million; total allowances for impairment losses as at 31 December 2020: EUR 59.4 million; of which impairment losses on loans recognised in 2020: EUR 16.4 million; the gross amount of off-balance sheet items as at 31 December 2020: EUR 285 million; total provisions as at 31 December 2020: EUR 2 million; of which provision release on these items recognised in 2020: EUR 2 million; *The gross amount of loans in the separate financial statements at 31 December 2020: EUR 1 574.1 million; total impairment loss allowances as at 31 December 2020: EUR 55.8 million; of which impairment losses on loans recognised in 2020: EUR 17 million. The gross amount of off-balance sheet items as at 31 December 2020: EUR 299.3 million; total provisions as at 31 December 2020: EUR 2 million; of which provision release on these items recognised in 2020: EUR 2 million.* *We refer to the financial statements: Note 3 (j), (p), (z) and (ff), Notes 11, 16, 26.* Impairment allowances represent the Management Board's best estimate of the expected credit	Our audit procedures included, among others: With respect to the Impairment of loans, and provisions for off-balance sheet items in general: • inspecting the Bank's and the Group's expected credit losses ("ECL") impairment provisioning methodology and assessing its compliance with the relevant requirements of IFRS 9. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors; • assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, those over loan risk monitoring, identification of loss events, and the calculation of the impairment loss allowances; • assessing whether the definition of default and the staging criteria were consistently applied and in line with the requirements of IFRS 9; • making relevant inquiries of the Bank's risk management and information technology (IT) personnel in order to obtain an understanding of the impairment allowances and provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Assessing and testing the Bank's IT control environment for data security and access, assisted by our own IT specialists. We involved our own financial risk modelling and IT specialists in the following: • Evaluating the appropriateness of the Group's IFRS 9 impairment methodologies (including the staging criteria used);

losses within the loans and off-balance sheet items at the reporting date. We focused on this area as the determination of impairment loss allowances requires a significant amount of judgment from the Management Board over both the timing of recognition and the amounts of any such impairment, especially considering the current uncertain economic environment as a result of COVID-19 pandemic

As required by IFRS 9, the Group calculates impairment allowances and provisions for off-balance sheet items based on expected credit losses ("ECLs"). ECLs determined by modelling techniques and estimated mainly based on historical pattern of losses and changes in loan risk characteristics based on qualitative and quantitative indicators such as the probability of default ("PD") and loss given default ("LGD").

Individual impairment allowances recognized by the Bank and other entities within the Group often relate to large, individually monitored, corporate exposures, where the Group is assessing ECLs on an individual basis. The assessment is therefore based on the knowledge about each individual borrower and often on estimation of the fair value of the related collateral.

Accordingly, the most significant areas of estimation uncertainty and judgements associated with recognition of impairment allowances for loans and provisions for off-balance sheet items are:

- Assumptions used in the expected credit loss models to assess the credit risk related to the exposure, the

- Reperforming and inspecting model code for the calculation of certain components of the ECL model (including the staging criteria);

- Evaluating whether the changes were appropriate by assessing the updated model methodology;

- Assessing the reasonableness of the model predictions by comparing them against actual results and evaluating the resulting differences.

For loans assessed on an individual basis:

- Selecting a sample of individual exposures, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics like restructurings caused by COVID 19 circumstances, as well as lower value items which we independently assessed as high-risk;

- For non-credit impaired exposures, for which the credit risk has not significantly increased since the initial recognition ("stage 1") and non-credit impaired exposures, for which the credit risk has significantly increased since the initial recognition ("stage 2"), within the sample selected, critically assessing the existence of any evidence of credit-impairment as at 31 December 2020, by reference to the underlying documentation and through discussion with the Management Board and taking into consideration business operations of the respective customers as well as market conditions and historical repayment pattern;

- For stage 3 (credit impaired) exposures in our sample, challenging key assumptions applied in the Bank's and the Group's estimates of future cash flows such as collateral values and realization period, and performing respective independent recalculations, where relevant. We sought the Management Board's and credit risk personnel's explanations for any material discrepancies identified as a result of the above procedures.

For loans where impairment allowances and off-balance sheet provisions are based on modelled expected credit losses:

- testing the underlying impairment models, assessed as significant, including model approval processes, including the calculation of main risk parameters (probability of default (PD), loss given default (LGD) and exposure at default (EAD)) and macroeconomic factors;

- obtaining the relevant forward looking information and macroeconomic forecasts used in the Bank's and the Group's ECL assessment. Independently assessing the expected future cash flows of the customer, probability of a default and potential loss level in case of the default.

- Timely identification of exposures with significant increase in credit risk and credit impaired exposures.
- Valuation of collateral and assumptions of future cash flows on individually assessed credit-impaired exposures.
- Application of unbiased forward-looking information reflecting a range of future economic conditions where determining the economic scenarios to be used and the probability weightings applied to them requires significant management judgment.
- Qualitative adjustments to the model-driven ECL results to address impairment model limitations as well as risks not captured by models. These adjustments are inherently uncertain and significant management judgment is involved in estimating these amounts.

information by means of corroborating inquiries of the Management Board and through inspection of publicly available information;

- challenging LGD and PD parameters, by performing back-testing of historical default and by reference to historical realized losses on defaults;
- for a sample of exposures, assessing the appropriateness of the staging;
- for a sample of exposures tested collectively, assessing the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models;
- For post model adjustment, considering the size and complexity of management COVID-19 related overlay, in order to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of the data used back to source data.

In order to assess loss allowances in totality:

- critically assessing the reasonableness of the ECL allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage;
- evaluating the accuracy and completeness of the financial statements disclosures relating to IFRS 9.

Reporting on Other Information

The Bank's and Group's management is responsible for the other information. The other information comprises:

- Key figures and events of the Group as set out on page 2 of the accompanying Annual Report ("Annual Report"),
- the Management Report, as set out on pages 4 to 14 of the Annual Report,
- the Statement of the Management's Responsibility, as set out on page 15 of the Annual Report,
- The Other regulatory disclosures, as set out on pages 83 to 87,
- the Statement of Corporate Governance, as set out in a separate statement prepared by management available on Bank's website www.citadele.lv,
- Sustainability Report, as set out in a separate statement prepared by the Management Board, available on Bank's website www.citadele.lv

Our opinion on the separate and consolidated financial statements does not cover the other information included in the separate and consolidated Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information* section of our report.

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

If, based on the work we have performed and in light of the knowledge and understanding of the Bank, Group and their environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia – regulation No. 46 'Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies' ("Regulation No. 46").

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

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and

- the Management Report has been prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia – regulation No. 46 'Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies' ("Regulation No. 46").

In accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.2 third paragraph of the 'Financial Instruments Market Law' of the Republic of Latvia.

In our opinion, the Statement of Corporate Governance includes the information required in section 56.2 third paragraph of the 'Financial Instruments Market Law' of the Republic of Latvia.

Furthermore, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Sustainability Report, our responsibility is to report whether the Bank and Group have prepared the Sustainability Report and whether the Sustainability Report is included in the Management Report, prepared as a separate element of the Annual Report or included in the consolidated non-financial statement of the Group.

We report that the Bank's and Group's Sustainability Report has been prepared and is available on the Bank's website, www.citadele.lv.

Responsibilities of Management and Those Charged with Governance for the Separate and Consolidated Financial Statements

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

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and 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 and 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 Group's financial reporting process.

Auditors' Responsibility for the Audit of the Separate and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 separate and consolidated 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 separate and consolidated 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 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 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 auditors' report to the related disclosures in the separate and consolidated 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 auditors' report. However, future events or conditions may cause the Bank and Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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

Other Reporting Responsibilities and Confirmations Required by the Legislation of the Republic of Latvia and the European Union when Providing Audit Services to Public Interest Entities

We were appointed by the annual shareholders' meeting on 23 April 2020 to audit the separate and consolidated financial statements of AS "Citadele banka" for the year ended 31 December 2020. Our total uninterrupted period of engagement is 8 years, covering the periods ending 31 December 2013 to 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank and Group;
- as referred to in the paragraph 37.6 of the 'Law on Audit Services' of the Republic of Latvia we have not provided to the Bank and Group the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity and group in conducting the audit.

For the period to which our statutory audit relates, we have not provided any services to the Bank and Group in addition to the audit, which have not been disclosed in the separate and consolidated financial statements of the Bank and the Group.

The responsible certified auditor on the audit resulting in this independent auditors' report is Rainers Vilāns.

KPMG Baltics AS
Licence No. 55

Anders Bäckström
Partner
KPMG Baltics AS authorised representative
Riga, Latvia

Rainers Vilāns
Latvian Sworn Auditor
Certificate No. 200

The Auditor's report is signed with a secure electronic signature, which contains a timestamp, the date of signing the Auditors' report is the date of the last attached secure electronic signature timestamp

OTHER REGULATORY DISCLOSURES

Besides financial, corporate governance and other disclosures included in this interim report of AS Citadele banka the Financial and Capital Market Commission's regulation No. 231 "Regulation on Preparation of Public Quarterly Reports of Credit institutions" requires several additional disclosures which are presented in this note.

Income Statement, regulatory format

	EUR thousands	2020 Group	2019 Group	2020 Bank	2019 Bank
1.	Interest income	90,124	100,555	81,144	91,126
2.	Interest expense	(22,584)	(15,914)	(22,484)	(16,013)
3.	Dividend income	42	43	42	3,349
4.	Commission and fee income	51,761	56,388	43,445	47,406
5.	Commission and fee expense	(21,580)	(25,467)	(20,745)	(24,836)
6.	Gain or loss on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	1,334	1,313	1,234	618
7.	Gain or loss on financial assets and liabilities measured at fair value through profit or loss, net	(25,033)	503	(25,572)	-
8.	Fair value change in the hedge accounting	-	-	-	-
9.	Gain or loss from foreign exchange trading and revaluation of open positions	6,076	6,719	6,587	6,588
10.	Gain or loss on derecognition of non-financial assets, net	-	-	-	-
11.	Other income	19,154	2,298	3,629	3,163
12.	Other expense	(4,061)	(2,169)	(3,108)	(1,801)
13.	Administrative expense	(71,945)	(75,101)	(61,681)	(64,738)
14.	Amortisation and depreciation charge	(8,044)	(7,690)	(7,688)	(7,271)
15.	Gain or loss on modifications in financial asset contractual cash flows	160	(339)	160	(339)
16.	Provisions, net	1,937	(1,393)	1,973	(1,352)
17.	Impairment charge and reversals, net	(12,394)	(2,317)	(547)	3,395
18.	Negative goodwill recognised in profit or loss	-	-	-	-
19.	Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	(726)	-	(726)	-
20.	Profit or loss from non-current assets and disposal groups classified as held for sale	(307)	404	(307)	(71)
21.	**Profit before taxation**	**3,914**	**37,833**	**(4,644)**	**39,224**
22.	Corporate income tax	(306)	(1,329)	(117)	(248)
23.	**Net profit / loss for the period**	**3,608**	**36,504**	**(4,761)**	**38,976**
24.	**Other comprehensive income for the period**	**(765)**	**6,514**	**(697)**	**4,058**

Balance Sheet, regulatory format

	EUR thousands	31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
1.	Cash and demand balances with central banks	1,146,606	707,914	1,131,008	691,455
2.	Demand deposits due from credit institutions	31,018	92,781	20,020	68,306
3.	Financial assets designated at fair value through profit or loss	49,314	34,497	19,805	960
3.1.	*Including loans to public and credit institutions*	-	-	-	-
4.	Financial assets at fair value through other comprehensive income	377,240	409,588	224,976	237,719
5.	Financial assets at amortised cost	2,944,709	2,406,930	2,877,548	2,363,092
5.1.	*Including loans to public and credit institutions*	*1,561,492*	*1,561,492*	*1,561,492*	*1,616,970*
6.	Derivatives – hedge accounting	-	-	-	-
7.	Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
8.	Investments in subsidiaries, joint ventures and associates	274	-	46,756	34,161
9.	Tangible assets	12,930	49,989	14,143	18,231
10.	Intangible assets	5,981	4,698	5,832	4,571
11.	Tax assets	3,272	3,136	3,057	2,886
12.	Other assets	25,028	30,373	16,355	23,200
13.	Non-current assets and disposal groups classified as held for sale	946	2,862	946	2,862
14.	**Total assets (1.+....+13.)**	**4,597,318**	**3,742,768**	**4,360,446**	**3,447,443**
15.	Due to central banks	438,838	6	438,838	6
16.	Demand liabilities to credit institutions	1,069	1,631	2,824	5,385
17.	Financial liabilities designated at fair value through profit or loss	40,471	38,428	4,461	528
17.1	*Including deposits from customers*	*36,010*	*37,900*	-	-
18.	Financial liabilities measured at amortised cost	3,705,544	3,311,678	3,567,473	3,084,570
18.1	*Including deposits from customers*	*3,645,464*	*3,251,634*	*3,507,393*	*3,024,526*
19.	Derivatives – hedge accounting	-	-	-	-
20.	Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
21.	Provisions	2,211	4,150	2,133	4,108
22.	Tax liabilities	677	1,257	115	-
23.	Other liabilities	64,198	44,893	27,003	30,532
24.	Liabilities included in disposal groups classified as held for sale	-	-	-	-
25.	**Total liabilities (15.+...+24.)**	**4,253,008**	**3,402,043**	**4,042,847**	**3,125,129**
26.	Shareholders' equity	344,310	340,725	317,599	322,314
27.	**Total liabilities and shareholders' equity (25.+26.)**	**4,597,318**	**3,742,768**	**4,360,446**	**3,447,443**

28.	**Memorandum items**	**284,953**	**353,059**	**299,335**	**433,035**
29.	Contingent liabilities	23,903	22,809	23,246	22,107
30.	Financial commitments	261,050	330,250	276,089	410,928

ROE and ROA ratios

	2020 Group	2019 Group	2020 Bank	2019 Bank
Return on equity (ROE) (%)	1.05%	11.45%	(1.49%)	13.21%
Return on assets (ROA) (%)	0.09%	1.07%	(0.12%)	1.35%

Average value is calculated as the arithmetic mean of the balance sheet assets or residual capital and reserves at the beginning of the reporting period and at the end of the reporting period.

Capital adequacy ratio

EUR thousands		31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
1	**Own funds (1.1.+1.2.)**	**401,013**	**395,592**	**376,689**	**379,515**
1.1	Tier 1 capital (1.1.1.+1.1.2.)	341,013	335,592	316,689	319,515
1.1.1	*Common equity Tier 1 capital*	*341,013*	*335,592*	*316,689*	*319,515*
1.1.2	*Additional Tier 1 capital*	-	-	-	-
1.2	Tier 2 capital	60,000	60,000	60,000	60,000
2	**Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)**	**1,542,620**	**1,782,474**	**1,456,458**	**1,667,086**
2.1	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	1,340,639	1,555,638	1,303,818	1,490,030
2.2	Total risk exposure amount for settlement/delivery	-	-	-	-
2.3	Total risk exposure amount for position, foreign exchange and commodities risks	13,690	16,643	4,747	5,213
2.4	Total risk exposure amount for operational risk	187,358	209,649	146,960	171,299
2.5	Total risk exposure amount for credit valuation adjustment	933	544	933	544
2.6	Total risk exposure amount related to large exposures in the trading book	-	-	-	-
2.7	Other risk exposure amounts	-	-	-	-
3	**Capital adequacy ratios**				
3.1	Common equity Tier 1 capital ratio (1.1.1./2.*100)	**22.1%**	**18.8%**	**21.7%**	**19.2%**
3.2	Surplus (+)/ deficit (-) of Common equity Tier 1 capital (1.1.1.-2.*4.5%)	271,595	255,381	251,148	244,496
3.3	Tier 1 capital ratio (1.1./2.*100)	**22.1%**	**18.8%**	**21.7%**	**19.2%**
3.4	Surplus (+)/ Deficit (-) of Tier 1 capital (1.1.-2.*6%)	248,456	228,644	229,302	219,489
3.5	Total capital ratio (1./2.*100)	**26.0%**	**22.2%**	**25.9%**	**22.8%**
3.6	Surplus (+)/ Deficit (-) of total capital (1.-2.*8%)	277,604	252,994	260,172	246,148
4	**Combined buffer requirements (4.1.+4.2.+4.3.+4.4.+4.5.)**	61,705	75,609	58,258	75,152
4.1	Capital conservation buffer	38,566	44,562	36,411	41,677
4.2	Conservation buffer for macroprudential or systemic risk at member state's level	-	-	-	-
4.3	Institution specific countercyclical buffer	-	4,310	-	8,468
4.4	Systemic risk buffer	-	-	-	-
4.5	Other systemically important institution buffer	23,139	26,737	21,847	25,007
5	**Capital adequacy ratios, including adjustments**				
5.1	Impairment or asset value adjustments for capital adequacy ratio purposes	-	-	-	-
5.2	Common equity tier 1 capital ratio including line 5.1 adjustments	22.1%	18.8%	21.7%	19.2%
5.3	Tier 1 capital ratio including line 5.1 adjustments	22.1%	18.8%	21.7%	19.2%
5.4	Total capital ratio including line 5.1 adjustments	26.0%	22.2%	25.9%	22.8%

Capital adequacy ratios here are calculated in accordance with the Basel III regulation as implemented via EU regulation 575/2013, directive 2013/36/EU and relevant FCMC regulations. In the disclosure above, in the Group's and the Bank's Tier 1 capital audited profits (but not un-audited profits) and both audited and un-audited loss for the reporting period are included.

EUR thousands		31/12/2020 Group	31/12/2019 Group	31/12/2020 Bank	31/12/2019 Bank
1.A	**Own funds, IFRS 9 transitional provisions not applied**	**396,917**	**390,618**	**372,412**	**374,321**
1.1.A	Tier 1 capital, IFRS 9 transitional provisions not applied	336,917	330,618	312,412	314,321
1.1.1.A	*Common equity Tier 1 capital, IFRS 9 transitional provisions not applied*	*336,917*	*330,618*	*312,412*	*314,321*
2.A	**Total risk exposure amount, IFRS 9 transitional provisions not applied**	**1,539,013**	**1,778,058**	**1,452,523**	**1,662,406**
3.1.A	Common equity Tier 1 capital ratio, IFRS 9 transitional provisions not applied	21.9%	18.6%	21.5%	18.9%
3.3.A	Tier 1 capital ratio, IFRS 9 transitional provisions not applied	21.9%	18.6%	21.5%	18.9%
3.5.A	Total capital ratio, IFRS 9 transitional provisions not applied	25.8%	22.0%	25.6%	22.5%

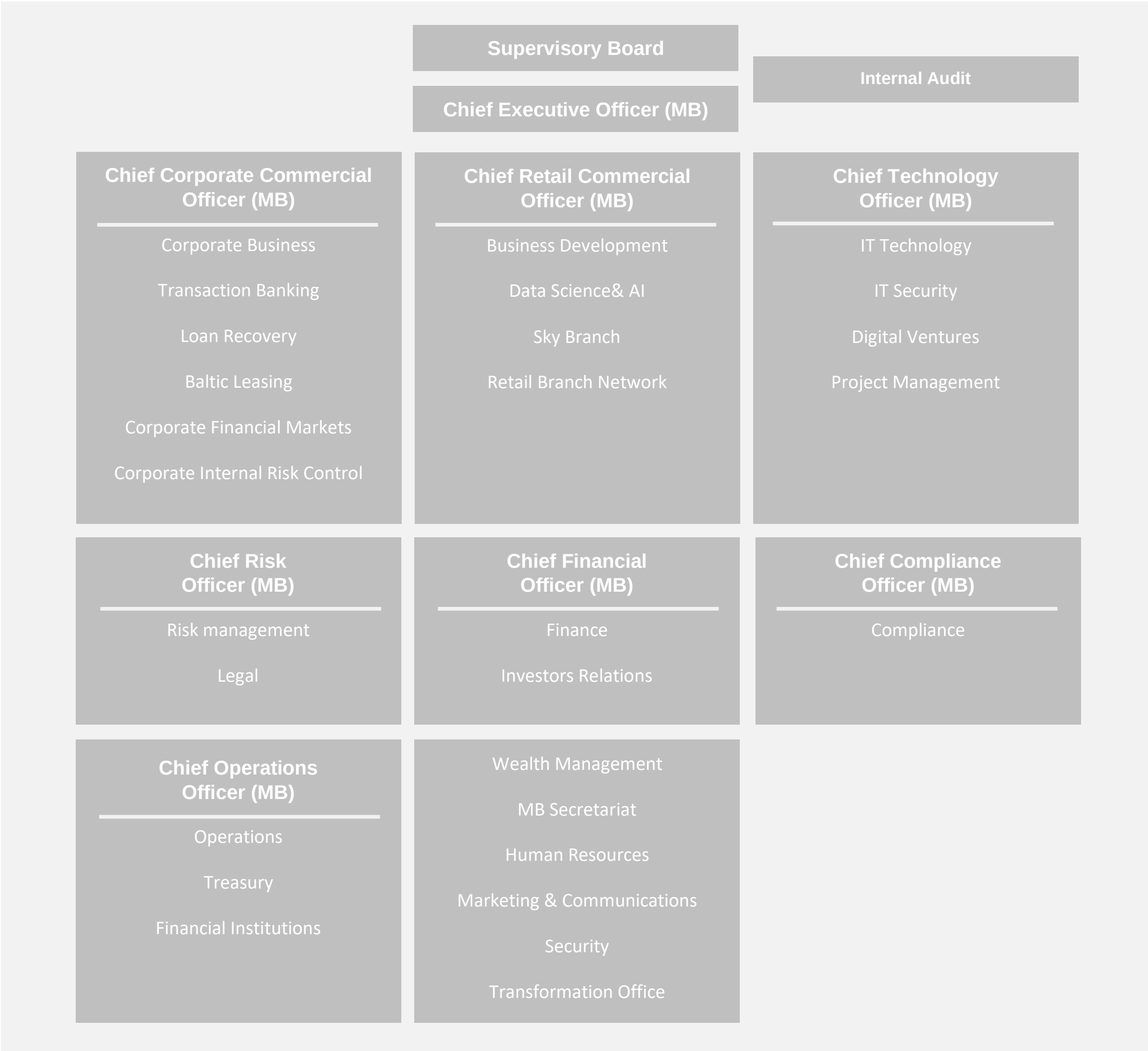
Business Strategy and Objectives

Information about Citadele's strategy and objectives is available in "Values and strategy" section of the Bank's web page.

Branches

AS Citadele banka has 20 branches and client service centres in Latvia, 1 branch in Estonia and 1 branch in Lithuania as of the period end. AS Citadele banka has 2 client consultation centres in Latvia. The Lithuanian branch has 5 customer service units in Lithuania. Information about branches, client service centres and ATMs of Citadele is available in the Citadele web page's section "Branches and ATMs".

Bank's Organizational Structure



QUARTERLY STATEMENTS OF INCOME AND BALANCE SHEETS OF THE GROUP

	Group, EUR thousands				
	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Interest income	21,892	22,090	22,472	23,670	25,210
Interest expense	(5,152)	(5,174)	(6,752)	(5,506)	(4,399)
Net interest income	**16,740**	**16,916**	**15,720**	**18,164**	**20,811**
Fee and commission income	13,529	13,624	11,711	12,897	14,580
Fee and commission expense	(5,851)	(5,158)	(5,039)	(5,532)	(6,651)
Net fee and commission income	**7,678**	**8,466**	**6,672**	**7,365**	**7,929**
Net financial income	5,301	(1,776)	(23,089)	2,101	2,373
Net other income / (expense)	15,336	396	(1,140)	(183)	419
Operating income	**45,055**	**24,002**	**(1,837)**	**27,447**	**31,532**
Staff costs	(13,009)	(11,876)	(13,073)	(12,930)	(13,168)
Other operating expenses	(5,333)	(5,230)	(5,975)	(4,519)	(6,246)
Depreciation and amortisation	(2,021)	(2,075)	(1,969)	(1,979)	(1,933)
Operating expense	**(20,363)**	**(19,181)**	**(21,017)**	**(19,428)**	**(21,347)**
Profit before impairment	**24,692**	**4,821**	**(22,854)**	**8,019**	**10,185**
Net credit losses	300	3,493	2,268	(15,412)	414
Other impairment losses	(448)	224	(871)	(11)	(1,415)
Operating profit before non-current assets held for sale	**24,544**	**8,538**	**(21,457)**	**(7,404)**	**9,184**
Result from non-current assets held for sale	(243)	17	(32)	(49)	754
Operating profit	**24,301**	**8,555**	**(21,489)**	**(7,453)**	**9,938**
Income tax	(194)	(29)	(7)	(76)	(662)
Net profit	**24,107**	**8,526**	**(21,496)**	**(7,529)**	**9,276**

	Group, EUR thousands (Reclassified)				
	31/12/2020	30/09/2020	30/06/2020	31/03/2020	31/12/2019
Assets					
Cash and cash balances at central banks	1,146,606	718,574	1,329,458	1,115,795	707,914
Loans to credit institutions	51,287	173,293	203,784	154,831	121,395
Debt securities	1,760,190	1,884,985	1,375,249	998,343	1,208,479
Loans to public	1,541,223	1,527,234	1,486,111	1,541,354	1,567,898
Equity instruments	4,764	5,646	5,103	4,705	5,092
Other financial instruments	43,343	42,996	42,976	33,260	39,972
Derivatives	1,474	2,508	6,025	2,368	960
Investments in related entities	274	-	-	-	-
Tangible assets	12,930	47,480	45,799	47,174	49,989
Intangible assets	5,981	5,450	5,112	4,777	4,698
Tax assets	3,272	3,297	3,346	3,739	3,136
Non-current assets held for sale	946	1,145	4,800	4,800	2,862
Other assets	25,028	23,780	25,169	20,016	30,373
Total assets	**4,597,318**	**4,436,388**	**4,532,932**	**3,931,162**	**3,742,768**
Liabilities					
Deposits from credit institutions and central banks	449,991	454,076	455,138	4,299	1,637
Deposits and borrowings from customers	3,671,390	3,541,995	3,651,661	3,485,077	3,289,534
Debt securities issued	60,080	60,965	60,053	60,949	60,044
Derivatives	4,461	1,664	1,861	1,116	528
Provisions	2,211	2,792	5,672	5,315	4,150
Tax liabilities	677	614	546	779	1,257
Other liabilities	64,198	52,901	46,229	44,414	44,893
Total liabilities	**4,253,008**	**4,115,007**	**4,221,160**	**3,601,949**	**3,402,043**
Equity					
Share capital	156,556	156,556	156,556	156,556	156,556
Reserves and other capital components	10,265	9,724	11,347	7,293	11,455
Retained earnings	177,489	155,101	143,869	165,364	172,714
Total equity	**344,310**	**321,381**	**311,772**	**329,213**	**340,725**
Total liabilities and equity	**4,597,318**	**4,436,388**	**4,532,932**	**3,931,162**	**3,742,768**
Off-balance sheet items					
Guarantees and letters of credit	23,903	19,131	20,286	21,699	22,809
Financial commitments	261,050	223,820	236,938	317,567	330,250

DEFINITIONS AND ABBREVIATIONS

ALCO – Assets and Liabilities Management Committee.

AML – anti-money laundering.

BRRD – the bank recovery and resolution directive.

CIR – cost to income ratio. "Operating expense" divided by “Operating income”.

COR – cost of risk ratio. “Net credit losses” divided by the average of gross loans at the beginning and the end of the period.

CTF – combating terrorist financing.

ECB - European Central Bank.

EU – the European Union.

FCMC – Financial and Capital Markets Commission.

FMCRC – Financial Market and Counterparty Risk Committee.

GIC – Group’s Investment Committee.

IAS – International accounting standards.

ICAAP – internal capital adequacy assessment process.

IFRS – International financial reporting standards.

LCR – liquidity coverage ratio.

Loan-to-deposit ratio. Carrying value of “Loans to public” divided by “Deposits and borrowings from customers” at the end of the relevant period.

ML/TF – money laundering and terrorism financing.

MREL – minimum requirement for own funds and eligible liabilities.

NSFR – net stable funding ratio.

OFAC – Office of Foreign Assets Control of the US Department of the Treasury.

O-SII – other systemically important institution.

ROA – return on average assets. Annualised net profit for the relevant period divided by the average of opening and closing balances for the period.

ROE – return on average equity. Annualised net profit for the relevant period divided by the average of opening and closing total equity for the period.

RTS – regulatory technical standards.

SRB – the Single Resolution Board.

SREP – supervisory review and evaluation process.

Stage 1 financial instruments – exposures without significant increase in credit risk since initial recognition.

Stage 2 financial instruments – exposures with significant increase in credit risk since initial recognition but not credit-impaired.

Stage 3 financial instruments – Credit-impaired exposures.

Stage 3 impairment ratio – impairment allowance for stage 3 exposures divided by gross loans to public classified as stage 3.

Stage 3 loans to public ratio – stage 3 loans to public divided by total loans to public as of the end of the relevant period.

TLOF – total liabilities and own funds.

TLTRO – ECB's targeted longer-term refinancing operations

TSCR – SREP capital requirement.