SE Baltic International Bank

2020 Annual Report

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The Bank's (Group's) Management Report

Dear Clients and Cooperation partners!

In 2020 Baltic International Bank SE has proven its position as the stable local capital Bank and important member of the financial sector focusing on sustainable development and long-term work with local clients.

Year 2020 marked itself as significant for the development of the Bank – it continued to prove its role in the national economy of Latvia and serve as an aid to the national economy in frame of the global COVID-19 pandemics that has significantly impacted and will continue to impact the financial sector and economy in Latvia and globally.

Business model of our Bank anticipates provision of tailor-made services to private individuals and companies. In 2020 asset management, brokerage services related to safe custody services of financial instruments and securities for private individuals, lending and banking services for businesses continued to be the main areas of focus of the Bank.

Despite of the challenges the COVID-19 pandemics imposed on all areas of economics, year 2020 can be associated with important steps for the Bank: in summer 2020 Bank offered its clients completely new Internet Banking as well as in frame of the approved operational strategy resumed the lending services focusing on small and medium-sized enterprises.

In 2020 Bank has strengthened its management team – Doctor of Economics Edgars Voļskis has joined it. He will be in charge of the Bank's financial activities and related matters as well as development of business and information technologies. Dr. E. Voļskis is one of the most recognised experts in the field of the pension system in the country, before joining the management team of the Bank Edgars Voļskis devoted his professional career to auditor companies both in Latvia and abroad for 20 year's.

Financial results

At the end of 2020 Bank reached its highest capital adequacy ratio within three years, achieving total capital ratio in the amount of 16.43% (at the end of 2019: 14.84%). First level capital ratio (Tier 1 capital ratio) was 14.62% (at the end of 2019: 9.84%).

At the end of 2020 the capital adequacy and liquidity ratio of the Bank surpassed the norms determined by the Financial and Capital Market Commission.

Bank maintained strong commission fee generating capacity, reaching gross commission income in the amount of EUR 2.37 million (in 2019: EUR 4.27 million). Bank's total operating revenues decreased by 18%, comprising EUR 11.57 million (in 2019: EUR 14.14 million). Total operating revenues decreased by EUR 2.57 million.

Investment in public bonds comprised EUR 22.86 million (EUR 18.06 million) or 10.54% (7.97%) from the total assets. Structure of liquid assets were well-diversified: 23.44 million represented by bonds, 4.76 million claims on credit institutions, 84.97 million claims on the Bank of Latvia, 5.00 million cash and 6.42 million stocks.

Liquidity Coverage Ratio (LCR) was 148%.

As of 31 December 2020, financial results of the Bank (data about the Group indicated in brackets) are as follows:
Assets: EUR 216.84 million (EUR 218.66 million);
Total capital ratio: 16.43% (14.92%);
Liquidity coverage ratio: 148%;
Losses: EUR 1.17 million (EUR 3.09 million).

Crediting and financing of the Latvian businesses remains the corner stone of the Bank's business strategy for 2020-2022, therefore Bank is satisfied that in the Q2 returning to the crediting segment, it provided loans for the total amount of more than EUR 18 million. Bank considers that during the rebuilding of economic stability after pandemics, local capital banks will play a significant role and operational model of these Banks allows understanding needs of local entrepreneurs and providing necessary support mechanisms to businesses. As of 31 December 2020, Bank issued loans in the total amount of more than EUR 18 million.

Bank has managed to significantly increase the interest of local entrepreneurs in its products and services, as well as confidently continued to increase the number of local clients. In 2020 Latvian private individuals or legal entities comprise more than half of the active clients – 56 % (in 2019 – 50 %) from all active clients included in the Bank's portfolio.

The capital adequacy ratio achieved by the Bank, compliance with laws and regulations, as well as the obtained structure of the client portfolio allows the management to further develop the Bank in 2021, continuing to grant loans to local private individuals and companies.

In 2021 management and shareholders of the Bank will focus on strengthening the capital base of the Bank, promoting further growth as well as continuing to offer high level of services to its clients.

Transparency and compliance

Bank is a company deeply integrated in the financial processes and strictly adhering to all requirements of laws and regulations and best practice standards. In 2020 Bank invested resources in rising of the professional qualification of employees and boosting of expertise in the financial crime combating area in line with the international standards. Bank has strengthened its local controls in the area of prevention of money laundering and terrorism and proliferation financing. New procedure is introduced – quality control allowing the Bank to make decisions more efficiently and implement their control at the same time promoting compliance of all its operations.

Bank has introduced a range of new regulatory requirements and adjusted its operations demonstrating its readiness to improve and develop.

Digital transformation

In 2020 Bank successfully completed one phase of work on its digital tools and channels, as a result new Internet Banking of the Bank is launched. Landing page of the Internet Banking comprises information about the payment accounts and products with the ability to adjust Internet Banking to the individual requirements of each client. New Internet Banking will allow signing payments and approving applications on several levels, offering fast payment function, selecting it from the list of recipients. Also the smart payment form is developed – it adjusts to the information entered by the client. Payment import and payment statement report has been introduced for the fast and convenient processing of several payments; search function is added, as well as option to approve several payments at once. New improvements will allow simple and convenient preparation of financial statements and making of transactions, as well as improved security solutions.

Throughout 2020 Bank continued to invest in the upgrading and development of the information technology infrastructure and local control system, as well as improvement and development of the expertise of employees. Bank introduced several improvements in the IT system and begun to offer new Internet Banking to its clients in spring 2020.

In 2020 Baltic International Bank has been recognized as the best digital bank in Latvia in the competition "Worlds Best Digital Bank Awards 2020" organised by the publication "Global Finance".

Sustainability

For the second consecutive year, the Bank was awarded the highest scoring category – Platinum Category – on the annual Sustainability Index, confirming the compliance of the company's activities with the principles of sustainability. The Platinum Category is awarded to companies that have fully integrated corporate governance into their operations and in which responsible persons have been appointed at both the managerial and executive levels. These companies organise systematic gathering of data and evaluation of their impact, as well as they provide reports about their operations by attracting high level transparency and impactful audience, and external auditor has approved their public data. Sustainability Index is the tool of strategic managements based on the internationally recognized methodology, helping the companies to assess sustainability and corporate responsibility of their operations in five areas – strategy, market relations, work environment, environment and society.

In 2020, for the second consecutive year, Bank issued its ESG (Environmental. Social. Governance) report. In its operations Baltic International Bank has introduced UN sustainable development goals (SDGs), thus joining the UN Environment Program Finance Initiative. Bank is focused on seven out of 17 UN sustainable development goals: Good Health and Well-being, No Poverty, Affordable and Clean Energy, Decent Work and Economic Growth, Industry, Innovations and Infrastructure, Responsible Consumption and Production, and Climate Action.

Involvement/management of third parties

In 2020 Bank conversed from a Joint Stock Company into the European Company (Societas Europaea) with a view to reinforcing the international dimension of the Company and promoting its international recognition in the European Union among existing and potential clients of the Company as well as among other international providers of banking and financial services.

At the onset of the global pandemics and being aware of the challenges it imposes on the clients of financial sector, Bank joined the moratorium developed by the Finance Latvia Association that provided opportunity for the clients of banks affected by short-term financial difficulties due to COVID-19 to postpone payments of the loan principal amount up to 12 months but principal amount of leasing and consumer loan up to six months. Bank has joined also the moratorium developed by FNA for legal entities. Banka actively continued to work in several work groups and commissions of the Finance Latvia Association.

In 2020 Bank joined the start-up association "Startin.lv", recognizing both their role in the general development of the national economy and the importance of providing support to this sector and in light of potential joint operations perspective. In 2020 Bank became the member of the Swedish Chamber of Commerce in Latvia, as well as joined the German-Baltic Chamber of Commerce.

Bank traditionally supported the ceremony of presenting the Annual Latvian Literary Award (LALIGABA) and also continued work within the project Bibliotēka (Library) aimed at promoting reading.

Annual Latvian Literary Award is the prime event in the area of literature in Latvia, providing professional evaluation of literary works and acknowledging authors for their most outstanding works published in the Latvian literature within a year.

For many years Bank has supported development of outstanding cultural and art values and in 2020 in frame of the reading promotion project Bank "Library" a unique heraldic edition "Family Coats of Arms in Modern Latvia" was published with the support of the Bank and devoted to the family coats of arms registered in Latvia.

Statement on Corporate Governance published on Bank's website www.bib.eu.

31 March 2021

Valeri Belokon
Chairperson of the Supervisory Council

Viktor Bolbat
Chairperson of the Board

Supervisory Council and Management Board

Supervisory Council (as of 31 December 2020)

Name	Position held	Appointed	Re-appointed
Valeri Belokon	Chairperson of the Supervisory Council	15/09/2010	31/08/2020
Ilona Gulchak	Deputy Chairperson of the Supervisory Council	26/01/2018	31/08/2020
Dr. Hans-Friedrich von Ploetz	Member of the Supervisory Council	30/03/2016	31/08/2020
Joseph Cofer Black	Member of the Supervisory Council	01/11/2016	31/08/2020

Management Board (as of 31 December 2020)

Name	Position held	Appointed	Re-appointed
Viktor Bolbat	Chairperson of the Board	23/04/2018	31/08/2020
Bogdan Andrushchenko	Member of the Board	04/03/2016	31/08/2020
Anda Saukane	Member of the Board	22/06/2017	31/08/2020
Edgars Volskis	Member of the Board	03/08/2020	31/08/2020

In the year ended 31 December 2020, no changes have been made in the SE “Baltic International Bank” Supervisory Council membership.

During the year ended 31 December 2020 the following changes were made in the composition of SE “Baltic International Bank” Management Board:

According to the Council’s resolution of 27 May 2020, Edgars Volskis was elected as a member of the Board.

There were no changes in the Supervisory Council or the Management Board of the Bank during the period from 1 January 2021 to the date of the approval of these financial statements.

Statement of Management's Responsibility

Riga 31 March 2021

The management of SE Baltic International Bank (the Bank) is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the separate financial statements of the Bank. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Financial Statements on pages 8 to 100 are prepared in accordance with the source documents and fairly present the financial position of the Group and Bank as at 31 December 2020 and the results of their performance and cash flows for the year ended 31 December 2020.

The Management of the Bank is responsible for the maintenance of proper accounting records, safeguarding of the Group's and Bank's assets and prevention and detection of fraud and other irregularities in the Group and Bank. The Management is also responsible for operating the Group and 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 to the credit institutions.

On behalf of the Management of the Bank and Group:

Valeri Belokon
Chairperson of the Supervisory Council

Viktor Bolbat
Chairperson of the Board

Separate and consolidated Financial Statements

GROUP'S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF TOTAL COMPREHENSIVE INCOME

for the year ended 31 December 2020

	Notes	Group 2020 EUR	Bank 2020 EUR	Group 2019 EUR	Bank 2019 EUR
Interest income	6	2 377 535	2 372 688	4 263 998	4 267 634
Interest expense	7	(1 416 668)	(1 406 491)	(2 077 208)	(2 077 358)
Net interest income		**960 867**	**966 197**	**2 186 790**	**2 190 276**
Fee and commission income	8	8 810 515	8 811 099	9 942 200	9 942 625
Fee and commission expense	9	(1 536 994)	(1 533 478)	(1 301 957)	(1 301 920)
Net fee and commission income		**7 273 521**	**7 277 621**	**8 640 243**	**8 640 705**
Dividend income		65	65	16 949	16 949
Net gain/(loss) on financial instruments	10	(86 172)	1 421 757	356 118	356 118
Net foreign exchange income	10	2 929 077	2 929 077	2 143 879	2 143 896
Other operating income	11	2 045 889	795 675	805 647	793 795
Other operating expenses	13	(536 331)	(391 674)	-	-
Net operating income		**12 586 916**	**12 998 718**	**14 149 626**	**14 141 739**
Administrative expenses	12	(15 327 077)	(15 241 879)	(14 985 784)	(14 755 314)
Net impairment gain/ (loss)	14	(889 939)	470 916	(2 431 479)	(2 528 307)
Gain/(loss) on revaluation of investment property	23	566 098	630 005	(153 005)	-
Loss before income tax		**(3 064 002)**	**(1 142 240)**	**(3 420 642)**	**(3 141 882)**
Income tax expense		(30 959)	(30 859)	(19 615)	(19 515)
Loss for the year		**(3 094 961)**	**(1 173 099)**	**(3 440 257)**	**(3 161 397)**
Attributable to:					
Equity holders of the parent		(3 104 427)		-	
Non - controlling interest		9 466		-	
Other comprehensive income					
Items that not reclassified to profit or loss					
Property revaluation reserve gain		3 034 103	3 034 103	-	-
Gain on equity instruments at fair value through other comprehensive income		1 575	1 575	-	-
Items that will be reclassified to profit or loss					
Gain on debt instruments at fair value through other comprehensive income		(25 692)	(25 692)	70 698	70 698
Changes in allowance for expected credit losses of debt instruments at fair value through other comprehensive income		569	569	-	-
Total comprehensive (loss)/income for the year		**(84 406)**	**1 837 456**	**(3 369 559)**	**(3 090 699)**
Attributable to:					
Equity holders of the parent		(93 872)		-	
Non - controlling interest		9 466		-	

The accompanying notes on pages 16 to 100 are an integral part of these Financial Statements.

Supervisory Council and Management Board have authorised to issue both Bank's and Group's Financial Statements on pages 8 to 100 on 31 March 2021, and on behalf of Supervisory Council and Management Board those were duly signed on 31 March 2021 by:

Valeri Belokon
Chairperson of the Supervisory Council

Viktor Bolbat
Chairperson of the Board

Separate and consolidated Financial Statements

GROUP'S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	Group 31.12.2020 EUR	Bank 31.12.2020 EUR	Group 31.12.2019 EUR	Bank 31.12.2019 EUR
Cash and due on demand from central banks	15	89 974 302	89 974 302	98 684 686	98 684 686
Due on demand from credit institutions	16	3 998 541	3 996 129	10 276 098	10 275 099
Financial assets at fair value through profit or loss	17	9 686 464	9 686 464	6 850 433	6 850 433
Equity instruments		*6 388 594*	*6 388 594*	*6 004 171*	*6 004 171*
Debt instruments		*3 259 263*	*3 259 263*	*841 150*	*841 150*
Derivative financial instruments		*38 607*	*38 607*	*5 112*	*5 112*
Financial assets at fair value through other comprehensive income	18	2 659 566	2 659 566	3 551 228	3 551 228
Equity instruments		*28 525*	*28 525*	*26 950*	*26 950*
Debt instruments		*2 631 041*	*2 631 041*	*3 524 278*	*3 524 278*
Financial assets at amortised cost		53 289 331	54 794 337	64 651 890	65 483 884
Due from credit institutions	*19*	*766 129*	*766 129*	*434 870*	*434 870*
Debt instruments	*20*	*17 551 879*	*17 551 879*	*30 412 349*	*30 412 349*
Loans	*20*	*34 971 323*	*36 476 329*	*33 804 671*	*34 636 665*
Investment in associates	21	-	-	858 410	858 410
Investments in subsidiaries	21	-	4 120 496	-	3 087 265
Non-current assets held for sale	22	2 674 100	2 326 424	1 772 625	1 425 662
Investment property	23	12 722 256	12 052 350	9 154 587	6 918 674
Property and equipment	24	24 153 136	21 190 966	16 988 983	16 988 983
Intangible assets	25	4 083 241	4 083 241	4 152 043	4 152 043
Deferred expenses and accrued income	26	2 231 588	2 230 638	2 129 336	2 128 077
Other assets	27	13 191 493	9 731 300	7 311 679	6 250 862
Total assets		**218 664 018**	**216 846 213**	**226 381 998**	**226 655 306**

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Separate and consolidated Financial Statements

GROUP'S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF FINANCIAL POSITION

LIABILITIES AND SHAREHOLDERS' EQUITY	**Notes**	**Group 31.12.2020 EUR**	**Bank 31.12.2020 EUR**	**Group 31.12.2019 EUR**	**Bank 31.12.2019 EUR**
Liabilities					
Derivative financial instruments	17	223 580	223 580	27 484	27 484
Due to credit institutions	28	4 613 846	4 613 846	19 149 473	19 149 473
Deposits	29	176 694 344	176 837 420	174 106 368	174 244 120
Accrued expenses, provisions and deferred income	30	2 671 778	2 653 241	2 499 471	2 531 796
Corporate income tax liabilities		13 582	13 582	5 813	5 813
Other liabilities	31	6 299 664	2 286 668	1 485 286	1 380 315
Subordinated liabilities	32	5 476 210	5 476 210	9 184 929	9 184 929
Total liabilities		**195 993 004**	**192 104 547**	**206 458 824**	**206 523 930**
Shareholders' equity					
Share capital	33	36 399 229	36 399 229	33 626 395	33 626 395
Reserve capital	33	835 152	835 152	835 152	835 152
Property revaluation reserve	24	3 118 398	3 118 398	84 295	84 295
Accumulated losses on financial instruments at fair value through other comprehensive income		(28 778)	(28 778)	(5 230)	(5 230)
Accumulated losses		(17 721 865)	(15 582 335)	(14 617 438)	(14 409 236)
Accumulated losses for the previous years		*(14 617 438)*	*(14 409 236)*	*(11 177 181)*	*(11 247 839)*
Loss for the year		*(3 104 427)*	*(1 173 099)*	*(3 440 257)*	*(3 161 397)*
Total Equity Attributable to Equity Holders of the Bank		**22 602 136**	**24 741 666**	**19 923 174**	**20 131 376**
Non - controlling interest		**68 878**	**-**	**-**	**-**
Total shareholders' equity		**22 671 014**	**24 741 666**	**19 923 174**	**20 131 376**
Total liabilities and shareholders' equity		**218 664 018**	**216 846 213**	**226 381 998**	**226 655 306**
Commitments and contingencies					
Sureties (guarantees)	34	1 302 955	1 302 955	750 469	750 469
Commitments to customers	34	5 672 124	5 701 182	2 495 540	2 584 659
Total commitments and contingencies		**6 975 079**	**7 004 137**	**3 246 009**	**3 335 128**

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Valeri Belokon
Chairperson of the Supervisory Council

Viktor Bolbat
Chairperson of the Board

Separate and consolidated Financial Statements
GROUP'S CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AND RESERVES
for the year ended 31 December 2020

	Notes	Share capital EUR	Reserve capital EUR	Property revaluation reserve EUR	Accumulated losses on financial instruments at fair value through other comprehensive income EUR	Retained earnings/ (accumulated losses) EUR	Total Equity Attributable to Equity Holders of the Bank EUR	Non - controlling interest EUR	TOTAL EUR
Balance as of 1 January 2019		**33 626 395**	**835 152**	**84 295**	**(75 928)**	**(11 177 181)**	**-**	**-**	**23 292 733**
Total comprehensive loss									
Loss for the year		-	-	-	-	(3 440 257)	(3 440 257)	-	(3 440 257)
Other comprehensive income		-	-	-	70 698	-	70 698	-	70 698
Total comprehensive loss		**-**	**-**	**-**	**70 698**	**(3 440 257)**	**(3 369 559)**	**-**	**(3 369 559)**
Balance as of 31 December 2019		**33 626 395**	**835 152**	**84 295**	**(5 230)**	**(14 617 438)**	**19 923 174**	**-**	**19 923 174**
Total comprehensive loss									
Loss for the year		-	-	-	-	(3 104 427)	(3 104 427)	9 466	(3 094 961)
Property revaluation		-	-	3 034 103	-	-	3 034 103	-	3 034 103
Other comprehensive loss		-	-	-	(23 548)	-	(23 548)	-	(23 548)
Total comprehensive loss		**-**	**-**	**3 034 103**	**(23 548)**	**(3 104 427)**	**(93 872)**	**9 466**	**(84 406)**
Transactions with owners, recorded directly in equity									
Acquisition of subsidiary		-	-	-	-	-	-	59 412	59 412
Increase in share capital	33	2 772 834	-	-	-	-	2 772 834	-	2 772 834
Total transactions with owners, recorded directly in equity		**2 772 834**	**-**	**-**	**-**	**-**	**2 772 834**	**59 412**	**2 832 246**
Balance as of 31 December 2020		**36 399 229**	**835 152**	**3 118 398**	**(28 778)**	**(17 721 865)**	**22 602 136**	**68 878**	**22 671 014**

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Chairperson of the Supervisory Council

Viktor Bolbat
Chairperson of the Board

Separate and consolidated Financial Statements
BANK'S SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AND RESERVES
for the year ended 31 December 2020

	Notes	Share capital EUR	Reserve capital EUR	Property revaluation reserve EUR	Accumulated losses on financial instruments at fair value through other comprehensive income EUR	Retained earnings/ (accumulated losses) EUR	TOTAL EUR
Balance as of 1 January 2019		**33 626 395**	**835 152**	**84 295**	**(75 928)**	**(11 247 839)**	**23 222 075**
Total comprehensive loss							
Loss for the year		-	-	-	-	(3 161 397)	(3 161 397)
Other comprehensive income		-	-	-	70 698	-	70 698
Total comprehensive loss		**-**	**-**	**-**	**70 698**	**(3 161 397)**	**(3 090 699)**
Balance as of 31 December 2019		**33 626 395**	**835 152**	**84 295**	**(5 230)**	**(14 409 236)**	**20 131 376**
Total comprehensive income							
Loss for the year		-	-	-	-	(1 173 099)	(1 173 099)
Property revaluation		-	-	3 034 103	-	-	3 034 103
Other comprehensive loss		-	-	-	(23 548)	-	(23 548)
Total comprehensive income		**-**	**-**	**3 034 103**	**(23 548)**	**(1 173 099)**	**1 837 456**
Transactions with owners, recorded directly in equity							
Increase in share capital	33	2 772 834	-	-	-	-	2 772 834
Total transactions with owners, recorded directly in equity		**2 772 834**	**-**	**-**	**-**	**-**	**2 772 834**
Balance as of 31 December 2020		**36 399 229**	**835 152**	**3 118 398**	**(28 778)**	**(15 582 335)**	**24 741 666**

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Valeri Belokon
Chairperson of the Supervisory Council

Viktor Bolbat
Chairperson of the Board

Separate and consolidated Financial Statements
GROUP'S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2020

		Group 2020 EUR	**Bank 2020 EUR**	**Group 2019 EUR**	**Bank 2019 EUR**
Cash flows from operating activities					
Loss before income tax		(3 064 002)	(1 142 240)	(3 420 642)	(3 141 882)
Amortisation and depreciation	24, 25	1 457 714	1 454 054	1 338 033	1 337 934
Increase/(decrease) in impairment loss on financial assets	14	889 939	(470 916)	2 336 706	2 528 307
Unrealised (profit)/loss on revaluation of investment property		(566 098)	(630 005)	228 013	75 008
Unrealised loss on revaluation of non-current assets held for sale		15 748	16 461	-	-
Unrealised (profit)/loss on revaluation of investments in subsidiaries		(1 376 567)	(873 072)	-	-
Profit on disposal of investments in subsidiaries		(1 402 978)	(220 896)	-	-
Interest expense on issued bonds & subordinated liabilities		312 563	312 563	590 410	590 410
Foreign exchange differences on financial assets at fair value through other comprehensive income, financial assets at amortised cost and subordinated liabilities		(455 368)	(455 368)	190 701	190 701
Profit on disposal of property and equipment and investment property		(76 251)	(90 251)	(100 017)	(144 669)
(Decrease)/ increase in cash and cash equivalents from operating activities before changes in assets and liabilities		**(4 265 300)**	**(2 099 670)**	**1 163 204**	**1 435 809**
(Increase)/decrease in loans		(2 372 672)	(3 288 676)	26 958 271	27 029 560
(Increase)/decrease in due from credit institutions		(331 425)	(330 012)	364 378	365 377
Increase in financial assets classified as at fair value through profit or loss		(2 802 536)	(2 802 536)	(1 361 709)	(1 361 709)
Decrease in deferred expenses and accrued income		641 096	636 558	106 736	102 964
(Increase)/ decrease in other assets		(3 427 049)	(4 156 199)	4 714 747	5 555 343
Decrease in due to credit institutions		(12 088 164)	(12 088 164)	(161 836)	(161 836)
Increase / (decrease) in deposits		2 587 976	2 593 300	(55 350 576)	(55 357 810)
Increase in derivative liabilities		229 591	229 591	11 363	11 363
Increase in accrued expenses, provisions and deferred income		147 964	121 445	1 261 944	1 250 309
Increase/(decrease) in other liabilities		885 108	880 090	(3 375 894)	(3 451 083)
Decrease in cash and cash equivalents resulting from operating activities		**(20 795 411)**	**(20 304 273)**	**(25 669 372)**	**(24 581 713)**

The accompanying notes on pages 16 to 100 are an integral part of these Financial Statements.

Separate and consolidated Financial Statements
GROUP'S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2020

	Group 2020 EUR	**Bank 2020 EUR**	**Group 2019 EUR**	**Bank 2019 EUR**
Interest paid on issued bonds and subordinated liabilities	(313 215)	(313 215)	(590 981)	(590 981)
Corporate income tax paid	(23 090)	(23 090)	-	-
Decrease in cash and cash equivalents from operating activities	**(21 131 716)**	**(20 640 578)**	**(26 260 353)**	**(25 172 694)**
Cash flow from investing activities				
Acquisition of property and equipment, intangible assets and investment property	(7 160 118)	(7 160 118)	(2 535 185)	(2 535 185)
Proceeds from sale of property and equipment and investment property	155 000	-	151 017	9 669
Acquisition of non-current assets held for sale	-	-	(1 815 671)	(1 815 671)
Proceeds from sale of non-current assets held for sale	998 976	998 976	450 000	450 000
Acquisition of investments in subsidiaries	-	(1)	-	(946 311)
Proceeds from the sale investments in subsidiaries	-	1 050 000	-	-
Redemption of financial assets at fair value through other comprehensive income	2 250 849	864 712	4 841 388	4 841 388
Purchase of financial assets at amortised cost	-	-	796 876	796 876
Redemption of financial assets at amortised cost	12 860 470	12 860 470	-	-
Increase in cash and cash equivalents as a result of investing activities	**9 105 177**	**8 614 039**	**1 888 425**	**800 766**

The accompanying notes on pages 16 to 100 are an integral part of these Financial Statements.

Separate and consolidated Financial Statements
GROUP'S CONSOLIDATED AND BANK'S SEPARATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2020

	Notes	Group 2020 EUR	Bank 2020 EUR	Group 2019 EUR	Bank 2019 EUR
Cash flows from financing activities					
Cash paid out to repay lease liabilities		(35 368)	(35 368)	-	-
Issuance of shares		2 772 834	2 772 834	-	-
Subordinated liabilities	32	-	-	100 013	100 013
Cash paid out to repay subordinated debt	32	(3 252 699)	(3 252 699)	(4 741 211)	(4 741 211)
Decrease in cash and cash equivalents as a result of financing activities		**(515 233)**	**(515 233)**	**(4 641 198)**	**(4 641 198)**
Decrease in cash and cash equivalents		**(12 541 772)**	**(12 541 772)**	**(29 013 126)**	**(29 013 126)**
Cash and cash equivalents at the beginning of the period		101 898 281	101 898 281	130 911 407	130 911 407
Cash and cash equivalents at the end of the period	16	**89 356 509**	**89 356 509**	**101 898 281**	**101 898 281**

The accompanying notes on pages 16 to 100 are an integral part of these Financial Statements.

Supervisory Council and Management Board have authorised to issue both Bank's and Group's Financial Statements on pages 8 to 100 on 31 March 2021, and on behalf of Supervisory Council and Management Board those were duly signed on 31 March 2021 by:

Valeri Belokon
Chairperson of the Supervisory Council

Viktor Bolbat
Chairperson of the Board

Separate and consolidated Financial Statements

Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2020

1 GENERAL INFORMATION

These are Separate and Consolidated Financial Statements comprise the financial statements of SE „Baltic International Bank" (hereinafter referred to as the "Bank") and its subsidiaries (hereinafter together with the Bank referred to as the "Group"). The subsidiaries are as follows: real estate company "BIB Real Estate" Ltd (acquired on 11 June 2009), „Claim Management" Ltd (acquired on 14 July 2016), JSC „BIB Alternative Investment Management" (registered on 5 December 2016), "Crementum Capital SICAV P.L.C."(registered on 8 January 2020), „Komunikācijas un projekti" Ltd (acquired on 29 DEcember 2020).

SE Baltic International Bank is a joint stock company registered in the Republic of Latvia. The registered office address is: Kalēju iela 43, Riga, LV-1050, Latvia. On 8 April 1993, the Bank of Latvia approved SE Baltic International Bank as a credit institution and issued Banking Licence No. 103. The Bank of Latvia and the Financial and Capital Market Commission of the Republic of Latvia ("FCMC') regulate the activities of the Bank.

Established to cater to the needs of both individuals and corporate customers, JSC "Baltic International Bank" provides a comprehensive range of financial services: personal and corporate loans, acceptance of money deposits and other funds, funds transfers, treasury and capital market services carried out according to customer instructions and for the Bank's own trading purposes.

2 BASIS OF PREPARATION

Statement of Compliance

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and in accordance with the requirements of the Latvian Financial and Capital Market Commission ("FCMC") in force as at the reporting date. The local accounting legislation requires the preparation of the Group consolidated and Bank separate financial statements in accordance with IFRS as adopted by the European Union.

The Financial Statements were authorised for issue by the Management Board and by the Supervisory Council on 31 March 2021. The financial statements may be amended by the shareholders and re-issue of the statements may be required.

The Financial Statements for the years ended 31 December 2020 and 31 December 2019 are available at the Bank's website (www.bib.eu).

The Covid-19 pandemic had relatively low impact on the Bank and the Group. The Group also has relatively low credit exposure to the hospitality sector. Covid-19 had a minimal impact on non-bank subsidiaries within the Group.

Separate and consolidated Financial Statements

Notes to the separate and consolidated Financial Statements for the year ended 31 December 2020

Functional and Presentation Currency

These Group consolidated and Bank separate financial statements are presented in euro. Subsidiaries of the Group and the Bank operate in the functional currency of euro.

Basis of measurement

The Financial Statements are prepared on the historical cost basis except for the following:
• financial assets designated at fair value through profit or loss and financial assets at fair value through other comprehensive income are stated at fair value;
• derivative instruments are stated at fair value;
• investment properties are periodically revalued and measured at fair value;
• part of property and equipment (buildings and land in own use and motor vehicles) is measured using a revaluation model.

Use of estimates and judgements

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

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

Judgements:

Going concern

These financial statements have been prepared on a going concern basis. Material uncertainty in relation to ability to continue as a going concern is disclosed in Note 48.

Key sources of estimation uncertainty

The key sources of estimation uncertainty are as follows: allowances for credit losses, impairment of financial instruments, contingent liabilities, valuation of investments in subsidiaries, investment property, property and equipment carried at fair value, and measurement of fair values of collateral.

Allowances for credit losses for loans and receivables and other assets

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Loans and Documentary Operations Department, see also Notes 13, 14, 15, 16, 18, 20, 26, 27 and 31.

Separate and consolidated Financial Statements

**Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2020**

Valuation of investment property

Investment property is stated at its fair value with all changes in fair value recorded to statement of comprehansive income. When measuring the fair value of the investment property, the management relies on external valuations and assesses such valuations in light of the current market situation. Please refer to Note 23 for more detail.

Measurement of fair values

A number of the Group's accounting policies and require the measurement of fair values, for both financial and non-financial assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities. When applicable, the Group measures the fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. For certain instruments no price quotes are available and the Group and the Bank resorts to valuation techniques like discounted cash flow and applying multiples to financial captions like revenue or EBITDA.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the management.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Finance Director assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS as adopted by EU. This includes:
• Verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial or non-financial instrument;
• Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
• When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about fair value analysis is disclosed in note 47.

Further information about the assumptions made in measuring fair values see Notes 17, 18, 23, 46.

Separate and consolidated Financial Statements

Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2020

3 SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies and reclassifications

Except for the changes below, the Group and Bank has consistently applied the accounting policies set out in Note 3 to all periods presented in these Group consolidated and Bank's separate financial statements.

To ensure that the carrying amount of land and buildings in own use and vehicles does not differ substantially from their fair market value, the Bank and the Group have made the decision to change accounting model for these categories, namely, to switch from the cost method to the fair value method (designated at fair value subsequent to initial recognition, less the accumulated depreciation (amortisation) and any accumulated impairment).

In these financial statements, the Bank has changed the presentation of investments in subsidiaries and Investments in associates . As at 31 December 2019, the Bank incorrectly presented accumulated negative changes in fair value of such investments as allowance for impairment. As at 31 December 2020, to comply with presentation requirements of IFRS 9, the Bank shows such changes as an adjustment to the carrying amount of investments.

The effect of changes on the statement of financial position as at 31 December 2019 is provided below.

	Previously recorded amounts	**Effect of reclassification**	**Adjusted data**
Investment in associates, gross	1 144 547	(286 137)	858 410
Allowance for impairment	(286 137)	286 137	–
Investment in associates, net	**858 410**	**–**	**858 410**
Investments in subsidiaries, gross	4 187 265	(1 100 000)	3 087 265
Allowance for impairment	(1 100 000)	1 100 000	–
Investments in subsidiaries, net	**3 087 265**	**-**	**3 087 265**

The Group and the Bank have adopted new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2021.

- Definition of a Business (Amendments to IFRS 3)

The Group applies Definition of a Business (Amendments to IFRS 3) to business combinations whose acquisition dates are on or after 1 January 2020 in assessing whether it had acquired a business or a group of assets.

The Group has early adopted COVID-19-Related Rent Concessions – Amendment to IFRS 16 issued on 28 May 2020. The amendment introduces an optional practical expedient for leases in which the Group and the Bank is a lessee – i.e. for leases to which the Group applies the practical expedient, the Group and the Bank is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic are lease modifications. The amendment has no impact on financial statements at 1 January 2020.

Separate and consolidated Financial Statements

for the year ended 31 December 2020
Notes to the separate and consolidated Financial Statements

- COVID-19-Related Rent Concessions – Amendment to IFRS 16

Except for Definition of a Business – Amendments to IFRS 3 and COVID-19-Related Rent Concessions – Amendment to IFRS 16, the Group and the Bank has no transactions that are affected by the newly effective standards or its accounting policies are already consistent with the new requirements.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's [Group's] financial statements are disclosed below. The Bank [Group] intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:
- Separate the insurance coverage component and apply IFRS 17 to it
- Apply other applicable standards (such as IFRS 9, IFRS 15 Revenue from Contracts with Customers or IAS 37 Provisions, Contingent Liabilities and Contingent Assets) to the other components.

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Bank [Group] is currently in the process of assessing the impact of adopting IFRS 17 on its [consolidated] financial statements.

Separate and consolidated Financial Statements

**Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2020**

Annual Improvements to IFRSs

The Group is in the process of evaluating the potential effect if any of other changes from these new standards and interpretations.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank [Group] will apply the amendments to [consolidated] financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its [consolidated] financial statements.

Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16

In August 2020 the IASB issued Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with a RFR.

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The Bank [Group] will apply IBOR reform Phase 2 from 1 January 2021.

Basis of Consolidation

Subsidiaries

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

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Bank's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Separate and consolidated Financial Statements

Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2020

Related parties

Related parties represent both legal entities and private individuals related to the company in accordance with the following rules:
a) A person or a close member of that person's family is related to a reporting entity if that person:
i. has control or joint control over the reporting entity;
ii. has significant influence over the reporting entity; or
iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
i. the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
ii. one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
iii. both entities are joint ventures of the same third party;
iv. one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
v. the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
vi. the entity is controlled, or jointly controlled by a person identified in (a);
vii. a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction - a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Foreign currency translation

Transactions denominated in foreign currencies are translated into the functional currency (euro) at the European Central Bank's official exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the European Central Bank's official exchange rate prevailing at the end of the period. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost and fair value are retranslated at the exchange rate at the date that the cost or fair value was determined. Foreign currency differences arising on retranslation are recognised in statement of comprehensive income.

Currency name			**31.12.2020**		**31.12.2019**
1 GBP	=	EUR	0.8990300	EUR	0.8508000
1 RUB	=	EUR	91.467100	EUR	69.9563000
1 USD	=	EUR	1.2271000	EUR	1.1234000

Separate and consolidated Financial Statements

Notes to the separate and consolidated Financial Statements for the year ended 31 December 2020

Income and expense recognition

With the exception of financial assets at fair value through profit or loss, interest income and expense are recognised in the profit or loss using the effective interest rate method. Interest income on financial assets at fair value through profit or loss comprises coupon interest received.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group and Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loan origination fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

Dividend income is recognised in the profit or loss on the date that the dividend is declared.

Financial instruments

Securities acquired by the Bank are categorised into portfolios in accordance with the Bank's intent at the time of the acquisition of the securities and pursuant to the Bank's investment strategy. The Bank developed a security investment strategy and, reflecting the intent of the acquisition, allocated securities to "Financial assets at amortised cost", "Financial assets at fair value through profit or loss (FVTPL)" and "Financial assets at fair value through other comprehensive income (FVOCI)".

All financial instruments held by the Bank are recognised at trade date and are initially measured at fair value plus for instruments not at fair value through profit or loss any directly attributable transaction cost. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that used only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Loans and receivables are recognised on drawdown. From the date of signing a contractual agreement till drawdown they are accounted for as loan commitments off balance sheet.

Separate and consolidated Financial Statements

**Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2020**

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss include those that are classified as held-for-trading (including derivative financial instruments) and those that are originally designated in this category.

Held-for-trading instruments are securities and shares that the Bank principally holds for the purpose of reselling and generating a profit from short-term fluctuations in the prices of the instruments. Securities held-for-trading are subsequently re-measured to fair value based on market prices. Realised and unrealised gains or losses are recorded as net trading income or net trading loss, respectively.

Derivative financial instruments

Derivative financial instruments include swap, forward, futures, spot transactions and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments.

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

Changes in the fair value of derivatives are recognised immediately in the profit or loss.

Derivatives may be embedded in another contractual arrangement (a “host contract”). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in the profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

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

Financial assets at fair value through other comprehensive income

Debt instruments at FVOCI

The Group measures debt instruments at FVOCI when both of the following conditions are met:
- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Separate and consolidated Financial Statements

**Notes to the separate and consolidated Financial Statements
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Equity instruments at FVOCI

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. Financial assets at amortised cost include government securities and corporate bonds which after initial recognition at fair value plus transaction costs that are directly attributable to its acquisition, are recognised at amortised cost and are securities with respect to which the Bank has a positive intent and ability to hold to maturity. Financial assets at amortised cost are accounted at trade date. Subsequently the effective interest rate method is applied for amortising discounts over the term to maturity.

Loans and receivables

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the short-term, (b) those that the Bank upon initial recognition designates as at the fair value through profit or loss or as financial assets at fair value through other comprehensive income; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration.

After initial recognition at fair value less transaction costs that are directly attributable to its acquisition, loans are measured at amortised cost using the effective interest rate method.

When a loan is considered to be uncollectible it is written off against the related allowance for credit losses; subsequent recoveries are credited to the impairment loss expense in the profit or loss.

Due to credit institutions

Due to credit institutions comprise all liabilities resulting from transactions with domestic and foreign credit institutions as well as liabilities to the Bank of Latvia and other central banks, including vostro balances due to credit institutions, due to credit institutions for outstanding foreign exchange deals and interbank loans.

Due to credit institutions are initially measured at fair value and subsequently are carried at amortised cost using the effective interest rate method.

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Notes to the separate and consolidated Financial Statements for the year ended 31 December 2020

Deposits

Deposits are liabilities carried at amortised cost and include current accounts and deposits from customers and deposits.

Issued debt securities

The Group and the Bank recognise issued debt securities at the date when the respective funds are sold. After initial recognition when these financial liabilities are stated at fair value, including direct transaction costs, those are subsequently carried at amortised cost using the effective interest method. When issued debt securities are sold at a discount, the difference is amortised applying the effective interest method until the debt matures and charged to the profit or loss as interest expense.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Fair value measurement of financial assets and financial liabilities

The methods described below have been used for the determination of fair values. When applicable, further information about the assumptions made in determining fair values is disclosed in the respective notes.

Due from credit institutions

The fair value of placements on demand, overnight deposits and floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and receivables from customers

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

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**Notes to the separate and consolidated Financial Statements
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Shares and other securities with non-fixed income

The fair value of shares and other securities with non-fixed income is determined by reference to their quoted bid price at the reporting date, if available. For non-listed shares, the group uses valuation techniques for which the lowest level input that is significant to the fair value measurement is either observable or unobservable (level 2 and level 3 of fair value measurement).

Derivative financial instruments

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

Due to credit institutions and deposits

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

Impairment

Financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Measurement of ECLs

The key inputs into the measurement of ECLs for the Group and the Bank are term structures of the
following variables:
- Probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. These parameters are derived from historical data and internally approved statistical models. They are adjusted to reflect forward-looking information.

PD estimates are estimates at a certain date, which is calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Credit risk grades and overdue periods are primary inputs into the determination of the term structure of PD for exposures. The Group and the Bank employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures.

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The definition of default used in the measurement of expected credit losses and the assessment to determine movements between stages is consistent with the definition of default used for internal credit risk management purposes and is aligned with CRR. Hence, exposures which are considered to be in default for regulatory purposes will always be considered stage 3 under IFRS 9.

LGD is the magnitude of the likely loss if there is a default. The Group and the Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from

The Group and the Bank incorporates forward-looking information into the measurement of ECL. For most exposures, key macro- economic indicators include GDP growth and unemployment.

Modification

When financial asset is modified, the Group and the Bank assesses whether the modification results in derecognition. This depends on whether the changes to the contractual cash flows are significant or not. If changes are significant, the modification is accounted for as derecognition of the original asset and recognition of a new asset. If the changes are not significant, the modification is accounted for as a modification of the original loan.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:
- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the
loss allowance is disclosed and is recognised in the fair value reserve.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower or issuer, restructuring of a loan or advance by the Group and Bank on terms that the Group and Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

All financial assets at fair value through other comprehensive income and financial assets at amortised cost are assessed for specific impairment. Accordingly, the Bank does not set aside a collective impairment allowance on financial assets at fair value through other comprehensive income and financial assets at amortised cost.

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Loans and receivables are stated in the statement of financial position at amortised cost, less any allowances for credit losses. Impairment losses and recoveries are recognised monthly based on regular loan reviews. Allowances during the period are reflected in the profit or loss.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held to maturity financial investments. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on financial assets at fair value through other comprehensive income are recognised by transferring the cumulative loss that has been recognised as other comprehensive income to profit or loss. The cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit and loss.

If, in a subsequent period, the fair value of an impaired debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

Non-financial assets

The carrying amounts of the Bank's non-financial assets, other than investment property, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

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Repossessed collateral

As part of the normal course of business the Group and the Bank occasionally take possession of property that originally was pledged as security for a loan. When the Group or the Bank acquires (i.e. gains a full title to) a property in this way, the property's classification follows the nature of its intended use by the Group or the Bank. When the Group or the Bank is uncertain of its intentions with respect to land and buildings that it has repossessed or the Group or Bank plans to hold the property to earn rentals or for capital appreciation, those properties are classified as investment property. Other types of repossessed collateral are classified as other assets and IAS 2 Inventories is applied to account for these assets.

Intangible assets

The Bank's intangible assets comprise software licences. The intangible assets are accounted for at their historical cost less amortisation and impairment, if any. The intangible asset's amortisation term of two to twenty years is determined by the Bank based on the intangible asset's useful life, if any; in the event that such a term is not stated, the Bank amortises the intangible asset over a period of 5 years. The Bank applies the straight-line method of amortisation of intangible assets.

Property and equipment

Property and equipment, except for buildings and land in own use and motor vehicles, are recorded in the Financial Statements at their historical cost less accumulated depreciation and impairment, if any.

Depreciation periods for individual categories of assets are as follows:

Buildings	50 years
Machinery	5 years
Motor vehicles	5 years
Other tangible fixed assets	10 years
Computers	5 years

Land and assets under construction are not depreciated. Costs relating to the maintenance and repair of the Group`s and Bank's property and equipment are included in the profit or loss when they arise. Whenever a complete repair and renovation prolong the asset's useful life (change the value of the asset), then the repair and renovation expenditure amount is added to the fixed asset's carrying amount.

Depreciation methods, useful lives and residual values are reviewed annually.

Items of property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, except for motor vehicles which are carried at revalued amounts as described below. Cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction. The cost includes expenditures that are directly attributable to the acquisition of the asset.

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Buildings and land own use and motor vehicles are subject to revaluation on a regular basis. The frequency of revaluation depends upon the extent of the estimated movements in the fair values. A revaluation increase is recognised in other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in the income statement, in which case it is recognised in the income statement.

A revaluation decrease is recognised in the income statement except to the extent that it reverses a previous revaluation increase recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Fair market value for land plots and buildings is determined on the basis of annual property appraisals from certified appraisers. Fair value of vehicles is determined using the comparative method, which is based on recent market transactions with comparable vehicles. For valuation of selected vehicles, for which there are no observable data on recent market transactions, management relies on external valuations based on comparative valuation method and assesses the reliability of such valuation in light of the current market situation.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Some investment property has been acquired through the enforcement of security over loans and advances.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclasiffication becomes its deemed cost for subsequent accounting.

Investment property is initially recognised in the statement of financial position at its acquisition cost. Subsequently, the investment property is revalued and accounted for at its fair value based on its market price. Fair market value for land plots, buildings and other real property items is determined on the basis of annual property appraisals from certified appraisers. Gain or loss from the change in the value is recorded in the profit or loss and reported under the item "Gain or loss on revaluation of investment property".

Precious metals

On a daily basis, the Bank and the Group accounts for revaluation of physically held precious metals using quotes from active market. Revaluation effect is recorded in income statement.

Lease

Operating lease (The Group and the Bank as the lessees)
The Group and the Bank recognise a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Short-term leases payments are recognised in the income statement over the lease term on a straight-line basis.

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Income and expense

With the exception of financial assets at fair value through profit or loss, interest income and expense are recognised in the consolidated statement of income using the effective interest rate method. Interest income on financial assets at fair value through profit or loss comprises coupon interest only.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss, respectively.

Loan origination fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

Dividend income is recognised in the consolidated statement of income on the date that the dividend is declared.

Investments in subsidiaries and associates

In separate financial statements, for all investments in subsidiaries and associates the Bank applies fair value measurement through profit or loss. Determination of the fair value for investments in subsidiaries and associates measured at fair value through profit or loss involves management's judgments with respect to amounts of future capital expenditures, operating cash flows based on the expected demand and possible commercial arrangements with the counterparties, timing of the cash flows, growth rates, discount rates and observed market analogues when estimating fair value for real estate property held by the subsidiaries and associates.

Realised and unrealised gains or losses on revaluation are recorded directly in income statement at the moment when revaluation occured.

Repo operations (repos)

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents the interest expense and is recognised in the profit or loss over the term of the repo agreement using the effective interest rate method.

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

If assets purchased under agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Cash and cash equivalents

Cash and cash equivalents comprises cash and deposits with the Bank of Latvia and other credit institutions with an original maturity of less than 3 months, less balances due to the Bank of Latvia and credit institutions with an original maturity of less than 3 months.

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Corporate income tax

Current tax for the reporting year is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

As of 1 January 2018, according Law on Enterprise Income Tax of the Republic of Latvia, the tax rate 20% is deferred to when the profit is distributed and calculated as 0.2/0.8 from net distributed dividend, the taxation period is one month.

The taxable base includes:

- distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends) and
- conditionally distributed profit (non-operating expenses, doubtful debts, increased interest payments, loans to related parties, decrease of income or exceeded expenses which are incurred by entering transactions at prices other than those on the market that should be calculated using the methodology determined by the Cabinet of Ministers, benefits bestowed by the non-resident upon its staff or board (council members) regardless of whether the receiving party is a resident or a non-resident, if they relate to the operation of a permanent establishment in Latvia, liquidation quota).

The use of tax losses carried forward from previous periods is limited: it is possible to use these losses to decrease the amount of tax calculated on dividends in the reporting period by not more than 50%. It is possible to carry forward unused tax losses and use them in the previously described manner only until 2022.

Changes in tax legislation

According to the new Law on Enterprise Income Tax of the Republic of Latvia adopted on 28 July 2017, and effective as of 1 January 2018, the 20% rate (using coefficient 0.8) is applied to distributed or deemed distribution of profits, while the 0% rate is expected to be applied to retained earnings.

Deferred tax assets and liabilities were reversed and changes were charged to profit or loss in the reporting period.

Provisions

A provision is recognised in the statement of financial position when the Group or Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Short-term employee benefits

Short-term employee benefits like salaries, social benefit payments, bonuses and vacation pay are measured on an undiscounted basis and are expensed as the related service is provided in accordance with accrual principle.

A provision is recognised for the amount expected to be paid under short-term cash bonus of profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The provision for employee holiday pay is calculated for each Group and Bank employee based on the total number of holidays earned but not used, multiplied by the average daily remuneration expense for the preceding six months, to which the relevant social security expense is added.

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Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included within other liabilities.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Latvian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Presentation of segment information

Segment is the Group's or the Bank's identifiable component which
- can be identified by types of products offered or types of services provided (business segment), or by types of products offered or types of services provided in a specific economic environment (geographical segment) and
- is exposed to risks and derives benefits which are different from those peculiar to other segments.

Information about business segment is used as the basic format whereby the Bank and the Group present segment information.

The Bank's Board is the chief operating decision maker.

The Group and the Bank specify that, according to certain requirements of IFRS 8: Operating Segments, the Group's sole business segment is the entire Bank and its operating results are reviewed regularly by the Group's and the Bank's Board to make decisions about resources to be allocated to the segment and assess its performance. Any other level if itemisation does not meet the quantitative thresholds set out by IFRS (adopted in the EU).

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4 RISK MANAGEMENT

All aspects related to the risk management objectives of the Group and the Bank are consistent with those presented in the consolidated and separate financial statements as at and for the year ended 31 December 2019 , except for the changes described below. Throughout 2020, the Group and the Bank had active cooperation with the Financial and Capital Market Commission to improve a number of internal control systems.

The Bank's activities expose it to a variety of financial and non-financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the financial business, and these risks are an inevitable consequence of being in business. The Bank's strategic aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Bank's financial performance.

The risk management system, being an integral part of internal control system of the Bank, is based on the principal requirements of effective supervision of banks by Financial and the Capital Market Commission and the Basel Committee on Banking Supervision.

The most important types of risk are compliance and reputational risk, credit risk, liquidity risk, interest rate risk, foreign exchange risk and operational risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management in the Bank is centralised and is carried out by the Management Board under policies approved by Supervisory Council. Risk management polices are subject to yearly review. There is Customer Due Diligence Committee responsible for risk management in the Bank. In addition, internal audit is responsible for the independent review of risk management and control environment.

The Management Board of the Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of Risk Department of the Bank is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

The Bank's risk management policies are designed to identify, analyse, and measure significant risks, to set appropriate risk limits and controls, and to monitor the risk and adherence to limits by means of reliable and up-to-date management information system. Since 2015, the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 has been applied on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

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Compliance risk

The Bank is committed to maintaining a robust compliance-risk management framework, which makes it possible to
- prevent losses or imposition of legal obligations or legal/regulatory sanctions or deterioration of the Bank's reputation
- ensure that the Bank adheres to compliance laws, rules and standards.

The Bank regularly evaluates the level of compliance risk and ensures minimisation of the risk level by setting forth risk mitigation measures and taking preventive action to ensure compliance.

The Bank has formulated and approved its policy whose purpose is to establish an effective Bank-wide framework for managing compliance risk in order to prevent losses or imposition of legal obligations or legal/regulatory sanctions or deterioration of the Bank's reputation and to ensure that the Bank adheres to compliance laws, rules and standards.

The policy sets forth the basic principles of managing and monitoring compliance risk, establishes for the Bank's senior management and functional units clear lines of roles / responsibilities and authority for managing compliance risk, the core principles for identifying, measuring and assessing compliance risk, prescribes risk mitigation measures, provides for employee compliance training, and the manner for submitting relevant reports and information.

According to the requirements of the policy, the Bank draws up and regularly updates its internal regulatory documents required to ensure a proper management of compliance risk.

The Bank manages compliance risk in accordance with annual action plans approved by the Bank's Board. The action plans prescribe compliance risk management-specific measures: revision and improvement of the compliance-risk management framework to align it with the changes in the Bank's business activities and external conditions that affect the activities.

The Bank identifies compliance risk in order to measure the overall level of compliance risk, carries out the risk assessment and documentation and to ensure as follows: before launching new products and embarking on new activities, the Bank identifies compliance risk associated with a particular activity and evaluates whether the Bank will Bank adhere to compliance laws, rules and standards when carrying out the activity.

To be able to assess compliance risk and measure the overall level of compliance risk, the Bank has developed a technique used to assess compliance risk. Under the technique, the Bank regularly measures the level of compliance risk and submits reports which contain proposals on how to improve the Bank's work.

At least once every year, the Bank carries out the assessment of compliance risk associated with all areas of the Bank's business and lines of business. Depending on the results obtained, the Bank undertakes (if necessary) compliance risk mitigation-specific measures, such as improvement of the internal regulatory and guidance documents, establishing more stringent controls (random checks/spot audits), employee training, and other relevant activities.

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The Bank's risk of money laundering, terrorism financing and WMD proliferation financing and sanctions risk (ML/TF/PF Risk/Sanctions Risk)

The Bank has complied and its objective is to comply with AML/CTF/CPF (anti-money laundering and combating the financing of terrorism and the financing of proliferation) regime and the sanctions regime and to adhere to the relevant statutory requirements and principles set forth in:
- the law of the Republic of Latvia;
- the Financial and Capital Market Commission's (FCMC) regulations and recommendations;
- the statutory AML/CTF/CPF framework and the sanctions compliance framework (relevant regulations and statutory guidance);
- international industry best practices for AML/CTF/CPF compliance and sanctions compliance.

The Bank has articulated and approved its Money Laundering, and Terrorism Financing and Proliferation Financing Risk Management Policy and Sanctions Risk Management Policy. The Policies are viewed as an effective and efficient element underpinning the ML/TF/PF Risk/Sanctions Risk management system. The system is aimed at preventing Bank's involvement in ML/TF/PF and in sanction abuses. The Policies address and define the following aspects:
- the Bank's strategy to be pursued and the tasks and functions to be performed by the Bank's senior management and functional units while managing ML/TF/PF Risk/Sanctions Risk;
- the manner in which the Bank identifies, assesses and monitors ML/TF/PF Risk/Sanctions Risk;
- de-risking (risk mitigation) measures;
- AML/CTF/CPF training geared towards the Bank's staff;
- procedure for submission of relevant reports, overviews and information,
- maintenance of the Bank's internal control system specifically designed to ensure the Bank's compliance with the AML/CTF/CPF regime and the sanctions regime, i.e. compliance with all statutory requirements and adherence to the fundamental principles and core elements.

ML/TF/PF Risk management is based on the knowledge, as demonstrated by the Bank's employees, of the customers, customer transactions, and risks posed by the customers (risk awareness). While managing ML/TF/PF Risk, the Bank takes into account interaction of ML/TF/PF Risk with other risk inherent in the Bank's business. The Bank manages ML/TF/PF Risk and implements de-risking measures on an ongoing basis, throughout the entire period of the Bank's exposure to ML/TF/PF Risk.

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To mitigate ML/TF/PF Risk/Sanctions Risk, the Bank has established the internal control system intended to ensure the Bank's compliance with the AML/CTF/CPF legislation and the sanctions law and to record (document) the internal control processes. According to the internal control system-specific requirements, the Bank:
- performs initial (primary) customer due diligence before establishing a business relationship with a new customer;
- conducts identification of customers and of their authorised representatives;
- performs initial enhanced customer due diligence applied on high-risk customers;
- evaluates customer's ML/TF/PF Risk/Sanctions Risk profile;
- applies enhanced due diligence on customers during the existing business relationship;
- monitors and supervises customer transactions;
- identifies suspicious transactions and files STRs (suspicious transaction reports);
- terminates the existing business relationship with customers if the Bank is unable to gather the information or documents required to perform enhanced due diligence;
- updates and retains/stores the information, documents and results obtained during customer identification, customer due diligence and monitoring and supervision of customer transactions.

The Bank is aware of its paramount responsibility to ensure sanctions compliance while providing financial services to its customers, concluding cooperation agreements with its partners, and monitoring and supervising customer transactions. The requirements laid down in the Sanctions Risk Management Policy apply to all of the divisions, departments and employees engaged in providing and supervising the Bank's financial services. The requirements laid down in the Sanctions Risk Management Policy also apply to all services and products offered by the Bank.

The employees are strictly prohibited from participating knowingly and deliberately in any activities whose consequences or purpose is to circumvent the restrictions imposed under the sanctioning regime because Sanctions Risk embraces not only a direct violation of the sanctioning regime but also circumvention of Sanctions or an attempt to bypass Sanctions. The purpose of the Policy is to ensure Bank's compliance with the International and the Republic of Latvia's National Sanctions Act of the Republic of Latvia, minimise the probability of Sanctions Risk occurrence and safeguard the Bank, the Bank's employees and customers from violating or bypassing Sanctions, thus curbing Sanctions violation and circumvention and maintaining high reputation of the Bank.

Credit risk

The Bank takes on exposures to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge a contractual obligation. Credit risk is the most significant risk for the Bank's business and therefore exposures to credit risk are subject to careful management.

Sources of credit risk

Credit risk of the Bank arises principally from the placements with credit institutions as well as from lending and investment activities and transactions in derivative financial instruments. There is also credit risk in financial instruments such as letters of credit, guarantees and payment cards' overdraft commitments. There is a delivery risk in relation to foreign exchange transactions.

For the Bank as a payment bank, exposure to credit risk may interfere with liquidity management activities as the Bank should maintain sufficient funds on accounts with principal correspondents to provide necessary customers' payments, which sometimes causes significant concentrations with particular counterparties.

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Management and control of credit exposures

The Bank manages, limits and controls concentrations of credit risk whenever they are identified, in particular, to individual counterparties and groups, and to industries and countries.

The Group and Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to geographical and industry segments. Such limits are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposures to credit risk are managed through regular analysis of the ability of the existing and potential borrowers and counterparties to meet interest and principal repayment obligations and by changing lending limits where appropriate. The financial analysis, the analysis of external ratings and analysis of business environment of borrowers and counterparties is taken into consideration for such decision-making.

The Group and Bank uses different credit risk management techniques for credit institutions and non-banks, but techniques are applied consistently to all financial instruments used, including sureties and commitments exposures with particular counterparty or group of related counterparties, as well as delivery risk in relation to foreign exchange transactions.

Limits on exposures are considered and approved by the Management Board or Supervisory Council according to the approval authorities.

Exposures to related groups of counterparties and counterparties related to the Group and Bank are also subject to regulatory requirements.

According to regulations, any credit risk exposure to a non-related counterparty may not exceed 25% of the Bank’s equity. Regulation states though that some exposures, such as due from credit institutions with maturity up to 1 year, are not considered to be credit risk exposures for regulatory requirements noted above.

According to regulations the total credit risk exposures to parties related to Bank shall not exceed 15% of the Bank’s equity.

Credit risk mitigation policies

The Bank employs a range of credit risk mitigation techniques. The most traditional of these is taking security for funds disbursements, which is common practice. The Bank implements guidelines on the criteria for specific classes of collateral taken.

The amount of collateral required may vary depending on the type of exposure but usually it is set at least to cover principal amount of the outstanding debt.

The Bank’s exposures to credit institutions are usually unsecured.

Quantitative disclosures

Further quantitative disclosures in respect of credit risk are presented in Notes 16, 17, 18, 20, 45.

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Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

Liquidity risk management process

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Bank requires:
The Bank’s liquidity policy is reviewed and approved by the Management Board. The policy states that the Bank is obliged to hold sufficient liquid assets reserve to meet its financial commitments, however not less than 50% of the Bank’s total current liabilities.

The Bank calculates the mandatory liquidity ratio on a daily basis in accordance with the requirements of the Financial and Capital Market Commission.

The Bank's liquidity ratio as at 31 December 2020 was 64.61%, compared to 72.33% as at 31 December 2019.

The liquidity management policy of the Bank requires:
• projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
• maintaining a diverse range of funding sources;
• managing the concentration and profile of debts;
• maintaining debt financing plans;
• maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash
• maintaining liquidity and funding contingency plans;
• monitoring statement of financial position liquidity ratios against regulatory requirements.

Monitoring and reporting take the form of cash flow measurement and projections for the next day and month respectively, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection data of the financial assets.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

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Daily projections are based on assets and liabilities contractual maturities monitoring and analysis of information concerning customers' incoming and outgoing payments. Monthly projections are based on assets and liabilities term structure analysis.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to senior management on a weekly basis. Decisions on the Bank's liquidity management are made by the Risk Management Department and implemented by the Treasury Department.

Quantitative disclosures

Further quantitative disclosures in respect of liquidity risk are presented in Notes 39 and 40.

Currency (foreign exchange) risk

Foreign exchange risk relates to the effects of fluctuations in the prevailing foreign currency exchange rates on the Bank's financial position and cash flows.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency risk at year end refer to Note 41 and Note 42.

An analysis of sensitivity of the Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2020 and 31 December 2019 and a simplified scenario of a 10% drop in the value of the euro versus other currencies is shown in Note 42.

Foreign exchange risk management process

Currency risk management policy determines and regulates risk control and regulatory principles related to the currency exchange transactions that help the Bank in controlling its foreign currency open positions.

Limits on open foreign currency positions in a single currency and aggregate open foreign currency position are set for both overnight and intra-day positions, which are monitored daily.

The Credit Institution Law states that the open position in each separate currency must not exceed 10% of the Bank's equity and the aggregate open position in all foreign currencies must not exceed 20% of the Bank's equity.

Quantitative disclosures

Further quantitative disclosures in respect of foreign exchange risk are presented in Note 41 and Note 42.

Interest rate risk

Interest rate risk represents the risk that there may be changes in the future cash flows connected with financial instruments (cash flow interest rate risk) or fair value of financial instruments (fair value interest rate risk) resulting from changes in the interest rates on the market. The period when interest rate of the financial instruments is constant determines how it is exposed to the interest rate risk.

Sources of interest rate risk

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The Bank is exposed to the cash flow interest rate risk which represents the effect of changes in the interest rates on the Bank's net interest margin and the amount of net interest income due to an inadequate term structure of interest rate sensitive assets and liabilities. The Bank is not exposed to significant interest rate risk of the fair value of financial instruments.

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Interest risk management process

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

Quantitative disclosures

An analysis of sensitivity of the net income for the year and equity as a result of changes in fair value of held-for-trading and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2020 and 31 December 2019 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is shown in Note 43.

Market risk

The Bank devotes close attention to managing and analysing market risk. Bank has adopted the Financial Instruments Portfolio Management Policy that sets forth:
• the objectives and targets of Financial Instruments Portfolio management;
• the core principles of Financial Instruments Portfolio management;
• procedure for conducting portfolio-level stress testing (to stress-test Financial Instruments Portfolio);
• authority and responsibility concerning the management of Financial Instruments Portfolio.

The Bank's Securities Division is responsible for implementing the Financial Instruments Portfolio Management Policy. The Bank's Internal Audit Function regularly verifies whether the Policy is followed daily. The Bank has adopted the Securities Portfolio Risk Management Procedure, which at sets forth the criteria for evaluating risks inherent in securities held in the portfolio, in order to prevent the adverse effects of market risk and credit risk on the Bank's financial condition.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank takes a long or short position in a financial instrument.

An analysis of sensitivity of the Bank's net profit/loss in the statement of comprehensive income for the year and equity to changes in securities prices based on positions existing as at 31 December 2020 and 31 December 2019 and a simplified scenario of a 5% change in all securities prices is as follows:

	Net income 31.12.2020 EUR	**Equity 31.12.2020 EUR**	**Net income 31.12.2019 EUR**	**Equity 31.12.2019 EUR**
5% increase in securities prices	319 430	1 426	300 209	1 348
5% decrease in securities prices	(319 430)	(1 426)	(300 209)	(1 348)

The sensitivity analyses of the Group's and the Bank's net profi/loss in the statements of comprehensive income for the year and equity to changes in securities prices do not vary significantly.

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Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events - various types of human (staff members) or technical (software and hardware failures) errors, contingencies, fire and other factors of this sort. To prevent losses caused by operational risk, the Bank has adopted internal guidance documents, such as the internal by-law, fire safety regulations, technical system and facility safety regulations, information classification rules and other rules, regulations and directives. The Bank's Board has appointed a task force whose task is to ensure the implementation of the regulatory requirements set forth in the aforesaid internal guidance documents.

5 CAPITAL MANAGEMENT

The Financial and Capital Market Commission sets and monitors capital requirements for the Bank and the Group.

The Bank defines as capital those items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission, banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level of 8%.

According to the specific requirement of the FCMC, the Bank is required to maintain a capital adequacy ratio above minimum level – 11.0% for the period starting from 21 April 2020 to 31 December 2020 (from 1 January 2019 to 31 December 2019: 12.9%). In addition to the minimum level which is set by the FCMC, the Bank has to comply with the requirement regarding capital buffers (is defined in Credit Institutions Law) which currently are equal to 2.5%. The Bank's risk based capital adequacy ratio, as at 31 December 2020, was 16.43% (31 December 2019: 14.84%).

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of statement of financial position, are:
• to comply with the capital regulatory requirements;
• to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders;

• to maintain the strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community directives, as implemented by the Financial and Capital Market Commission. The required information is filed with the Financial and Capital Market Commission on a monthly basis.

The Credit Institution Law and regulations developed by the Financial and Capital Market Commission for the application of the norms of this law, require Latvian banks to maintain a capital adequacy ratio of 8%, i.e., the Bank's capital ratio against the risk weighted assets and memorandum items and the sum of notional risk weighted assets and memorandum items. The sum of notional risk weighted assets and memorandum items is determined as the sum of capital requirements of market risks, multiplied by 12.5.

The guidelines of the Financial and Capital Market Commission for calculation of capital adequacy agree with the recommendations under the Basel Capital Accord and amendments thereto. According to the Basel Capital Accord, the capital adequacy ratio should be at least 8%.

Quantitative disclosures

Further quantitative disclosures in respect of capital management are presented in Note 38.

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6 INTEREST INCOME

	Group 2020 EUR	Bank 2020 EUR	Group 2019 EUR	Bank 2019 EUR
Interest income calculated using the effective interest method				
Loans	1 590 484	1 585 637	2 807 969	2 825 740
Loans	*1 587 230*	*1 582 383*	*2 804 296*	*2 822 067*
Payment cards	*3 254*	*3 254*	*3 673*	*3 673*
Debt instruments at amortised cost	375 727	375 727	723 047	723 047
Financial assets at fair value through other comprehensive income	118 295	118 295	130 669	130 669
Due from credit institutions	4 412	4 412	24 918	24 918
Financial assets at fair value through profit or loss	2 154	2 154	12 308	12 308
Other interest income				
Interest income for negative interest rate applied to current account balances	263 379	263 379	406 995	406 995
Other interest income	23 084	23 084	158 092	143 957
	2 377 535	**2 372 688**	**4 263 998**	**4 267 634**

7 INTEREST EXPENSE

	Group 2020 EUR	Bank 2020 EUR	Group 2019 EUR	Bank 2019 EUR
Liabilities at amortised cost	668 485	668 535	1 005 576	1 005 726
Deposits	*355 922*	*355 972*	*415 166*	*415 316*
Subordinated liabilities	*312 563*	*312 563*	*590 410*	*590 410*
Negative interest rate applied to account balances with other banks	490 238	490 238	678 260	678 260
Contributions to Deposit Guarantee Fund	162 907	162 907	205 820	205 820
Financial stability fee	70 700	70 700	160 944	160 944
Contributions to Single Resolution Fund	11 750	11 750	22 750	22 750
Other interest expense	12 588	2 361	3 858	3 858
	1 416 668	**1 406 491**	**2 077 208**	**2 077 358**

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Notes to the separate and consolidated Financial Statements for the year ended 31 December 2020

8 FEE AND COMMISSION INCOME

	Group 2020 EUR	Bank 2020 EUR	Group 2019 EUR	Bank 2019 EUR
Accounts administration charges	5 549 073	5 549 657	5 854 138	5 854 563
Servicing of transactions	1 561 892	1 561 892	1 437 079	1 437 079
Securities accounts administration charges	479 556	479 556	785 308	785 308
Trust operations	455 292	455 292	793 890	793 890
Payment cards	448 429	448 429	506 786	506 786
Fees and commissions from banks	109 416	109 416	181 446	181 446
Letters of credit and guarantees	86 729	86 729	130 532	130 532
Transactions in precious metals	29 181	29 181	72 973	72 973
Cash operations	11 836	11 836	17 029	17 029
Forex transactions	10 650	10 650	123 735	123 735
Other	68 461	68 461	39 284	39 284
	8 810 515	**8 811 099**	**9 942 200**	**9 942 625**

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9 FEE AND COMMISSION EXPENSE

	Group 2020 EUR	Bank 2020 EUR	Group 2019 EUR	Bank 2019 EUR
Services of agents and brokers	692 012	692 012	464 257	464 257
Payment cards	468 411	468 411	471 738	471 738
Services of correspondent banks	161 503	161 503	198 570	198 570
Securities-based transactions	163 791	160 275	157 019	156 982
Foreign exchange operations	51 277	51 277	10 373	10 373
	1 536 994	**1 533 478**	**1 301 957**	**1 301 920**

10 NET FOREIGN EXCANGE INCOME AND GAIN ON FINANCIAL INSTRUMENTS

	Group 2020 EUR	Bank 2020 EUR	Group 2019 EUR	Bank 2019 EUR
(Loss)/gain on foreign exchange operations	(1 561 293)	(1 561 293)	2 432 094	2 432 111
Gain/(loss) on revaluation of positions in foreign currency	4 490 370	4 490 370	(288 215)	(288 215)
	2 929 077	**2 929 077**	**2 143 879**	**2 143 896**
Profit/ (loss) from trading in financial assets at fair value through profit or loss	6 698	6 698	(7 179)	(7 179)
Loss from trading in financial assets at fair value through other comprehensive income	(45 150)	(45 150)	(110 074)	(110 074)
Net gain on financial assets at amortised cost	428 262	428 262	-	-
(Loss)/profit on revaluation of financial assets at fair value	(475 982)	1 031 947	473 371	473 371
	(86 172)	**1 421 757**	**356 118**	**356 118**
	2 842 905	**4 350 834**	**2 499 997**	**2 500 014**

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11 OTHER OPERATING INCOME

	Group 2020 EUR	Bank 2020 EUR	Group 2019 EUR	Bank 2019 EUR
Gain on bargain purchase of subsidiaries	1 182 082	-	-	-
Gain on sale of subsidiary	220 896	220 896	-	-
Gain on sale of property and equipment and investment property	153 598	153 598	144 669	144 669
Gain on revaluation of non-current assets held for sale	52 852	52 139	-	-
Previous periods income	79 080	79 080	-	-
Penalty amounts received	78 343	78 343	398 073	398 073
Rent of premises	75 280	75 280	112 589	101 056
Professional services	69 140	66 301	32 244	22 873
Intermediary services	49	49	662	662
Profit from transactions in precious metals	-	-	20 341	20 341
Other	134 569	69 989	97 069	106 121
	2 045 889	**795 675**	**805 647**	**793 795**

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12 ADMINISTRATIVE EXPENSES

	Group 2020 EUR	Bank 2020 EUR	Group 2019 EUR	Bank 2019 EUR
Staff salaries	6 628 003	6 589 190	6 403 935	6 364 039
Professional services	1 961 171	1 958 827	1 177 288	1 166 970
Amortisation and depreciation (Notes 26, 27)	1 457 714	1 454 054	1 338 033	1 337 934
Social insurance payments and solidarity tax	1 456 782	1 454 142	1 450 657	1 441 046
Renovation and maintenance of property and equipment	1 091 839	1 086 427	973 896	956 804
Taxes	798 165	798 165	627 749	627 749
Representation expenses	381 296	381 296	414 434	414 434
Advertising and publicity	287 105	287 105	358 036	358 036
Communication	144 239	143 980	140 278	140 260
Association membership fees	128 556	128 556	167 852	167 852
Event organisation	124 243	124 243	27 187	27 187
Business trips	104 216	104 216	197 701	197 701
Loss on revaluation of investment property	72 105	72 105	75 008	75 008
Insurance	71 803	69 941	52 438	51 429
Motor vehicles	71 500	71 500	88 421	88 421
Sworn auditor statutory audit	69 000	69 000	57 600	56 100
Stationary goods and household equipment	57 471	57 471	42 515	42 515
Security	49 673	49 673	39 982	39 982
Charity and sponsorship	33 650	33 650	62 988	62 988
Services of agents and brokers	21 044	21 044	13 978	13 978
Sworn auditor other audits un consultations	6 000	6 000	12 900	12 900
Penalties paid to the FCMC	32	32	782 902	782 902
Other	311 470	281 262	480 006	329 079
	15 327 077	**15 241 879**	**14 985 784**	**14 755 314**

Audit fees of 69 000 EUR and other fees of 6 000 EUR paid to the independent auditor company, which has audited these financial statements, are presented within administrative expenses. Other audits and consultations included audit related services to fulfil regulatory requirements on custodian responsibilities and deposit guarantee fund contribution reporting. These services have been provided by a statutory audit firm that has audited the Group’s and the Bank’s 2020 and 2019 Financial Statements.

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13 OTHER OPERATING EXPENSES

	Group 2020 EUR	Bank 2020 EUR	Group 2019 EUR	Bank 2019 EUR
Loss from sale of property and equipment and investment property	77 347	63 347	-	-
Loss from transactions in precious metals	186 323	186 323	-	-
Written-off assets	135 680	21 191	-	-
Other	136 981	120 813	-	-
	536 331	**391 674**	**-**	**-**

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14 ANALYSIS OF CHANGES IN IMPAIRMENT LOSS ALLOWANCE FOR ASSET EXPOSURES

Group

	Allowances for claims on the credit institutions EUR	Allowances for loans EUR	Allowances for financial assets at fair value EUR	Allowances for financial assets at amortised cost EUR	Allowances for accrued income and other assets EUR	Allowances for off-balance sheet exposures EUR	Total EUR
Allowances as of 1 January 2019	**2 856**	**11 729 404**	**852**	**6 327**	**1 341 226**	**46 588**	**13 127 253**
Increase in allowances	137 135	5 732 737	1 708	3 835	16 367	218 800	**6 110 582**
Reversal of allowances	(107 447)	(3 321 123)	(1 428)	(4 130)	(801)	(244 174)	**(3 679 103)**
Net impairment loss for the period	**29 688**	**2 411 614**	**280**	**(295)**	**15 566**	**(25 374)**	**2 431 479**
Amounts written-off	-	(3 357 185)	-	-	(116 273)	-	**(3 473 458)**
Difference due to fluctuations in foreign currency exchange rates	477	39 578	8	42	3 187	50	**43 342**
Allowances as of 31 December 2019	**33 021**	**10 823 411**	**1 140**	**6 074**	**1 243 706**	**21 264**	**12 128 616**
Increase in allowances	207 368	1 062 526	3 235	2 060	63 614	136 675	**1 475 478**
Reversal of allowances	(237 439)	(179 213)	(3 134)	(3 812)	(63 614)	(98 327)	**(585 539)**
Net impairment loss for the period	**(30 071)**	**883 313**	**101**	**(1 752)**	**-**	**38 348**	**889 939**
Amounts written-off	-	(2 797 772)	-	-	(736 065)	-	**(3 533 837)**
Acquisition of subsidiary	-	(269 642)	-	-	(286 136)	-	**(555 778)**
Difference due to fluctuations in foreign currency exchange rates	2 507	(241 139)	(65)	(103)	(58 839)	(47)	**(297 686)**
Allowances as of 31 December 2020	**5 457**	**8 398 171**	**1 176**	**4 219**	**162 666**	**59 565**	**8 631 254**

Bank

	Allowances for claims on the credit institutions EUR	Allowances for loans EUR	Allowances for financial assets at fair value EUR	Allowances for financial assets at amortised cost EUR	Allowances for accrued income and other assets EUR	Allowances for off-balance sheet exposures EUR	Total EUR
Allowances as of 1 January 2019	**2 856**	**13 012 125**	**852**	**6 327**	**1 036 756**	**95 624**	**14 154 540**
Increase in allowances	137 135	4 668 629	1 708	3 835	7 937	209 388	**5 028 632**
Reversal of allowances	(107 447)	(2 142 345)	(1 428)	(4 130)	(801)	(244 174)	**(2 500 325)**
Net impairment loss for the period	**29 688**	**2 526 284**	**280**	**(295)**	**7 136**	**(34 786)**	**2 528 307**
Amounts written-off	-	(3 357 185)	-	-	(116 273)	-	**(3 473 458)**
Difference due to fluctuations in foreign currency exchange rates	477	39 578	8	42	3 187	50	**43 342**
Allowances as of 31 December 2019	**33 021**	**12 220 802**	**1 140**	**6 074**	**930 806**	**60 888**	**13 252 731**
Increase in allowances	207 368	1 502 509	3 235	2 060	63 614	136 675	**1 915 461**
Reversal of allowances	(237 439)	(1 942 446)	(3 134)	(3 812)	(63 614)	(135 932)	**(2 386 377)**
Net impairment loss for the period	**(30 071)**	**(439 937)**	**101**	**(1 752)**	**-**	**743**	**(470 916)**
Amounts written-off	-	(2 797 772)	-	-	(736 065)	-	**(3 533 837)**
Difference due to fluctuations in foreign currency exchange rates	2 507	(241 139)	(65)	(103)	(58 839)	(47)	**(297 686)**
Allowances as of 31 December 2020	**5 457**	**8 741 954**	**1 176**	**4 219**	**135 902**	**61 584**	**8 950 292**

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In respect of both natural persons and companies, the Bank strictly adheres to its policy and internal regulatory documents relating to the evaluation of the allowances. The Bank also follows the relevant recommendations from the FCMC. The Bank therefore thoroughly analyses a borrower's income and expenses for the then-current period and the potential dynamics thereof as a whole. In addition, the Bank places an enhanced focus on evaluation and determination of the value of the property offered as the security. The Bank regularly re-evaluates the value to keep it up-to-date in accordance with the internal regulatory documents. This enables the Bank to track the dynamics of the value, adjust it where necessary, and make allowances.

15 CASH AND BALANCES WITH BANK OF LATVIA

	Group 31.12.2020 EUR	**Bank 31.12.2020 EUR**	**Group 31.12.2019 EUR**	**Bank 31.12.2019 EUR**
Cash	5 003 634	5 003 634	2 431 524	2 431 524
Balance with the Bank of Latvia	84 972 134	84 972 134	96 255 756	96 255 756
Allowance for ECL (Note 14)	(1 466)	(1 466)	(2 594)	(2 594)
	89 974 302	**89 974 302**	**98 684 686**	**98 684 686**

16 DUE ON DEMAND FROM CREDIT INSTITUTIONS

	Group 31.12.2020 EUR	**Bank 31.12.2020 EUR**	**Group 31.12.2019 EUR**	**Bank 31.12.2019 EUR**
Due from credit institutions incorporated in the Republic of Latvia (Moody's ratings):	849 257	849 257	13 045	13 045
not rated	*849 257*	*849 257*	*13 045*	*13 045*
Due from credit institutions incorporated in other EU countries (Moody's ratings):	895 905	893 493	7 461 570	7 460 571
rated A	-	-	*4 012 695*	*4 012 695*
not rated	*895 905*	*893 493*	*3 448 875*	*3 447 876*
Due from credit institutions incorporated in OECD countries outside the EU (Moody's ratings):	873 796	873 796	38 434	38 434
not rated	*873 796*	*873 796*	*38 434*	*38 434*
Due from credit institutions incorporated in other countries (Moody's ratings):	1 383 498	1 383 498	2 793 474	2 793 474
rated A	*34*	*34*	*23*	*23*
rated Baa	*312 964*	*312 964*	*235 637*	*235 637*
rated Ba	*727 159*	*727 159*	*547 257*	*547 257*
rated B	*3 399*	*3 399*	*1 062 036*	*1 062 036*
rated Caa	-	-	*934 795*	*934 795*
not rated	*339 942*	*339 942*	*13 726*	*13 726*
	4 002 456	**4 000 044**	**10 306 523**	**10 305 524**
Allowance for ECL (Note 14)	(3 915)	(3 915)	(30 425)	(30 425)
	3 998 541	**3 996 129**	**10 276 098**	**10 275 099**

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Concentration of placements with banks and other financial institutions

As at 31 December 2020 and 31 December 2019, the Group and the Bank had four and two banks and financial institutions, whose balances exceeded 10% of total placements on demand with banks and other financial institutions. The gross value of these balances as of 31 December 2020 and 31 December 2019 were EUR 3 044 987 and EUR 7 460 571, respectively.

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Equity and debt instruments

The item 'Investment certificates of investment funds' includes investments in a fund that is incorporated in the European Union and specialises in financing start-ups that are renewable energy producers. The Bank is one of the major investors of the fund. As of 31 December 2020, the fund's net assets were represented by an investment in a German start-up where the fund owns 11-percent stake. The German start-up develops new-generation materials used to manufacture photovoltaic (solar) panels.

According to the senior management's estimates, the acquisition cost the investment certificates corresponds to (is consistent with) their fair value as at 31 December 2020.

The estimate of the fair values is based on the following most important assumptions with respect to further development of the German start-up:
1. the start-up 2will be able to ensure attraction of the funding required to finance the product-development phase and to establish the necessary production capacity;
2. the turnover will reach EUR 10 million during 2021 and EUR 1.14 billion during 2025;
3. profit target will be reached in 2023; the profit will total EUR 120 million.

Substantial negative deviations from the assumptions may lead to a significant decline in the value of this financial instrument in the future.

The table below shows the securities recorded by issuer profile:

	Group and Bank 31.12.2020 EUR	**Group and Bank 31.12.2019 EUR**
Debt securities of private enterprises	-	841 150
Debt securities of central governments	3 259 263	-
Total debt securities	**3 259 263**	**841 150**
Shares of private enterprises	12 415	55 401
Shares of financial auxiliaries	1 662 671	1 532 399
Investment certificates of investment funds, except for money market funds, and of alternative investment funds	958 820	819 333
Investment certificates	3 754 688	3 597 038
Total shares	**6 388 594**	**6 004 171**
	9 647 857	**6 845 321**

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The table below shows the geographical concentration of securities:

	Group and Bank 31.12.2020 EUR	Group and Bank 31.12.2019 EUR
Debt securities of entities registered in EU countries	3 259 263	841 150
Total debt securities	**3 259 263**	**841 150**
Shares of entities registered in the Republic of Latvia	959 464	820 095
Shares of entities registered in other EU countries	3 754 688	3 649 262
Shares of entities registered in OECD countries	1 662 780	1 533 082
Shares of entities registered in CIS countries	1 586	1 732
Shares of entities registered in other countries	10 076	-
Total shares	**6 388 594**	**6 004 171**
	9 647 857	**6 845 321**

(b) Derivative financial instruments

The table below summarises the contractual amounts of the Group's and the Bank's forward foreign exchange contracts outstanding at 31 December 2020 and 31 December 2019. The foreign currency amounts presented below are translated at rates prevalent at the reporting date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognised in the profit or loss.

		Group and Bank		Group and Bank
	31.12.2020 Assets EUR	31.12.2020 Liabilities EUR	31.12.2019 Assets EUR	31.12.2019 Liabilities EUR
Notional amount				
Currency SWAPS	41 590 694	41 671 205	5 372 317	5 397 589
Foreign currency FORWARD contracts	172 215	172 285	596 396	591 920
FUTURES contracts (gold)	-	2 724 600	-	42 045
	41 762 909	**44 568 090**	**5 968 713**	**6 031 554**
Fair value				
Currency SWAPS	38 559	119 070	636	25 908
Foreign currency FORWARD contracts	48	118	4 476	-
FUTURES contracts (gold)	-	104 392	-	1 576
	38 607	**223 580**	**5 112**	**27 484**

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18 FINANCIAL ASSETS AT FAIR VALUE THROUG OTHER COMPREHENSIVE INCOME

	Group and Bank 31.12.2020 EUR	Group and Bank 31.12.2019 EUR
Debt securities of central governments	2 631 547	3 525 418
Debt securities of central governments rated A	*2 631 547*	*3 525 418*
Shares and other variable income securities	28 525	26 950
	2 660 072	**3 552 368**
Allowance for ECL (Note 14)	(506)	(1 140)
	2 659 566	**3 551 228**

The table below shows the geographical concentration of financial assets at fair value through other comprehensive income:

	Group and Bank 31.12.2020 EUR	Group and Bank 31.12.2019 EUR
Debt securities registered in the Republic of Latvia	417 858	3 525 418
Debt securities of entities registered in EU countries	2 213 689	-
Total debt securities	**2 631 547**	**3 525 418**
Shares of entities registered in other EU countries	28 525	26 950
Total shares	**28 525**	**26 950**
	2 660 072	**3 552 368**
Allowance for ECL (Note 14)	(506)	(1 140)
	2 659 566	**3 551 228**

19 DUE FROM CREDIT INSTITUTIONS

	Group and Bank 31.12.2020 EUR	Group and Bank 31.12.2019 EUR
Amounts with no stated maturity or serving as collateral and security deposits	766 205	434 872
	766 205	**434 872**
Allowance for ECL (Note 14)	(76)	(2)
	766 129	**434 870**

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20 FINANCIAL ASSETS AT AMORTISED COST

DEBT INSTRUMENTS

	Group and Bank 31.12.2020 EUR	Group and Bank 31.12.2019 EUR
Government bonds	16 969 312	14 533 859
Bonds and other fixed-income securities	586 786	15 884 564
	17 556 098	**30 418 423**
Allowance for ECL (Note 14)	(4 219)	(6 074)
	17 551 879	**30 412 349**

The following table shows the distribution of securities issuer profile:

	Group and Bank 31.12.2020 EUR	Group and Bank 31.12.2019 EUR
Debt securities of central governments (Moody's ratings)	16 969 312	14 533 858
Debt securities of central governments rated A	*16 969 312*	*12 700 702*
Debt securities of central governments rated Baa	-	*1 832 691*
Debt securities of central governments rated Caa	-	*465*
Debt securities of credit institutions (Moody's ratings)	440	13 454 868
Debt securities of credit institutions rated Aaa	-	*9 768 673*
Debt securities of credit institutions rated Aa	-	*915 336*
Debt securities of credit institutions rated A	-	*2 770 419*
Not rated debt securities of credit institutions	*440*	*440*
Debt securities of financial institutions (Moody's ratings)	-	1 773 569
Debt securities of financial institutions rated Aa	-	*1 773 569*
Public non-financial Corporations (Moody's ratings)	586 346	656 128
Public non-financial Corporations rated Baa	*586 346*	*656 128*
	17 556 098	**30 418 423**
Allowance for ECL (Note 14)	(4 219)	(6 074)
	17 551 879	**30 412 349**

The table below shows the geographical concentration of held-to-maturity securities:

	Group and Bank 31.12.2020 EUR	Group and Bank 31.12.2019 EUR
Debt securities of Republic of Latvia	8 775 684	4 634 006
Debt securities of entities registered in EU countries	8 780 414	23 555 283
Debt securities of entities registered in OECD countries	-	2 228 669
Debt securities of entities registered in CIS countries	-	465
	17 556 098	**30 418 423**
Allowance for ECL (Note 14)	(4 219)	(6 074)
	17 551 879	**30 412 349**

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LOANS AND RECEIVABLES

(a) Loans by type

	Group	Bank	Group	Bank
	31.12.2020	**31.12.2020**	**31.12.2019**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Commercial loans	23 286 093	24 951 488	30 400 431	30 620 305
Mortgage loans	4 848 209	4 848 209	7 283 234	8 993 601
Overdrafts	1 981 608	1 981 608	1 051 148	1 350 292
Consumer loans	617 211	617 211	460 346	460 346
Industrial loans	416 381	416 381	416 474	416 474
Payment cards	33 698	33 698	48 793	48 793
Other	12 186 294	12 369 688	3 739 914	3 739 914
	43 369 494	**45 218 283**	**43 400 340**	**45 629 725**
Reverse repos	-	-	1 227 742	1 227 742
	43 369 494	**45 218 283**	**44 628 082**	**46 857 467**
Allowance for ECL (Note 14)	(8 398 171)	(8 741 954)	(10 823 411)	(12 220 802)
	34 971 323	**36 476 329**	**33 804 671**	**34 636 665**

(b) Loan profile by country of risk

			Group
	Gross loans	**Allowances**	**Net loans**
	31.12.2020	**31.12.2020**	**31.12.2020**
	EUR	**EUR**	**EUR**
Republic of Latvia	19 929 534	(3 591 493)	16 338 041
Other EU countries	15 325 942	(2 241 754)	13 084 188
Non-EU OECD countries	1 159 544	(1 157 794)	1 750
CIS countries	6 936 353	(1 389 033)	5 547 320
Other countries	18 121	(18 097)	24
	43 369 494	**(8 398 171)**	**34 971 323**

			Bank
	Gross loans	**Allowances**	**Net loans**
	31.12.2020	**31.12.2020**	**31.12.2020**
	EUR	**EUR**	**EUR**
Republic of Latvia	21 778 323	(3 935 276)	17 843 047
Other EU countries	15 325 942	(2 241 754)	13 084 188
Non-EU OECD countries	1 159 544	(1 157 794)	1 750
CIS countries	6 936 353	(1 389 033)	5 547 320
Other countries	18 121	(18 097)	24
	45 218 283	**(8 741 954)**	**36 476 329**

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			Group
	Gross loans	**Allowances**	**Net loans**
	31.12.2019	**31.12.2019**	**31.12.2019**
	EUR	**EUR**	**EUR**
Republic of Latvia	15 036 189	(4 678 758)	10 357 431
Other EU countries	22 720 035	(2 783 563)	19 936 472
Non-EU OECD countries	2 691 126	(870 659)	1 820 467
Ukraine	3 687 775	(2 004 562)	1 683 213
CIS countries	474 761	(469 477)	5 284
Other countries	18 196	(16 392)	1 804
	44 628 082	**(10 823 411)**	**33 804 671**

			Bank
	Gross loans	**Allowances**	**Net loans**
	31.12.2019	**31.12.2019**	**31.12.2019**
	EUR	**EUR**	**EUR**
Republic of Latvia	17 265 574	(6 076 149)	11 189 425
Other EU countries	22 720 035	(2 783 563)	19 936 472
Non-EU OECD countries	2 691 126	(870 659)	1 820 467
Ukraine	3 687 775	(2 004 562)	1 683 213
CIS countries	474 761	(469 477)	5 284
Other countries	18 196	(16 392)	1 804
	46 857 467	**(12 220 802)**	**34 636 665**

(c) Loans by customer profile

	Group	**Bank**	**Group**	**Bank**
	31.12.2020	**31.12.2020**	**31.12.2019**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Loans to corporate clients	23 686 844	25 535 633	25 866 001	28 095 386
Loans to individuals	8 599 448	8 599 448	12 335 720	12 335 720
Loans to financial institutions	8 977 390	8 977 390	5 481 194	5 481 194
Loans to senior management and staff members of the Bank	2 105 812	2 105 812	945 167	945 167
	43 369 494	**45 218 283**	**44 628 082**	**46 857 467**
Allowance for ECL (Note 14)	(8 398 171)	(8 741 954)	(10 823 411)	(12 220 802)
	34 971 323	**36 476 329**	**33 804 671**	**34 636 665**

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Notes to the separate and consolidated Financial Statements for the year ended 31 December 2020

(d) Industry analysis of the loan portfolio

			Group
	Gross loans	Allowances	Net loans
	31.12.2020	31.12.2020	31.12.2020
	EUR	EUR	EUR
Finance	12 706 376	(1 094 395)	11 611 981
Trade	7 116 880	(3 985 478)	3 131 402
Real estate	5 562 327	(1 268 174)	4 294 153
Information and communication services	2 074 309	(67 421)	2 006 888
Manufacturing	2 055 011	(574 663)	1 480 348
Other services	490 435	(192 159)	298 276
Energy	224 851	-	224 851
Other	2 434 045	(1 173)	2 432 872
Loans to individuals	10 705 260	(1 214 708)	9 490 552
	43 369 494	**(8 398 171)**	**34 971 323**

			Bank
	Gross loans	Allowances	Net loans
	31.12.2020	31.12.2020	31.12.2020
	EUR	EUR	EUR
Finance	12 706 376	(1 094 395)	11 611 981
Real estate	7 411 116	(1 611 957)	5 799 159
Trade	7 116 880	(3 985 478)	3 131 402
Information and communication services	2 074 309	(67 421)	2 006 888
Manufacturing	2 055 011	(574 663)	1 480 348
Other services	490 435	(192 159)	298 276
Energy	224 851	-	224 851
Other	2 434 045	(1 173)	2 432 872
Loans to individuals	10 705 260	(1 214 708)	9 490 552
	45 218 283	**(8 741 954)**	**36 476 329**

			Group
	Gross loans	Allowances	Net loans
	31.12.2019	31.12.2019	31.12.2019
	EUR	EUR	EUR
Finance	11 104 481	(870 035)	10 234 446
Real estate	7 080 293	(2 519 518)	4 560 775
Trade	5 927 182	(3 180 489)	2 746 693
Manufacturing	2 164 960	(654 497)	1 510 463
Energy	429 941	-	429 941
Other services	49 069	(44 470)	4 599
Other	4 591 269	(2 377 251)	2 214 018
Loans to individuals	13 280 887	(1 177 151)	12 103 736
	44 628 082	**(10 823 411)**	**33 804 671**

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Notes to the separate and consolidated Financial Statements for the year ended 31 December 2020

			Bank
	Gross loans	**Allowances**	**Net loans**
	31.12.2019	**31.12.2019**	**31.12.2019**
	EUR	**EUR**	**EUR**
Finance	11 104 481	(870 035)	10 234 446
Real estate	9 309 678	(3 916 909)	5 392 769
Trade	5 927 182	(3 180 489)	2 746 693
Manufacturing	2 164 960	(654 497)	1 510 463
Energy	429 941	-	429 941
Other services	49 069	(44 470)	4 599
Other	4 591 269	(2 377 251)	2 214 018
Loans to individuals	13 280 887	(1 177 151)	12 103 736
	46 857 467	**(12 220 802)**	**34 636 665**

(e) Breakdown of loans by groups of delayed payments and non-delinquent loans

				Group
	Net loans	**Out of which impaired**	**Net loans**	**Out of which impaired**
	31.12.2020	**31.12.2020**	**31.12.2019**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Past due by the following terms:				
Up to 1 month (inclusive)	20 734	-	5 814 388	-
1 to 3 months	883 586	880 961	2 487 422	-
3 to 6 months	246 498	246 498	-	-
More than 6 months	7 700 113	3 374 375	13 218 438	2 903 243
	8 850 931	**4 501 834**	**21 520 248**	**2 903 243**
Not past due on the reporting date	26 120 392	3 785 382	12 284 423	32 818
	34 971 323	**8 287 216**	**33 804 671**	**2 936 061**

				Bank
	Net loans	**Out of which impaired**	**Net loans**	**Out of which impaired**
	31.12.2020	**31.12.2020**	**31.12.2019**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Past due by the following terms:				
Up to 1 month (inclusive)	20 734	-	5 814 388	-
1 to 3 months	883 586	880 961	2 487 422	-
3 to 6 months	246 498	246 498	-	-
More than 6 months	7 700 113	3 374 375	13 218 438	2 903 243
	8 850 931	**4 501 834**	**21 520 248**	**2 903 243**
Not past due on the reporting date	27 625 398	3 785 382	13 116 417	32 818
	36 476 329	**8 287 216**	**34 636 665**	**2 936 061**

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The following table provides information on the credit quality of the loan portfolio:

			Group
	Gross loans	**Allowances**	**Net loans**
	31.12.2020	**31.12.2020**	**31.12.2020**
	EUR	**EUR**	**EUR**
Non-delinquent loans	26 982 340	(861 951)	26 120 389
Up to 1 month (inclusive)	20 967	(232)	20 735
1 to 3 months	2 162 117	(1 278 530)	883 587
3 to 6 months	526 607	(280 109)	246 498
More than 6 months	13 677 461	(5 977 349)	7 700 112
	43 369 492	**(8 398 171)**	**34 971 321**

			Bank
	Gross loans	**Allowances**	**Net loans**
	31.12.2020	**31.12.2020**	**31.12.2020**
	EUR	**EUR**	**EUR**
Non-delinquent loans	28 831 131	(1 205 734)	27 625 397
Up to 1 month (inclusive)	20 967	(232)	20 735
1 to 3 months	2 162 117	(1 278 530)	883 587
3 to 6 months	526 607	(280 109)	246 498
More than 6 months	13 677 461	(5 977 349)	7 700 112
	45 218 283	**(8 741 954)**	**36 476 329**

			Group
	Gross loans	**Allowances**	**Net loans**
	31.12.2019	**31.12.2019**	**31.12.2019**
	EUR	**EUR**	**EUR**
Non-delinquent loans	15 792 665	(3 508 242)	12 284 423
Up to 1 month (inclusive)	6 806 819	(992 431)	5 814 388
1 to 3 months	2 747 100	(259 678)	2 487 422
3 to 6 months	217 351	(217 351)	-
More than 6 months	19 064 147	(5 845 709)	13 218 438
	44 628 082	**(10 823 411)**	**33 804 671**

			Bank
	Gross loans	**Allowances**	**Net loans**
	31.12.2019	**31.12.2019**	**31.12.2019**
	EUR	**EUR**	**EUR**
Non-delinquent loans	18 022 050	(4 905 633)	13 116 417
Up to 1 month (inclusive)	6 806 819	(992 431)	5 814 388
1 to 3 months	2 747 100	(259 678)	2 487 422
3 to 6 months	217 351	(217 351)	-
More than 6 months	19 064 147	(5 845 709)	13 218 438
	46 857 467	**(12 220 802)**	**34 636 665**

Movements in the loan impairment allowance for the years ended 31 December 2020 and 31 December 2019 are disclosed in Note 14.

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(f) Analysis of collateral

Mortgage loans are secured by underlying housing real estate. Payment cards overdrafts are secured by deposits and guarantees. Consumer loans are secured by other types of collateral.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

Brokerage account balances and security deposits paid to the counterparties are classified as unsecured loans. The gross value of these balances as of 31 December 2020 and 31 December 2019 were EUR 3 601 595 and EUR 2 761 156, respectively.

During the year ended 31 December 2020, the Group and Bank has obtained ownership of the assets by taking over control of collateral accepted as security for commercial loans. Additions were EUR 371 349. During the year ended 31 December 2019, additions were EUR 1 815 671. The foreclosed collateral (property serving as security) is classified as non-current assets held for sale.

	Group	**Bank**	**Group**	**Bank**
	31.12.2020	**31.12.2020**	**31.12.2019**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Premises	240 280	240 280	700 000	700 000
Land plots	131 069	131 069	315 000	315 000
Office building	-	-	800 671	800 671
	371 349	**371 349**	**1 815 671**	**1 815 671**

(g) Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate lending during the year ended 31 December 2020 for the Bank is as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	EUR	**EUR**	**EUR**	**EUR**
Gross carrying value as at 1 January 2020	**7 778 785**	**406 639**	**38 672 043**	**46 857 467**
New assets originated or purchased	**13 970 438**	77 208	632 636	**14 680 282**
Assets repaid	**(12 152 484)**	(25 472)	(1 690 644)	**(13 868 600)**
Transfers to Stage 1	**154 300**	-	-	**154 300**
Transfers to Stage 2	**-**	279 080	-	**279 080**
Transfers to Stage 3	**-**	-	454 459	**454 459**
Amounts written off	**-**	(4)	(2 797 768)	**(2 797 772)**
Foreign exchange adjustments	**(310 057)**	(80)	(230 796)	**(540 933)**
At 31 December 2020	**9 440 982**	**737 371**	**35 039 930**	**45 218 283**

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	Stage 1	Stage 2	Stage 3	Total
	EUR	EUR	EUR	EUR
ECL as at 1 January 2020	**51 246**	**9 434**	**12 160 121**	**12 220 801**
New assets originated or purchased	353 615	77 208	676 237	1 107 060
Assets repaid	(226 330)	(25 472)	(1 690 644)	(1 942 446)
Transfers to Stage 1	20 268	-	-	20 268
Transfers to Stage 2	-	(46 442)	-	(46 442)
Transfers to Stage 3	-	-	26 174	26 174
Impact on period end ECL due to transfers between stages or changes to models and inputs used for ECL calculations	-	-	385 335	385 335
Amounts written off	-	(4)	(2 797 768)	(2 797 772)
Foreign exchange adjustments	(148)	(80)	(230 796)	(231 024)
At 31 December 2020	**198 651**	**14 644**	**8 528 659**	**8 741 954**

21 INVESTMENTS IN SUBSIDIARIES

The subsidiaries of the Bank are as follows:

Name	Ownership	Carrying amount of investment	
		31.12.2020	31.12.2019
		EUR	EUR
Ltd "BIB Real Estate"	100	3 987 267	2 019 765
Ltd „Claim Management"	100	1	1
JSC „BIB Alternative Investment Management"	100	132 229	255 000
"Crementum Capital SICAV P.L.C."	99.9	999	999
Ltd „Komunikācijas un projekti"	100	-	-
Ltd „Darzkopibas 19"	100	-	811 500
Investments in subsidiaries		**4 120 496**	**3 087 265**

During 2020 the Bank increased the share capital of "BIB Real Estate" Ltd by EUR 317 502.

As at 17 December 2020 BIB Real Estate LLC entered into a transaction, through which it acquired 95% stakes on two entities Augsvoleri LLC and JSC Kremeri, each. Both these entities are jointly engaged in execution of long term development project of bulk cargo terminal at the Riga Free Port. With consideration that investments into such entities are initially recognised and subsequently measured as FVTPL financial instruments, the management performed valuation of the afrorementioned project and estimated its fair value in the range from 2,700 thousand EUR to 6,000 thousand EUR with middle point of 4,350 thousand EUR of as at 31 December 2020.

While the management of the Bank applied various assumptions for business growth scenarios for the aforementioned investment projects and subsequent transactions, the management of the Bank and the Group used a principle of prudence and also the regulatory investment benchmarks into related group entities and accordingly adjusted the fair value of venture capital subsidiary BIB Real Estate LLC within the aforementioned market value range to 3 987 thousand EUR and recognised net income of 550 thousand EUR from financial instruments designated as at FVTPL, respectively.

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The fair value of the identifiable assets and liabilities acquired as at the date of acquisition was:

	Ltd Augšvoleri 17.12.2020 EUR	JSC Krēmeri 17.12.2020 EUR
ASSETS		
Due on demand from credit institutions	7 490	-
Property and equipment	2 786 673	146 140
Deferred expenses and accrued income	5 240	-
Other assets	2 854 364	321 698
Total assets	**5 653 767**	**467 838**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Due to credit institutions	846 068	-
Accrued expenses, provisions and deferred income	24 343	-
Other liabilities	3 358 462	515 175
Total liabilities	**4 228 873**	**515 175**
Shareholders' equity		
Share capital	1 591 231	635 800
Reserve capital	-	356
Accumulated losses	(166 337)	(683 493)
Accumulated losses for the previous years	*(366 065)*	*(673 089)*
Loss for the year	*199 728*	*(10 404)*
Total shareholders' equity	**1 424 894**	**(47 337)**
Total liabilities and shareholders' equity	**5 653 767**	**467 838**
Total identifiable net assets	**1 424 894**	**(47 337)**
Non-controlling interests	**71 245**	**(2 367)**

Subsequently the management of Group made a decision on spin off of certain real estate assets from the books of BIB Real Estate Ltd and transfer them to the books of the Bank at the carrying value of 1,452 thousand EUR. In follow up the management of BIB Real Estate Ltd additionally estimated the market value of its remaining real estate projects and determined their value of 1,018 thousand EUR.

22 NON-CURRENT ASSETS HELD FOR SALE

	Group 31.12.2020 EUR	Bank 31.12.2020 EUR	Group 31.12.2019 EUR	Bank 31.12.2019 EUR
Collaterals from loans assumed	2 674 100	2 326 424	1 772 625	1 425 662
	2 674 100	**2 326 424**	**1 772 625**	**1 425 662**

The Group and the Bank take possession of property that originally was pledged as security for a loan. Please refer to Note 20 for more detail.

23 INVESTMENT PROPERTY

For investment property, the Group and the Bank applies a fair-value-based accounting model. The fair value of the investment property item is based on the appraisals from independent appraisers who hold a recognised and relevant professional qualification and have recent experience in appraising similar property. The independent valuators provide the fair value of the Group's and the Banks' investment property portfolio every year.

Investment property	**Group**	**Bank**
	EUR	**EUR**
As of 1 January 2019	**9 840 555**	**6 918 674**
Revaluation	(153 005)	-
Sale	(141 348)	-
Loss from sale	(44 652)	-
Reclassification	(346 963)	-
As of 31 December 2019	**9 154 587**	**6 918 674**
Additions	4 503 671	4 503 671
Revaluation	566 098	630 005
Sale	(155 000)	-
Loss from sale	(14 000)	-
Reclassification to non-current assets held for sale	(1 333 100)	-
As of 31 December 2020	**12 722 256**	**12 052 350**

During 2020, Group sold real estate property objects in Jurmala: apartments and construction objects and related land plots. The sale loss totalled EUR 14 000.

Amounts recognised in the profit or loss (apart from revaluation and disposal result):

	Group	**Bank**
	EUR	**EUR**
Rental income earned on investment property	54 649	54 649
Direct operating expenses (including repairs and maintenance costs) incurred in connection with the investment property which has earned a rental income during the reporting year	(48 771)	(48 771)
Direct operating expenses (including repairs and maintenance costs) incurred in connection with the investment property which has not earned a rental income during the reporting year	(75 470)	(75 470)

External, independent property valuators, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued, determined the fair value of investment property. The independent valuators provide the fair value of the Group's investment property portfolio every year.

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The investment property has been categorised as a Level 3 in the fair value hierarchy. Significant unobservable inputs include also the adjusted sales prices set out in the table below. These are assessed as unobservable inputs since the adjustments made to the sales prices is considered to be significant enough to require Level 3 designations. The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used:

Investment property:

Type		EUR	Valuation technique	Significant unobservable inputs			Inter-relation between significant unobservable inputs and fair value measurement
				Input	31.12.2020	31.12.2019	
Land plots in Riga (Taleru street project)*			Income approach	Sales price varies from EUR to EUR per m2	17	20	The estimated fair value would increase (decrease) if:
	2020:	501 000	-	Discount rate of % (depending on the plot)	15	6.4 - 11.2	• Sales price per m2 was higher (lower)
	2019.:	580 000		Construction costs EUR per m2	850	700	• The discount rate was lower (higher)
				The final sale price EUR per m2 (depending on the plot)	992 - 1090	950 - 1 050	• Construction costs per m2 would be less (greater)
							• The final sale price per m2 was higher (lower)
Land plots in Jurmala (Atbalss street)*			Comparable transaction method	Sales price varies from EUR to EUR per m2	57 - 75	90 - 150	The estimated fair value would increase (decrease) if:
	2020:	1 513 305	-				• Sales price per m2 was higher (lower)
	2019.:	1 506 000					
Land plots in Jurmala (Skudru street)			Comparable transaction method	Sales price varies from EUR to EUR per m2	-	16 - 23	The estimated fair value would increase (decrease) if:
	2020:	-					• Sales price per m2 was higher (lower)
	2019.:	159 600					
Land plots in Latvia			Discounted cash flows technique: the model is based on discounted cash flows from rental income.	Sales price varies from EUR to EUR per m2	-	5	The estimated fair value would increase (decrease) if:
	2020:	-		Discount rate of %	-	5.12 - 10.12	• Sales price per m2 was higher (lower)
	2019.:	539 000					• The discount rate was lower (higher)

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Type	EUR	Valuation technique	Significant unobservable inputs: Input	31.12.2020	31.12.2019	Inter-relation between significant unobservable inputs and fair value measurement
Land plots in Latvia		Comparable transaction method	Sales price varies from EUR to EUR per m2	-	4 - 6	The estimated fair value would increase (decrease) if:
2020:	-					• Sales price per m2 was higher (lower)
2019.:	75 200					-
Land plots in Ukraine *		Comparable transaction method	Sales price varies from EUR to EUR per m2	6 - 13	6 - 766	The estimated fair value would increase (decrease) if:
2020:	2 385 352					• Sales price per m2 was higher (lower)
2019.:	1 638 696					
Construction objects and related land plots in Riga (Ieriķu street) *		Income approach	Rental income per m2 of EUR	3.5 - 4.8	1 - 7	The estimated fair value would increase (decrease) if:
2020:	771 000	Discounted cash flows technique: the model is based on discounted cash flows from rental income.	Discount rate of %	8.00	7.62	• Rental income per m2 was higher (lower)
2019.:	731 261		Occupancy rate of %	97	90	• The discount rate was lower (higher)
						• The occupancy rate was higher (lower)
Construction objects and related land plots in Riga (Kaleju street) *		Comparable transaction method	Sales price varies from EUR to EUR per m2	5307 - 6961	5042 - 5360	The estimated fair value would increase (decrease) if:
2020:	1 550 000					• Sales price per m2 was higher (lower)
2019.:	1 400 000					
Construction objects and related land plots in Riga (Smilšu street) *		Income approach	Sales price varies from EUR to EUR per m2	-	-	The estimated fair value would increase (decrease) if:
2020:	2 323 193	-	Discount rate of %	7	-	• Rental income per m2 was higher (lower)
2019.:	-		Construction costs EUR per m2	-	-	• The discount rate was lower (higher)
			The final sale price EUR per m2	1 492	-	• The occupancy rate was higher (lower)

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Type	EUR	Valuation technique	Significant unobservable inputs: Input	31.12.2020	31.12.2019	Inter-relation between significant unobservable inputs and fair value measurement
Construction objects and related land plots in Riga (Miesnieku street) *		Income approach	Rental income per m2 of EUR	14.5	-	The estimated fair value would increase (decrease) if:
2020:	2 400 000		Discount rate of %	6.00	-	• Rental income per m2 was higher (lower)
2019.:	-	Comparable transaction method	Sales price varies from EUR to EUR per m2	2094 - 2219	-	• The discount rate was lower (higher)
						• The occupancy rate was higher (lower)
Construction objects and related land plots in Jurmala (Rītupes street)		Comparable transaction method	Sales price varies from EUR to EUR per m2	-	1050 - 1109	The estimated fair value would increase (decrease) if:
2020:	-					• Sales price per m2 was higher (lower)
2019.:	169 000					-
Construction objects and related land plots in Belarus *		Comparable transaction method	The final sale price EUR per m2	1 227	914	The estimated fair value would increase (decrease) if:
2020:	355 500					• Sales price per m2 was higher (lower)
2019.:	354 034					
The attic and land plot in Riga (Tallinas street)		Income approach	Rental income per m2 of EUR	-	5 - 7	The estimated fair value would increase (decrease) if:
2020:	-		Discount rate of %	-	8 - 12	• The discount rate was lower (higher)
2019.:	301 600		The final sale price EUR per m2	-	1 618	• Sales price per m2 was higher (lower)
Apartments in Riga (Merķeļa street)		Comparable transaction method	Sales price varies from EUR to EUR per m2	-	1117 - 2105	The estimated fair value would increase (decrease) if:
2020:	-					• Sales price per m2 was higher (lower)
2019.:	323 000					

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Type		EUR	Valuation technique	Significant unobservable inputs			Inter-relation between significant unobservable inputs and fair value measurement
				Input	31.12.2020	31.12.2019	
Apartments in Bulgaria			Comparable transaction method	Sales price varies from EUR to EUR per m2	1267 - 1477	1281 - 1900	The estimated fair value would increase (decrease) if:
	2020:	669 906		Discount rate of %	1	1	• Sales price per m2 was higher (lower)
	2019.:	668 513					
Premises in Belarus *			The sale price specified in the sale agreement	Sales price varies from EUR to EUR per m2	278 - 833	650	The estimated fair value would increase (decrease) if:
	2020:	253 000					• Sales price per m2 was higher (lower)
	2019.:	250 965					

Investment property: EUR 12 722 256 - 2020

Investment property: EUR 9 154 587 - 2019

Bank’s investment property is marked with *

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24 PROPERTY AND EQUIPMENT

						Group
	Buildings and land in own use EUR	**Right-of-use assets EUR**	**Motor vehicles EUR**	**Office equipment EUR**	**Construction in progress EUR**	**Total EUR**
Acquisition cost						
As of 1 January 2019	**15 402 905**	**-**	**441 734**	**5 444 385**	**655 857**	**21 944 881**
Additions	-	131 686	10 000	76 435	1 835 835	**2 053 956**
Disposals	-	-	(84 590)	-	-	**(84 590)**
As of 31 December 2019	**15 402 905**	**131 686**	**367 144**	**5 520 820**	**2 491 692**	**23 914 247**
Additions	-	2 038	-	417 529	1 640 281	**2 059 848**
Acquisition of subsidiary	444 000	2 521 830	-	-	-	**2 965 830**
Revaluation	2 816 427	-	145 570	-	-	**2 961 997**
Disposals	-	(39 564)	-	-	-	**(39 564)**
Reclassification	4 089 411	-	-	-	(4 089 411)	-
As of 31 December 2020	**22 752 743**	**2 615 990**	**512 714**	**5 938 349**	**42 562**	**31 862 358**
Depreciation						
As of 1 January 2019	**(2 529 016)**	**-**	**(295 742)**	**(3 357 083)**	**-**	**(6 181 841)**
Depreciation	(264 584)	(33 134)	(60 658)	(466 914)	-	**(825 290)**
Disposals	-	-	81 867	-	-	**81 867**
As of 31 December 2019	**(2 793 600)**	**(33 134)**	**(274 533)**	**(3 823 997)**	**-**	**(6 925 264)**
Depreciation	(277 239)	(32 917)	(45 622)	(436 535)	-	**(792 313)**
Disposals	-	8 355	-	-	-	**8 355**
As of 31 December 2020	**(3 070 839)**	**(57 696)**	**(320 155)**	**(4 260 532)**	**-**	**(7 709 222)**
Net book value						
As of 31 December 2019	**12 609 305**	**98 552**	**92 611**	**1 696 823**	**2 491 692**	**16 988 983**
As of 31 December 2020	**19 681 904**	**2 558 294**	**192 559**	**1 677 817**	**42 562**	**24 153 136**

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Bank

	Buildings and land in own use EUR	Right-of-use assets EUR	Motor vehicles EUR	Office equipment EUR	Construction in progress EUR	Total EUR
Acquisition cost						
As of 1 January 2019	**15 402 905**	**-**	**441 734**	**5 441 562**	**655 857**	**21 942 058**
Additions	-	131 686	10 000	76 435	1 835 835	**2 053 956**
Disposals	-	-	(84 590)	-	-	**(84 590)**
As of 31 December 2019	**15 402 905**	**131 686**	**367 144**	**5 517 997**	**2 491 692**	**23 911 424**
Additions	-	2 038	-	417 529	1 640 281	**2 059 848**
Revaluation	2 816 427	-	145 570	-	-	**2 961 997**
Disposals	-	(39 564)	-	-	-	**(39 564)**
Reclassification	4 089 411	-	-	-	(4 089 411)	**-**
As of 31 December 2020	**22 308 743**	**94 160**	**512 714**	**5 935 526**	**42 562**	**28 893 705**
Depreciation						
As of 1 January 2019	**(2 528 917)**	**-**	**(295 742)**	**(3 354 458)**	**-**	**(6 179 117)**
Depreciation	(264 584)	(33 134)	(60 658)	(466 815)	-	**(825 191)**
Disposals	-	-	81 867	-	-	**81 867**
As of 31 December 2019	**(2 793 501)**	**(33 134)**	**(274 533)**	**(3 821 273)**	**-**	**(6 922 441)**
Depreciation	(277 239)	(32 917)	(45 622)	(432 875)	-	**(788 653)**
Disposals	-	8 355	-	-	-	**8 355**
As of 31 December 2020	**(3 070 740)**	**(57 696)**	**(320 155)**	**(4 254 148)**	**-**	**(7 702 739)**
Net book value						
As of 31 December 2019	**12 609 404**	**98 552**	**92 611**	**1 696 724**	**2 491 692**	**16 988 983**
As of 31 December 2020	**19 238 003**	**36 464**	**192 559**	**1 681 378**	**42 562**	**21 190 966**

If the buildings and land were measured using the cost model, the carrying amounts would be as follows:

	Buildings and land in own use EUR
Acquisition cost	19 492 316
Depreciation	(3 058 082)
Net book value	**16 434 234**

As disclosed in the Note 3, in 2020 the Bank and the Group switched to revaluation model for buildings and land. The fair values of the own buildings were determined by external, independent property valuers, having appropriate and recognised professional qualifications and recent experience in the location and category of property being valued. The assumptions used for determining the fair values of the own buildings were based on expected market rental growth rates, void periods, occupancy rates as well as risk adjusted discount rates, respectively. Among the others also the discount rate estimation considers the quality of a building and its location (prime vs secondary). All revaluation gains are recognized as other comprehensive income. The revaluated buildings and land fall within Level 3 of the fair value hierarchy.

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As of 31 December 2020, the net carrying amount of motor vehicles includes ‘property revaluation reserve’ totalling EUR 180 470.

The fair value of motor vehicles was determined by an independent appraiser by using the comparable transaction method based on recent market transactions with similar vehicles between independent parties. The evaluation of motor vehicles was carried out in 2020.

The fair value of motor vehicles, taking into account their evaluation carried out in 2020 and the accumulated depreciation, is not significantly different from the carrying amount. The revaluated property and equipment fall within Level 3 of the fair value hierarchy. The management believes that any fair value sensitivity is not material to the financial statements.

Baltic International Bank has embarked on an ambitious project intended to renovate and refurbish five buildings in Riga at Kalēju street and Vecpilsētas street and build a publicly accessible quarter of the Old Riga. The hands-on exhibits and historic evidence will enable the visitors to understand how the urban areas developed over the past nine centuries.

Approximately six year ago, in 2014, the Bank’s senior management came forward with an initiative of refurbishing the quarter Kalēju Kvartāls. They decided to merge two important goals, namely, to build modern office spaces for the growing investment bank and preserve the cultural and historical testimony of the emergence and development of Riga.

Overall, the Kalēju Kvartāla project embraces five buildings and inner courtyard. To commence the construction works as soon as possible and convert the ideas into reality, we have decided to implement two standalone construction projects as follows:
„Refurbishment of buildings (identifiers 004 and 005) in Riga at Kalēju iela 43 / Vecpilsētas iela 8”: constrcution works started in autumn of 2018. In spring of 2022, the Bank is planning to quit the old premises at Kalēju iela 43 (two buildings), move to the new premises and embark on refurbishment of buildings (identifiers 001, 002 and 003) and inner courtyard in Riga at Kalēju iela 43 / Vecpilsētas iela 8”.

The gross floor area of the buildings will increase up to 6200 m2 from 3932 m2, up 57%. The estimated budget earmarked for the refurbishment totals 9.4 million euros. A certified external appraiser was hired to determine the market value of Kalēju Kvartāla. The value as at 31 December 2020 comprised EUR 10 000 thousand, positive revaluation effect comprised EUR 1 197 thousand.

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25 INTANGIBLE ASSETS

	Group and Bank Software EUR
Acquisition cost	
As of 1 January 2019	**7 919 048**
Additions	483 951
As of 31 December 2019	**8 402 999**
Additions	596 599
As of 31 December 2020	**8 999 598**
Amortisation	
As of 1 January 2019	**(3 738 213)**
Amortisation	(512 743)
As of 31 December 2019	**(4 250 956)**
Amortisation	(665 401)
As of 31 December 2020	**(4 916 357)**
Net book value	
As of 31 December 2019	**4 152 043**
As of 31 December 2020	**4 083 241**

Investments in Temenos T24, a packaged core banking software, total EUR 2 515 032.

26 DEFERRED EXPENSES AND ACCRUED INCOME

	Group 31.12.2020 EUR	Bank 31.12.2020 EUR	Group 31.12.2019 EUR	Bank 31.12.2019 EUR
Deferred expenses	673 730	672 780	1 424 586	1 422 907
Accrued income	1 557 858	1 562 087	1 443 869	1 448 518
	2 231 588	**2 234 867**	**2 868 455**	**2 871 425**
Allowance for ECL (Note 14)	-	(4 229)	(739 119)	(743 348)
	2 231 588	**2 230 638**	**2 129 336**	**2 128 077**

As at 31 December 2020, the item “Accrued income” includes the accrued fee and commission income that Bank is expected to receive from one of its clients in accordance with the provisions of the trust agreement (management, on the client’s behalf, of the loan granted to a third party). The loan is secured by immovable property that is physically located in EU Member State. The government of that EU country confiscated the property while retaining the first mortgage established and registered by the Bank against the property. Currently, the court proceedings are underway seeking to sell the property and to repay the credit obligations in full. The Bank will receive payment of the accrued trust-services income at the point in time when the sale of the property will be completed and the Bank’s client will receive the sale proceeds. The Bank’s management expects the successful outcome of the litigation and the recovery of the debt (and payment of the accrued income) in full no longer than within three years from the date of the approval of these financial statements.

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27 OTHER ASSETS

	Group 31.12.2020 EUR	Bank 31.12.2020 EUR	Group 31.12.2019 EUR	Bank 31.12.2019 EUR
Financial assest				
Accounts receivable	4 822 261	1 654 201	2 288 788	2 099 866
Funds placed in guarantee funds	2 717 884	2 717 884	155 854	155 854
Unsettled spot forex transactions	244	244	2 803	2 803
Claim rights against Segesta	-	-	2 483 469	2 483 469
Money in transit (replenishment of a correspondent account)	-	-	109 267	109 267
Others	364 300	42 603	838 315	4 108
Non financial assest				
Precious metals	2 901 731	2 901 731	792 677	792 677
Prepaid taxes	66 194	64 865	133 546	64 865
Prepayments	2 481 445	2 481 445	725 411	725 411
	13 354 059	**9 862 973**	**7 530 130**	**6 438 320**
Allowance for ECL (Note 14)	(162 566)	(131 673)	(218 451)	(187 458)
	13 191 493	**9 731 300**	**7 311 679**	**6 250 862**

In December 2019, the Bank's assets of EUR 5 million (claim rights against Segesta) worth were sold (through a co-financing deal) at their face value to other investors. In this case, the Bank will further act in its capacity as the document agent and representative of the investors in relations with the obligors (Note 36).

The other receivables includes an advance payment of 540 thousand EUR for the acquisition of equity shares of start-up company in Estonia, which has been operating into the development of specialized global IT platform and related mobile application being used at the international scale for the management of personal finance planning tools for private individuals. As of 31 December 2020, the registration of shares was not completed due to the slowdown in the operation of Estonian state registers due to COVID-19.

The respective amount of 540 thousand EUR also represents the Bank's management estimate of fair value of the respective shares as at 31 December 2020 as the registration of the Bank's investment into equity into the investee was legally registered and processed as at 15 February 2021 and the valuation of equity of the investee as at year end with consideration of aforementioned subsequent events as well as other economic assumptions was made and presented to the management of the Bank.

In December 2020, the Bank transferred EUR 2,241 thousand to a lawyer established in the United Kingdom. According to the plans outlined by the Bank's senior management, the money will be used to pay for legal services and finance- raising services; specific services have not yet been agreed upon. As at the date of approval of these financial statements, the Bank has a free access to the money and the money will be paid back upon the Bank's first request.

Precious metals are stated at fair value (level 1 of the fair value hierarchy).

The impairment allowance was made for accounts receivable.

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28 DUE TO CREDIT INSTITUTIONS

	Group and Bank 31.12.2020 EUR	Group and Bank 31.12.2019 EUR
Repayable on demand	4 613 846	7 061 309
Term balances	-	12 088 164
	4 613 846	**19 149 473**

The table below shows geographical concentration:

	Group and Bank 31.12.2020 EUR	Group and Bank 31.12.2019 EUR
Due to central bank	-	12 088 164
Credit institutions incorporated in the Republic of Latvia	4 039 775	6 645 452
Credit institutions incorporated in other non-OECD countries	574 071	415 857
	4 613 846	**19 149 473**

As at 31 December 2020 and 31 December 2019 due to credit institutions did not include any deposits serving as collateral for the outstanding loans.

Concentration of due to credit institutions

As at 31 December 2020 and 31 December 2019, the Group and Bank had balances with two and two credit institution, which exceeded 10% of total placements by credit institutions. The gross values of these balances as of 31 December 2020 and 31 December 2019 were EUR 18 867 993 and EUR 18 867 993.

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29 DEPOSITS

	Group	Bank	Group	Bank
	31.12.2020	31.12.2020	31.12.2019	31.12.2019
Repayable on demand	EUR	EUR	EUR	EUR
Corporate customers	111 262 864	111 405 940	99 730 042	99 867 794
Financial institutions	18 816 229	18 816 229	16 539 310	16 539 310
Public organisations	852 462	852 462	227 264	227 264
Individuals	31 362 816	31 362 816	39 170 448	39 170 448
	162 294 371	**162 437 447**	**155 667 064**	**155 804 816**
Term deposits				
Corporate customers	3 890 159	3 890 159	5 700 287	5 700 287
Financial institutions	201 385	201 385	515 286	515 286
Public organisations	100 796	100 796	-	-
Individuals	10 207 633	10 207 633	12 223 731	12 223 731
	14 399 973	**14 399 973**	**18 439 304**	**18 439 304**
Total deposits	**176 694 344**	**176 837 420**	**174 106 368**	**174 244 120**

The table below shows geographical concentration:

Republic of Latvia	68 427 332	68 570 408	38 789 348	38 927 100
Other EU countries	28 460 337	28 460 337	73 181 176	73 181 176
Non-EU OECD countries	21 138 826	21 138 826	9 247 033	9 247 033
Other countries	58 667 849	58 667 849	52 888 811	52 888 811
	176 694 344	**176 837 420**	**174 106 368**	**174 244 120**

30 ACCRUED EXPENSES, PROVISIONS AND DEFERRED INCOME

	Group	Bank	Group	Bank
	31.12.2020	31.12.2020	31.12.2019	31.12.2019
	EUR	EUR	EUR	EUR
Accruals for other payments	1 905 879	1 905 879	1 945 260	1 941 031
Provision for unused vacation	474 018	474 018	319 073	319 073
Accrued payable to the Deposit Guarantee Scheme (DGS)	57 106	57 106	42 677	42 677
Allowance for off-balance sheet exposures (Note 13)	59 565	61 584	21 264	60 888
Other accrued expense	46 850	21 054	134 853	131 286
Deferred income	128 360	133 600	36 344	36 841
	2 671 778	**2 653 241**	**2 499 471**	**2 531 796**

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31 OTHER LIABILITIES

	Group 31.12.2020 EUR	Bank 31.12.2020 EUR	Group 31.12.2019 EUR	Bank 31.12.2019 EUR
Financial liabilities				
Lease liabilities	2 629 913	37 445	100 306	100 306
Money in Transit	1 518 039	1 518 039	484 242	484 242
Staff salaries	243 396	243 396	209 395	209 395
Non financial liabilities				
Collateral securing the obligations	40 890	40 890	70 890	70 890
Unsettled spot forex transactions	8 163	8 163	34 738	34 738
Other accounts payable	1 859 263	438 735	585 715	480 744
	6 299 664	**2 286 668**	**1 485 286**	**1 380 315**

Reconciliation of movements of liabilities to cash flows arising from lease liabilities:

	Lease liabilities	
	Group EUR	**Bank EUR**
As of 31 December 2019	**100 306**	**100 306**
Change from operating activities cash flows		
Acquisition of lease liabilities	2 594 506	2 038
Repayment of lease liabilities	(67 415)	(67 415)
Total changes from operating activities cash flows	**2 527 091**	**(65 377)**
Liability – related		
Interest expense	2 516	2 516
Total liability-related other changes	**2 516**	**2 516**
As of 31 December 2020	**2 629 913**	**37 445**
As of 1 January 2019	**-**	**-**
Change from operating activities cash flows		
Acquisition of lease liabilities	131 686	131 686
Repayment of lease liabilities	(35 238)	(35 238)
Total changes from operating activities cash flows	**96 448**	**96 448**
Liability – related		
Interest expense	3 858	3 858
Total liability-related other changes	**3 858**	**3 858**
As of 31 December 2019	**100 306**	**100 306**

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32 SUBORDINATED LIABILITIES

Subordinated liabilities do not have a fixed maturity date with the possibility of terminating the agreement by giving Bank a notice of termination at least 5 years and 2 weeks prior to the intended withdrawal date. Subordinated deposits are repayable before maturity only on winding up or bankruptcy of the Bank and rank before the shareholders' claims.

As at 31 December 2020, the Bank had one customer whose deposit exceeded 10% of the total volume of subordinated deposits.

							Group and Bank
Depositor	**Currency**	**Amount in currency**	**Interest rate**	**The date of conclusion of the loan agreement**	**Repayment date**	**Amount 31.12.2020 EUR**	**Amount 31.12.2019 EUR**
Diana Belokon	GBP	1 000 176	7.00%	30.04.2013	06.02.2024	1 112 526	2 938 982

	Group and Bank 31.12.2020 EUR	**Group and Bank 31.12.2019 EUR**
Residents of the Republic of Latvia		
Individuals	*1 958 355*	*5 124 495*
Residents of other countries		
Individuals	*3 517 855*	*4 060 434*
	5 476 210	**9 184 929**

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

	Group and Bank Subordinated liabilities EUR
Balance as of 1 January 2020	**9 184 929**
Change from financing cash flows	
Cash paid out to repay subordinated debt	(3 252 699)
Total changes from financing cash flows	**(3 252 699)**
The effect of changes in foreign exchange rates	**(455 368)**
Liability – related	
Interest expense	312 563
Interest paid	(313 215)
Total liability-related other changes	**(652)**
As of 31 December 2020	**5 476 210**

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	Group and Bank Subordinated liabilities EUR
As of 1 January 2019	**13 635 997**
Change from financing cash flows	
Subordinated liabilities	100 013
Cash paid out to repay subordinated debt	(4 741 211)
Total changes from financing cash flows	**(4 641 198)**
The effect of changes in foreign exchange rates	**190 701**
Liability – related	
Interest expense	590 410
Interest paid	(590 981)
Total liability-related other changes	**(571)**
As of 31 December 2019	**9 184 929**

33 SHAREHOLDERS' EQUITY

The Bank's share capital totals EUR 36 399 229 and is divided into 5 126 652 ordinary shares carrying identical voting rights (on 31 December 2019: 33 626 395 and is divided into 4 736 112 ordinary shares carrying identical voting rights). The nominal value of one share is EUR 7.10.

All shares are registered. Each share carries the right to one vote at the meetings of shareholders, a right to receive dividends as declared from time to time and a right to residual assets. Of the Bank's 93 shareholders, 28 are legal entities and 65 are individuals.

Reserve capital in the amount of EUR 835 152 (31 December 2018: EUR 835 152) is formed from the contributions made by the Bank's shareholders. The Bank's General Meeting of Shareholders makes the decision concerning further usage of reserve capital. Reserve capital can be used to:
- cover losses;
- increase the share capital;
- pay dividends.

	Quantity	**Amount EUR**
Total paid-in share capital 31 December 2018	**4 436 112**	**31 496 395**
Increase of registered share capital	300 000	2 130 000
Total paid-in share capital 31 December 2019	**4 736 112**	**33 626 395**
Increase of paid-in share capital	390 540	2 772 834
Total paid-in share capital 31 December 2020	**5 126 652**	**36 399 229**

Listed below are the shareholders who control more than 10 percent of the shares in the shareholders' equity:

	31.12.2020	**31.12.2019**
Valeri Belokon	62.08%	66.95%
Vilori Belokon	33.00%	33.00%

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34 SURETIES AND COMMITMENTS

Sureties and guarantees, which represent irrevocable assurances and promise that the Bank will make payments to the beneficiary (third party) in the event that the obligor (customer) fails to honor his/her obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit and liabilities for credit cards represent unused portions of authorisations to extend credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments.

	Group 31.12.2020 EUR	Bank 31.12.2020 EUR	Group 31.12.2019 EUR	Bank 31.12.2019 EUR
Sureties and guarantees	**1 302 955**	**1 302 955**	**750 469**	**750 469**
Commitments to customers	**5 672 124**	**5 701 182**	**2 495 540**	**2 584 659**
Commitments to extend credit	5 167 372	5 196 430	369 056	458 175
Unused creditcard limits	267 535	267 535	330 548	330 548
Safe custody of gold bullion	-	-	1 744 246	1 744 246
Other commitments	237 217	237 217	51 690	51 690
	6 975 079	**7 004 137**	**3 246 009**	**3 335 128**

35 TRUST AGREEMENTS

The Bank enters into trust agreements with individuals and legal entities, residents and non-residents of the Republic of Latvia. The Bank accepts no risk for its trust operations; all risks are retained by its clients. As of 31 December 2020, assets administered by the Bank totaled EUR 66 242 400. As of 31 December 2019, the Bank's administered assets stood at EUR 80 603 690.

In December 2019, the Bank signed an agreement with two Bank's clients, private individuals, and a company controlled by the Bank's largest shareholder where these counterparties acquired part of the Bank's loan portfolio and other assets at their nominal value. Bank's clients acquired assets for EUR 11.7 million, affiliated company – EUR 8.1 million. As part of the agreement loans and other assets mentioned above there transferred to the Bank's trust management arrangement.

36 LITIGATION

In the ordinary course of business, the Group and the Bank are exposed to litigation risks. The management believes that the ultimate loss, if any, arising in connection with litigation or complaints will not have a materially adverse effect on the Bank's financial position or results of future operations. No provisions were recognized as at 31 December 2020 and 2019 except for administrative fine imposed by Financial and Capital Market Commission .

(a) Client's claim against the Bank

One of the Bank's clients (a user of brokerage services) brought against the Bank an action for compensation of losses arising from the use of the Bank's services. On 10 January 2020, the Civil Law Division of the Riga Regional Court, Latvia [Rīgas apgabaltiesas Civillietu tiesas kolēģija] rendered its judgment in favour of the applicant and ordered the Bank to pay a portion of the claim (i.e. claim partly upheld) totalling EUR 1 473 thousand. The Bank appealed [in cassation] against that judgment on 7 February 2020. The Bank's management believes there is a sufficiently large probability of success of the action resulting in no subsisting obligations for the Bank. The Bank therefore did not set aside any allowances for the claim on 31 December 2020.

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(b) Administrative cases

On 29 November 2019, the Board of the Financial and Capital Market Commission imposed an administrative fine of EUR 1.556 thousand on the Bank for the infringements committed by the Bank, namely, inadequacy of the Bank's internal control system designed to thwart money laundering and terrorism financing. The Bank contested the decision before the Board, but the Board affirmed its original decision on 22 December 2020. The Bank contested the Board's decision before the Administrative Court [Administratīvā tiesa] of the Republic of Latvia on 28 January 2021. Based on the analysis on the likely outcome thereof carried out by the Bank's legal advisers, the Bank's management estimated the final amount of costs (EUR 778 thousand) involved in the administrative case and set aside the allowances for contingencies.

On 5 January 2020, the Financial and Capital Market Commission (FCMC) initiated administrative proceedings regarding to the Bank's non-compliance with the regulatory capital requirements. On 9 April 2020, the FCMC arrived at the conclusion that the circumstances having initially triggered the administrative proceeding changed and it was unreasonable to render the decision in this case. The FCMC therefore terminated the administrative proceedings because of the unreasonableness thereof under Article 63(1) 4 of the Administrative Procedure Act [Administratīvā procesa likums] of the Republic of Latvia.

37 RELATED PARTY TRANSACTIONS

The outstanding balances as of 31 December 2020 and related income statement amounts of transactions for the year ended 31 December 2020 with related parties are as follows:

Group

31 December 2020	**Shareholders, Members of the Supervisory Council and Management Board EUR**	**Related to shareholders and management EUR**	**Other senior executives**	**Total EUR**
Assets				
Loans	1 535 451	1 276 153	-	**2 811 604**
Gross Loans	*1 547 654*	*1 279 586*	-	***2 827 240***
Allowances	*(12 203)*	*(3 433)*	-	***(15 636)***
Other assets	-	642 911	-	**642 911**
Liabilities				
Deposits	48 895	423 191	78 479	**550 565**
Subordinated liabilities	-	500 097	-	**500 097**
Income/expenses				
Interest income	41 645	64 799	-	**106 444**
Interest expense	-	(34 956)	(7 583)	**(42 539)**
Fee and commission expense	-	(203 791)	-	**(203 791)**
Remuneration expense	(1 060 510)	-	-	**(1 060 510)**

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Bank

31 December 2020	**Subsi- diary EUR**	**Share-holders, Members of the Supervi-sory Council and Manage-ment Board EUR**	**Other senior executi-ves EUR**	**Related to share-holders and manage-ment EUR**	**Total EUR**
Assets					
Loans	1 505 006	1 535 451	-	1 276 153	**4 316 610**
Gross Loans	*1 848 789*	*1 547 654*	-	*1 279 586*	***4 845 324***
Allowances	*(343 783)*	*(12 203)*	-	*(3 433)*	***(477 194)***
Other assets	7 966	-	-	642 911	**650 877**
Liabilities					
Deposits	143 076	48 895	78 479	423 191	**693 641**
Subordinated liabilities	-	-	-	500 097	**500 097**
Income/expenses					
Interest income	184 855	41 645	-	64 799	**291 299**
Interest expense	50	-	(7 583)	(34 956)	**(42 489)**
Fee and commission expense	-	-	-	(203 791)	**(203 791)**
Remuneration expense	-	(1 060 510)	-	-	**(1 060 510)**
Impairment loss	1 360 855	-	-	-	**1 360 855**

Group

31 December 2019	**Associate EUR**	**Share-holders, Members of the Supervi-sory Council and Manage-ment Board EUR**	**Other senior executi-ves**	**Related to share-holders and manage-ment EUR**	**Total EUR**
Assets					
Loans	51 520	378 825	-	1 184 280	**1 614 625**
Gross Loans	*169 295*	*381 177*	-	*1 202 522*	***1 752 994***
Allowances	*(117 775)*	*(2 352)*	-	*(18 242)*	***(138 369)***
Other assets	-	862 010	-	1 051	**863 061**
Liabilities					
Deposits	2 732	50 969	35 579	375 072	**464 352**
Subordinated liabilities	-	-	1 000 000	500 292	**1 500 292**
Income/expenses					
Interest income	(40 301)	12 096	-	72 434	**44 229**
Interest expense	-	2 227	-	105 468	**107 695**
Remuneration expense	-	988 047	-	-	**988 047**

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for the year ended 31 December 2020
Notes to the separate and consolidated Financial Statements

Bank

31 December 2019	**Subsi- diary EUR**	**Associate EUR**	**Share- holders, Members of the Supervi- sory Council and Manage- ment Board EUR**	**Other senior executi- ves EUR**	**Related to share- holders and manage- ment EUR**	**Total EUR**
Assets						
Due on demand from credit institutions						
Loans	831 994	51 520	378 825	-	1 184 280	**2 446 619**
Gross Loans	*2 229 385*	*169 295*	*381 177*	-	*1 202 522*	***3 982 379***
Allowances	*(1 397 391)*	*(117 775)*	*(2 352)*	-	*(18 242)*	***(1 535 760)***
Other assets	215 909	-	862 010	-	1 051	**1 078 970**
Liabilities						
Deposits	137 752	2 732	50 969	35 579	375 072	**602 104**
Subordinated liabilities	-	-	-	1 000 000	500 292	**1 500 292**
Income/expenses						
Interest income	17 921	(40 301)	12 096	-	72 434	**62 150**
Interest expense	150	-	2 227	-	105 468	**107 845**
Remuneration expense	-	-	988 047	-	-	**988 047**
Impairment loss	105 258	-	-	-	-	**105 258**

In December 2019, the Bank entered into an agreement with a company controlled by the main shareholder of the Bank. In accordance with the agreement, the company acquired a part of the bank's loan portfolio (the nominal value of claims within the portfolio was 8.1 million euros as at 31 December 2019. The selling price of loans is equal to their nominal value. As of December 31, 2020, the balance of the loan portfolio in trust is 5.6 million euros. As a result of the sale, the loans were transferred to the Bank in trust management.

38 CAPITAL ADEQUACY CALCULATION

The Bank (the Group) must comply with the FCMC requirements for Tier 1 equity ratio (6.18%), Tier 1 capital ratio (8.25%) and total capital ratio (11%). In addition to the requirements set by the FCMC, the Bank has to comply with the requirement of total capital reserves set forth in the Law on Credit Institutions. Compliance with the Common Equity Capital Requirement must be ensured by Common Equity Tier 1 capital ratio. As of December 31, 2020, the Bank's (Group) actual ratios were: Common Equity Tier 1 capital ratio - 14.53 % (13.00%), and Total capital ratio - 16.43% (14.91%).

As at 31 December 2019, the Bank (the Group) did not comply with the FCMC's requirement for a single indicator, ie. Tier 1 capital ratio by 0.06 (0.47) percentage points. As of March 16, 2020, the Bank's (Group) capital ratios significantly exceeded the requirements set by the FCMC as a result of the capital strengthening measures taken in the first quarter of 2020, and the Bank's capital is sufficient to comply with the the Tier 1 capital ratio was 15.21%, the Common Equity Tier 1 capital ratio was 15.21% and the total capital ratio was 18.32% (Note 48).

Separate and consolidated Financial Statements

Notes to the separate and consolidated Financial Statements for the year ended 31 December 2020

Total equity capital	**Group EUR**	**Bank EUR**
Paid-in share capital	36 399 229	36 399 229
Reserve capital and other reserves	835 152	835 152
Accumulated losses for the previous years	(14 617 438)	(14 409 236)
Loss for the period	(3 104 427)	(1 173 099)
Intangible assets	(2 872 716)	(2 872 716)
Specific decline in Tier 1 capital, as stipulated by the applicable law	(1 161 946)	(915 784)
Accumulated revaluation of financial instruments measured at fair value through other comprehensive income	3 089 620	3 089 620
Value adjustment while applying prudent valuation	(12 570)	(12 570)
Other capital adjustments during the transitional period	126 259	191 301
Non - controlling interest	68 878	
Tier 1 Core Capital	**18 750 041**	**21 131 897**
Subordinated liabilities	2 766 047	2 766 047
Tier 2 Supplementary Capital	**2 766 047**	**2 766 047**
TOTAL CAPITAL	**21 516 088**	**23 897 944**
Capital charge for credit risk inherent in the Bank's book	9 274 750	9 354 207
The total capital charge for market risks	122 247	122 247
Capital charge for foreign exchange risk	103 836	103 836
Capital charge for operational risk	2 023 892	2 040 441
The own funds requirement for credit valuation adjustment (CVA) risk	17 353	17 353
Total capital charge	**11 542 078**	**11 638 084**
CAPITAL ADEQUACY RATIOS		
Common Equity Tier 1 capital ratio	13.00%	14.53%
Tier 1 capital ratio	13.00%	14.53%
CAPITAL ADEQUACY RATIOS 31 December 2020	**14.91%**	**16.43%**
CAPITAL ADEQUACY RATIOS 31 December 2019	**14.45%**	**14.84%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for sureties and commitments, with some adjustments to reflect the more contingent nature of the potential losses.

To calculate the required capital charge in accordance with the minimum regulatory capital requirements, Bank applies the following approaches:

- capital charge for credit risk – the Standardised Approach;
- capital charge for market risk –the Standardised Approach;
- capital charge for operational risk – the Basic Indicator Approach.

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Notes to the separate and consolidated Financial Statements for the year ended 31 December 2020

39 TERM STRUCTURE OF ASSETS AND LIABILITIES

The following tables are based on regulatory instructions of the Financial and Capital Market Commission and show the term structure of assets and liabilities. This term structure will not necessarily coincide with discounted cash flows.

Group

As of 31 December 2020	**Demand**	**Less than 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**5 years and more**	**With no stated maturity or pledged as collateral**	**TOTAL**
ASSETS	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Cash and due from central banks	89 974 302	-	-	-	-	-	-	-	**89 974 302**
Due on demand from credit institutions	3 087 513	-	-	-	-	-	-	911 028	**3 998 541**
Financial assets at fair value through profit or loss	3 236 660	38 607	-	22 603	-	-	6 388 594	-	**9 686 464**
Equity instruments	-	-	-	-	-	-	*6 388 594*	-	***6 388 594***
Derivative financial instruments	-	*38 607*	-	-	-	-	-	-	***38 607***
Financial assets at fair value through other comprehensive income	2 585 315	-	44 835	891	-	-	28 525	-	**2 659 566**
Equity instruments	-	-	-	-	-	-	*28 525*	-	***28 525***
Debt instruments	*2 585 315*	-	*44 835*	*891*	-	-	-	-	***2 631 041***
Financial assets at amortised cost	24 140 475	1 963 250	452 594	2 457 243	5 391 327	15 713 483	498 997	2 671 962	**53 289 331**
Debt instruments	*17 448 481*	*15 019*	*38 822*	*49 557*	-	-	-	-	***17 551 879***
Due from credit institutions	-	-	-	-	-	-	-	*766 129*	***766 129***
Loans	*6 691 994*	*1 948 231*	*413 772*	*2 407 686*	*5 391 327*	*15 713 483*	*498 997*	*1 905 833*	***34 971 323***
Other financial assets	4 844 733	2 814 372	742 916	169 951	591 355	1 875 267	-	4 732 163	**15 770 757**
Non-financial assets	-	-	-	-	-	-	-	43 285 057	**43 285 057**
Total assets	**127 868 998**	**4 816 229**	**1 240 345**	**2 650 688**	**5 982 682**	**17 588 750**	**6 916 116**	**51 600 210**	**218 664 018**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Due to credit institutions	4 613 846	-	-	-	-	-	-	-	**4 613 846**
Deposits	163 749 820	921 065	3 673 765	1 044 634	3 317 206	3 596 775	301 434	89 645	**176 694 344**
Derivative financial instruments	-	223 580	-	-	-	-	-	-	**223 580**
Subordinated liabilities	-	314	-	280 439	544 886	4 150 572	499 999	-	**5 476 210**
Lease liability	-	70 641	3 873	14 323	34 606	590 266	1 916 204	-	**2 629 913**
Other liabilities	5 563 851	660 552	460	9 289	3 930	112 903	4 126	-	**6 355 111**
Shareholders' equity	-	-	-	-	-	-	-	20 996 574	**20 996 574**
Total liabilities and shareholders' equity	**173 927 517**	**1 876 152**	**3 678 098**	**1 348 685**	**3 900 628**	**8 450 516**	**2 721 763**	**21 086 219**	**216 989 578**
Sureties and commitments *	5 625 276	-	-	-	-	-	-	-	**5 625 276**
Maturity gap	**(51 683 795)**	**2 940 077**	**(2 437 753)**	**1 302 003**	**2 082 054**	**9 138 234**	**4 194 353**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling EUR 1 349 803.

As of 31 December 2019

Assets	116 780 208	18 467 313	465 806	5 660 458	2 718 264	7 983 890	6 892 538	67 413 521	**226 381 998**
Liabilities and equity	166 589 331	1 473 697	4 421 110	2 064 173	8 368 648	9 739 763	805 639	32 919 637	**226 381 998**
Sureties and commitments *	666 442	-	-	-	-	-	-	-	**666 442**
Maturity gap	**(50 475 565)**	**16 993 616**	**(3 955 304)**	**3 596 285**	**(5 650 384)**	**(1 755 873)**	**6 086 899**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling EUR 835 321. The value of vaulted gold is EUR 1 744 246.

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Bank

As of 31 December 2020 ASSETS	Demand EUR	Less than 1 month EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	1 to 5 years EUR	5 years and more EUR	With no stated maturity or pledged as collateral EUR	TOTAL EUR
Cash and due from central banks	89 974 302	-	-	-	-	-	-	-	**89 974 302**
Due on demand from credit institutions	3 085 101	-	-	-	-	-	-	911 028	**3 996 129**
Financial assets at fair value through profit or loss	3 236 660	38 607	-	22 603	-	-	6 388 594	-	**9 686 464**
Equity instruments	-	-	-	-	-	-	*6 388 594*	-	***6 388 594***
Derivative financial instruments	-	*38 607*	-	-	-	-	-	-	***38 607***
Financial assets at fair value through other comprehensive income	2 585 315	-	44 835	891	-	-	28 525	-	**2 659 566**
Equity instruments	-	-	-	-	-	-	*28 525*	-	***28 525***
Debt instruments	*2 585 315*	-	*44 835*	*891*	-	-	-	-	***2 631 041***
Financial assets at amortised cost	24 140 475	1 964 318	452 594	3 208 854	5 418 963	16 438 174	498 997	2 671 962	**54 794 337**
Debt instruments	*17 448 481*	*15 019*	*38 822*	*49 557*	-	-	-	-	***17 551 879***
Due from credit institutions	-	-	-	-	-	-	-	*766 129*	***766 129***
Loans	*6 691 994*	*1 949 299*	*413 772*	*3 159 297*	*5 418 963*	*16 438 174*	*498 997*	*1 905 833*	***36 476 329***
Other financial assets	1 274 777	2 814 372	742 916	169 951	591 355	1 875 267	-	8 613 796	**16 082 434**
Non-financial assets	-	-	-	-	-	-	-	39 652 981	**39 652 981**
Total assets	**124 296 630**	**4 817 297**	**1 240 345**	**3 402 299**	**6 010 318**	**18 313 441**	**6 916 116**	**51 849 767**	**216 846 213**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Due to credit institutions	4 613 846	-	-	-	-	-	-	-	**4 613 846**
Deposits	163 892 896	921 065	3 673 765	1 044 634	3 317 206	3 596 775	301 434	89 645	**176 837 420**
Derivative financial instruments	-	223 580	-	-	-	-	-	-	**223 580**
Subordinated liabilities	-	314	-	280 439	544 886	4 150 572	499 999	-	**5 476 210**
Lease liability	-	1 926	3 873	5 836	11 799	14 011	-	-	**37 445**
Other liabilities	4 124 786	660 552	460	9 289	3 930	112 903	4 126	-	**4 916 046**
Shareholders' equity	-	-	-	-	-	-	-	24 741 666	**24 741 666**
Total liabilities and shareholders' equity	**172 631 528**	**1 807 437**	**3 678 098**	**1 340 198**	**3 877 821**	**7 874 261**	**805 559**	**24 831 311**	**216 846 213**
Sureties and commitments *	5 654 334	-	-	-	-	-	-	-	**5 654 334**
Maturity gap	**(53 989 232)**	**3 009 860**	**(2 437 753)**	**2 062 101**	**2 132 497**	**10 439 180**	**6 110 557**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling EUR 1 349 803.

As of 31 December 2019									
Assets	115 717 146	18 467 313	465 806	5 878 390	2 718 264	8 597 952	6 892 538	67 917 897	**226 655 306**
Liabilities and equity	166 654 437	1 473 697	4 421 110	2 064 173	8 368 648	9 739 763	805 639	33 127 839	**226 655 306**
Sureties and commitments *	755 561	-	-	-	-	-	-	-	**755 561**
Maturity gap	**(51 692 852)**	**16 993 616**	**(3 955 304)**	**3 814 217**	**(5 650 384)**	**(1 141 811)**	**6 086 899**	**x**	**x**

* Sureties and commitments are diminished by the amount of the issued guarantees and loans secured by the deposits placed with the Bank and totaling EUR 835 321. The value of vaulted gold is EUR 1 744 246.

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40 CONTRACTUAL CASH FLOWS

Analysis of the Bank's financial liabilities' contractual undiscounted cash flows:

As of 31 December 2020	**Demand and less than 1 month EUR**	**1 to 3 months EUR**	**3 to 6 months EUR**	**6 to 12 months EUR**	**More than 1 year EUR**	**Total gross amount outflow/ (inflow) EUR**	**Carrying amount EUR**
Non-derivative liabilities							
Deposits and balances due to financial institutions	4 613 846	-	-	-	-	4 613 846	**4 613 846**
Current accounts and deposits due to customers	164 903 943	3 678 038	1 048 517	3 342 844	4 049 896	177 023 238	**176 837 420**
Subordinated liabilities	314	-	283 395	562 701	5 372 327	6 218 737	**5 476 210**
Lease liability	1 926	3 873	5 836	11 799	14 011	37 445	**37 445**
Derivative liabilities							**184 973**
- Inflow	(41 763 946)	-	-	-	-	(41 763 946)	**-**
- Outflow	41 844 527	-	-	-	-	41 844 527	**-**
Total	**169 600 610**	**3 681 911**	**1 337 748**	**3 917 344**	**9 436 234**	**187 973 847**	**187 149 894**
Credit related commitments	7 004 137	-	-	-	-	-	**-**

As of 31 December 2019	**Demand and less than 1 month EUR**	**1 to 3 months EUR**	**3 to 6 months EUR**	**6 to 12 months EUR**	**More than 1 year EUR**	**Total gross amount outflow/ (inflow) EUR**	**Carrying amount EUR**
Non-derivative liabilities							
Deposits and balances due to financial institutions	7 061 309	-	-	-	12 088 164	19 149 473	**19 149 473**
Current accounts and deposits due to customers	158 014 467	4 145 513	1 966 354	8 111 114	2 221 680	174 459 128	**174 244 120**
Subordinated liabilities	147 009	282 578	452	348 607	10 289 607	11 068 253	**9 184 929**
Derivative liabilities							**22 372**
- Inflow	(5 968 712)	-	-	-	-	(5 968 712)	**-**
- Outflow	5 989 509	-	-	-	-	5 989 509	**-**
Total	**165 243 582**	**4 428 091**	**1 966 806**	**8 459 721**	**24 599 451**	**204 697 651**	**202 600 894**
Credit related commitments	3 335 128	-	-	-	-	-	**-**

The analyses of contractual undiscounted cash flows on the Group's and the Bank's financial liabilties do not vary significantly.

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41 ANALYSIS OF ASSETS AND LIABILITIES BY CURRENCY PROFILE

As of 31 December 2020							**Group**
ASSETS	**EUR**	**USD**	**RUB**	**ZAR**	**XAU**	**Other currencies**	**TOTAL EUR**
Cash and due on demand from central banks	85 683 084	2 086 899	-	-	-	2 204 319	**89 974 302**
Due on demand from credit institutions	316 593	2 520 182	260 142	-	-	901 624	**3 998 541**
Financial assets at fair value through profit or loss	8 022 098	1 664 366	-	-	-	-	**9 686 464**
Equity instruments	*4 724 228*	1 664 366	-	-	-	-	***6 388 594***
Derivative financial instruments	*38 607*	-	-	-	-	-	***38 607***
Financial assets at fair value through other comprehensive income	28 525	2 631 041	-	-	-	-	**2 659 566**
Equity instruments	*28 525*	-	-	-	-	-	***28 525***
Debt instruments	-	2 631 041	-	-	-	-	***2 631 041***
Financial assets at amortised cost	38 485 178	14 742 645	61 481	-	-	27	**53 289 331**
Debt instruments	*9 480 985*	8 070 894	-	-	-	-	***17 551 879***
Due from credit institutions	*749 833*	16 296	-	-	-	-	***766 129***
Loans	*28 254 360*	6 655 455	61 481	-	-	27	***34 971 323***
Other financial assets	7 490 247	2 343 720	-	-	2 898 548	2 690 566	**15 423 081**
Non-financial assets	43 632 733	-	-	-	-	-	**43 632 733**
Total assets	**183 658 458**	**25 988 853**	**321 623**	**-**	**2 898 548**	**5 796 536**	**218 664 018**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to credit institutions	3 840 827	713 455	58 396	-	-	1 168	**4 613 846**
Deposits	116 757 882	54 509 255	1 873 337	-	548 725	3 005 145	**176 694 344**
Derivative financial instruments	223 580	-	-	-	-	-	**223 580**
Subordinated liabilities	2 920 373	1 107 835	-	-	-	1 448 002	**5 476 210**
Other liabilities	7 825 514	392 766	678 291	-	-	88 453	**8 985 024**
Shareholders' equity	22 671 014	-	-	-	-	-	**22 671 014**
Total liabilities and shareholders' equity	**154 239 190**	**56 723 311**	**2 610 024**	**-**	**548 725**	**4 542 768**	**218 664 018**
GROSS POSITION	**29 419 268**	**(30 734 458)**	**(2 288 401)**	**-**	**2 349 823**	**1 253 768**	
Unsettled spot forex contracts	6 440 942	(8 740 395)	2 291 534	-	-	-	
Forward contracts	(36 797 826)	38 461 515	-	(472 784)	-	(1 271 486)	
NET POSITION	**(937 616)**	**(1 013 338)**	**3 133**	**(472 784)**	**2 349 823**	**(17 718)**	
Ratio to the shareholders' equity (%)*		-4.71%	0.01%	-2.20%	10.92%		

As of 31 December 2019	**EUR**	**USD**	**RUB**	**GBP**	**RUB**	**Other currencies**	
Assets	163 795 481	46 284 626	115 060	13 839 760	115 060	2 462 131	**226 381 998**
Liabilities and equity	159 390 359	50 346 763	2 973 706	11 173 251	2 973 706	5 471 625	**226 381 998**
Gross position	**4 405 122**	**(4 062 137)**	**(2 858 646)**	**2 666 509**	**(2 858 646)**	**(3 009 494)**	
Net position	**(601 013)**	**(596 507)**	**4 833**	**1 035 412**	**4 833**	**158 917**	

* Regulatory capital (net worth) totalling EUR 21 516 088 as of 31 December 2020 (as of 31 December 2019: 18 461 646).

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As of 31 December 2020							Bank
ASSETS	**EUR**	**USD**	**RUB**	**ZAR**	**XAU**	**Other currencies**	**TOTAL EUR**
Cash and due on demand from central banks	85 683 084	2 086 899	-	-	-	2 204 319	**89 974 302**
Due on demand from credit institutions	314 181	2 520 182	260 142	-	-	901 624	**3 996 129**
Financial assets at fair value through profit or loss	8 022 098	1 664 366	-	-	-	-	**9 686 464**
Debt instruments	*3 259 263*	-	-	-	-	-	***3 259 263***
Derivative financial instruments	*38 607*	-	-	-	-	-	***38 607***
Financial assets at fair value through other comprehensive income	28 525	2 631 041	-	-	-	-	**2 659 566**
Equity instruments	*28 525*	-	-	-	-	-	***28 525***
Debt instruments	-	*2 631 041*	-	-	-	-	***2 631 041***
Financial assets at amortised cost	39 990 184	14 742 645	61 481	-	-	27	**54 794 337**
Debt instruments	*9 480 985*	*8 070 894*	-	-	-	-	***17 551 879***
Due from credit institutions	*749 833*	*16 296*	-	-	-	-	***766 129***
Loans	*29 759 366*	*6 655 455*	*61 481*	-	-	*27*	***36 476 329***
Other financial assets	8 149 600	2 343 720	-	-	2 898 548	2 690 566	**16 082 434**
Non-financial assets	39 652 981	-	-	-	-	-	**39 652 981**
Total assets	**181 840 653**	**25 988 853**	**321 623**	**-**	**2 898 548**	**5 796 536**	**216 846 213**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to credit institutions	3 840 827	713 455	58 396	-	-	1 168	**4 613 846**
Deposits	116 900 958	54 509 255	1 873 337	-	548 725	3 005 145	**176 837 420**
Derivative financial instruments	223 580	-	-	-	-	-	**223 580**
Subordinated liabilities	2 920 373	1 107 835	-	-	-	1 448 002	**5 476 210**
Other liabilities	3 793 981	392 766	678 291	-	-	88 453	**4 953 491**
Shareholders' equity	24 741 666	-	-	-	-	-	**24 741 666**
Total liabilities and shareholders' equity	**152 421 385**	**56 723 311**	**2 610 024**	**-**	**548 725**	**4 542 768**	**216 846 213**
GROSS POSITION	**29 419 268**	**(30 734 458)**	**(2 288 401)**	**-**	**2 349 823**	**1 253 768**	
Unsettled spot forex contracts	6 440 942	(8 740 395)	2 291 534	-	-	-	
Forward contracts	(36 797 826)	38 461 515	-	(472 784)	-	(1 271 486)	
NET POSITION	**(937 616)**	**(1 013 338)**	**3 133**	**(472 784)**	**2 349 823**	**(17 718)**	
Ratio to the shareholders' equity (%)*		-4.24%	0.01%	-1.98%	9.83%		
As of 31 December 2019	**EUR**	**USD**	**RUB**	**GBP**	**RUB**	**Other currencies**	
Assets	164 068 789	46 284 626	115 060	13 839 760	115 060	2 347 071	**226 655 306**
Liabilities and equity	159 663 667	50 346 763	2 973 706	11 173 251	2 973 706	2 497 919	**226 655 306**
Gross position	**4 405 122**	**(4 062 137)**	**(2 858 646)**	**2 666 509**	**(2 858 646)**	**(150 848)**	
Net position	**(94 121)**	**(91 232)**	**21 724**	**69 012**	**21 724**	**41 886**	

* Regulatory capital (net worth) totalling EUR 23 897 944 as of 31 December 2020 (as of 31 December 2019: EUR 19 044 154).

42 SENSITIVITIES ANALYSIS

Currency (foreign exchange) risk

The sum of overall foreign exchange exposure and the net position in gold stood at 3.95% of the Group's and Bank's equity as of 31 December 2020 (as of 31 December 2019: 0.22%).

Figures show that a 10 percent strengthening of the euro against other currencies may have the following impact on the Group's and Bank's profit (in EUR):

	31.12.2020	**31.12.2020**	**31.12.2020**	**31.12.2019**	**31.12.2019**	**31.12.2019**
Currency (foreign exchange) risk	**USD**	**ZAR**	**XAU**	**USD**	**GBP**	**RUB**
rate valid:	1.2271	18.0219	1551.5700	1.1234	0.8508	91.4671
foreign currency position (in EUR):	(1 013 338)	(472 784)	2 349 823	(91 232)	69 012	21 724
profit/(loss) (in EUR):	101 334	47 278	(234 982)	(9 123)	6 901	2 172

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43 REPRICING MATURITIES OF ASSETS AND LIABILITIES

The following table shows the earlier of the interest rate contracted re-pricing dates or contractual maturity of financial assets and liabilities.

Group

As of 31 December 2020	Up to 1 month (inclusive) EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	One year and more EUR	Non interest bearing EUR	TOTAL EUR
ASSETS							
Cash and due from central banks	89 974 302	-	-	-	-	-	**89 974 302**
Due on demand from credit institutions	3 998 541	-	-	-	-	-	**3 998 541**
Financial assets at fair value through profit or loss	38 607	-	-	-	3 236 660	6 411 197	**9 686 464**
Equity instruments	-	-	-	-	-	*6 388 594*	***6 388 594***
Derivative financial instruments	*38 607*	-	-	-	-	-	***38 607***
Financial assets at fair value through other comprehensive income	-	-	416 881	-	2 168 434	74 251	**2 659 566**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	*28 525*	***28 525***
Equity instruments	-	-	*416 881*	-	*2 168 434*	*45 726*	***2 631 041***
Financial assets at amortised cost	8 995 191	2 452 340	10 356 378	5 107 818	25 846 296	531 308	**53 289 331**
Debt instruments	*570 985*	*2 046 029*	*3 711 872*	-	*11 119 594*	*103 399*	***17 551 879***
Due from credit institutions	*766 129*	-	-	-	-	-	***766 129***
Loans	*7 658 077*	*406 311*	*6 644 506*	*5 107 818*	*14 726 702*	*427 909*	***34 971 323***
Other financial assets	13 262 097	-	-	-	-	2 160 984	**15 423 081**
Non-financial assets	-	-	-	-	-	43 632 733	**43 632 733**
Total assets	**116 268 738**	**2 452 340**	**10 773 259**	**5 107 818**	**31 251 390**	**52 810 473**	**218 664 018**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to credit institutions	4 613 846	-	-	-	-	-	**4 613 846**
Deposits	164 689 129	3 637 698	1 036 918	3 374 823	3 896 790	58 986	**176 694 344**
Loans	223 580	-	-	-	-	-	**223 580**
Subordinated liabilities	-	-	280 000	544 886	4 650 572	752	**5 476 210**
Other liabilities	10 199 497	-	-	-	-	(1 214 473)	**8 985 024**
Shareholders' equity	-	-	-	-	-	22 671 014	**22 671 014**
Total liabilities and shareholders' equity	**179 726 052**	**3 637 698**	**1 316 918**	**3 919 709**	**8 547 362**	**21 516 279**	**218 664 018**
Net position sensitive to interest rate risk	**(63 457 314)**	**(1 185 358)**	**9 456 341**	**1 188 109**	**22 704 028**	**31 294 194**	
Effect on annual net interest income	**(608 133)**	**(9 878)**	**59 102**	**2 970**	**-**	**-**	**(555 939)**

A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Group's annual net interest income to the amount of EUR 555 939 (as of 31 December 2019: EUR 340 724).

As of 31 December 2019	Up to 1 month (inclusive) EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	One year and more EUR	Non interest bearing EUR	TOTAL EUR
Assets	130 472 428	2 822 983	10 957 301	5 953 885	32 954 431	43 220 970	**226 381 998**
Liabilities and equity	166 735 921	4 388 075	1 948 355	20 539 053	10 523 760	22 246 834	**226 381 998**
Net position sensitive to interest rate risk	**(36 263 493)**	**(1 565 092)**	**9 008 946**	**(14 585 168)**	**22 430 671**	**20 974 136**	

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Bank

As of 31 December 2020	Up to 1 month (inclusive) EUR	1 to 3 months EUR	3 to 6 months EUR	6 to 12 months EUR	One year and more EUR	Non interest bearing EUR	TOTAL EUR
ASSETS							
Cash and due from central banks	89 974 302	-	-	-	-	-	**89 974 302**
Due on demand from credit institutions	3 996 129	-	-	-	-	-	**3 996 129**
Financial assets at fair value through profit or loss	38 607	-	-	-	3 236 660	6 411 197	**9 686 464**
Equity instruments	-	-	-	-	-	*6 388 594*	***6 388 594***
Derivative financial instruments	*38 607*	-	-	-	-	-	***38 607***
Financial assets at fair value through other comprehensive income	-	-	416 881	-	2 168 434	74 251	**2 659 566**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	*28 525*	***28 525***
Equity instruments	-	-	*416 881*	-	*2 168 434*	*45 726*	***2 631 041***
Financial assets at amortised cost	8 995 191	2 452 340	11 107 989	5 107 818	26 599 691	531 308	**54 794 337**
Debt instruments	*570 985*	*2 046 029*	*3 711 872*	-	*11 119 594*	*103 399*	***17 551 879***
Due from credit institutions	*766 129*	-	-	-	-	-	***766 129***
Loans	*7 658 077*	*406 311*	*7 396 117*	*5 107 818*	*15 480 097*	*427 909*	***36 476 329***
Other financial assets	9 692 257	-	-	-	-	6 390 177	**16 082 434**
Non-financial assets	-	-	-	-	-	39 652 981	**39 652 981**
Total assets	**112 696 486**	**2 452 340**	**11 524 870**	**5 107 818**	**32 004 785**	**53 059 914**	**216 846 213**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Due to credit institutions	4 613 846	-	-	-	-	-	**4 613 846**
Deposits	164 832 205	3 637 698	1 036 918	3 374 823	3 896 790	58 986	**176 837 420**
Loans	223 580	-	-	-	-	-	**223 580**
Subordinated liabilities	-	-	280 000	544 886	4 650 572	752	**5 476 210**
Other liabilities	2 797 621	-	-	-	-	2 155 870	**4 953 491**
Shareholders' equity	-	-	-	-	-	24 741 666	**24 741 666**
Total liabilities and shareholders' equity	**172 467 252**	**3 637 698**	**1 316 918**	**3 919 709**	**8 547 362**	**26 957 274**	**216 846 213**
Net position sensitive to interest rate risk	**(59 770 766)**	**(1 185 358)**	**10 207 952**	**1 188 109**	**23 457 423**	**26 102 640**	
Effect on annual net interest income	**(572 803)**	**(9 878)**	**63 800**	**2 970**	**-**	**-**	**(515 911)**

A 100 basis point decrease/increase in interest rates is likely to have effect (decrease/increase) on the Bank's annual net interest income to the amount of 515 911 EUR (as of 31 December 2019: EUR 349 798).

As of 31 December 2019	**Up to 1 month (inclusive) EUR**	**1 to 3 months EUR**	**3 to 6 months EUR**	**6 to 12 months EUR**	**One year and more EUR**	**Non interest bearing EUR**	**TOTAL EUR**
Assets	129 410 613	2 822 983	11 183 857	5 953 885	33 559 869	43 724 099	**226 655 306**
Liabilities and equity	166 768 701	4 388 075	1 948 355	20 539 053	10 523 760	22 487 362	**226 655 306**
Net position sensitive to interest rate risk	**(37 358 088)**	**(1 565 092)**	**9 235 502**	**(14 585 168)**	**23 036 109**	**21 236 737**	

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44 CREDIT RISK

The table below shows the Bank's maximum exposure to credit risk for the components of the statement of financial position, including derivatives. Exposures are based on net carrying amounts as reported in the statement of financial position.

The maximum credit exposures are shown both gross, i.e. without taking into account any collateral and other credit enhancement, and net, i.e. after taking into account any collateral and other credit enhancement. The details on the type and amounts of collateral held are disclosed in the respective notes.

	Group	**Bank**	**Group**	**Bank**
	Maximum credit risk exposure	**Maximum credit risk exposure**	**Maximum credit risk exposure**	**Maximum credit risk exposure**
	31.12.2020	**31.12.2020**	**31.12.2019**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Cash and due from central banks	84 970 668	84 970 668	96 253 162	96 253 162
Due on demand from credit institutions	3 998 541	3 996 129	10 276 098	10 275 099
Financial assets at fair value through profit or loss	3 297 870	3 297 870	846 262	846 262
Debt instruments	*3 259 263*	*3 259 263*	*841 150*	*841 150*
Derivative financial instruments	*38 607*	*38 607*	*5 112*	*5 112*
Financial assets at fair value through other comprehensive income	2 631 041	2 631 041	3 524 278	3 524 278
Debt instruments	*2 631 041*	*2 631 041*	*3 524 278*	*3 524 278*
Financial assets at amortised cost	61 379 103	63 227 892	75 161 209	77 390 594
Debt instruments	*17 551 879*	*17 551 879*	*30 412 349*	*30 412 349*
Due from credit institutions	*766 129*	*766 129*	*434 870*	*434 870*
Loans	*43 061 095*	*44 909 884*	*44 313 990*	*46 543 375*
Other assets	10 289 762	6 829 569	6 519 002	5 458 185
Total financial assets	**166 566 985**	**164 953 169**	**192 580 011**	**193 747 580**
Sureties (guarantees)	108 640	108 640	31 850	31 850
Commitments to customers	5 511 487	5 540 545	2 434 652	2 523 771
Total commitments and contingencies	**5 620 127**	**5 649 185**	**2 466 502**	**2 555 621**
Total maximum credit risk exposure	**172 187 112**	**170 602 354**	**195 046 513**	**196 303 201**

The maximum exposures to credit risks for the components at the statement of financial position of the Group and the Bank do not vary significantly.

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45 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES AND COMPARISON WITH FAIR VALUE

The estimated fair values of financial instruments at fair value through profit or loss, quoted available-for-sale assets, held-to-maturity investments and other borrowed funds are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities, except as described below, are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The estimated fair value of the Bank's financial assets and liabilities are as follows:

As of 31 December 2020	Financial assets/ liabilities at amortised cost	Financial assets/ liabilities at fair value through profit and loss	Financial assets/ liabilities at fair value through other comprehensive income	Total	Fair value
ASSETS	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Cash and due from central banks	89 974 302	-	-	**89 974 302**	**89 974 302**
Due on demand from credit institutions	3 996 129	-	-	**3 996 129**	**3 996 129**
Financial assets at fair value through profit or loss	-	9 686 464	-	**9 686 464**	**9 686 464**
Equity instruments	-	*6 388 594*	-	***6 388 594***	***6 388 594***
Debt instruments	-	*3 259 263*	-	***3 259 263***	***3 259 263***
Derivative financial instruments	-	*38 607*	-	***38 607***	***38 607***
Financial assets at fair value through other comprehensive income	-	-	2 659 566	**2 659 566**	**2 659 566**
Equity instruments	-	-	*28 525*	***28 525***	***28 525***
Debt instruments	-	-	*2 631 041*	***2 631 041***	***2 631 041***
Financial assets at amortised cost	54 794 337	-	-	**54 794 337**	**54 297 166**
Debt instruments	*17 551 879*	-	-	***17 551 879***	***17 578 679***
Due from credit institutions	*766 129*	-	-	***766 129***	***766 129***
Loans	*36 476 329*	-	-	***36 476 329***	***35 952 358***
Other financial assets	16 082 434	-	-	**16 082 434**	**16 082 434**
Total financial assets	**164 847 202**	**9 686 464**	**2 659 566**	**177 193 232**	**176 696 061**
Due to credit institutions	4 613 846	-	-	**4 613 846**	**4 613 846**
Deposits	176 837 420	-	-	**176 837 420**	**176 944 506**
Derivative financial instruments	-	223 580	-	**223 580**	**223 580**
Subordinated liabilities	5 476 210	-	-	**5 476 210**	**5 549 380**
Total liabilities	**191 843 522**	**223 580**	**-**	**192 067 102**	**192 247 358**

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As of 31 December 2019	Financial assets/ liabilities at amortised cost	Financial assets/ liabilities at fair value through profit and loss	Financial assets/ liabilities at fair value through other comprehensive income	Total	Fair value
ASSETS	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Cash and due from central banks	98 684 686	-	-	**98 684 686**	**98 684 686**
Due on demand from credit institutions	10 275 099	-	-	**10 275 099**	**10 275 099**
Financial assets at fair value through profit or loss	-	6 850 433	-	**6 850 433**	**6 850 433**
Equity instruments	-	*6 004 171*	-	***6 004 171***	***6 004 171***
Derivative financial instruments	-	*5 112*	-	***5 112***	***5 112***
Financial assets at fair value through other comprehensive income	-	-	3 551 228	**3 551 228**	**3 551 228**
Equity instruments	-	-	*26 950*	***26 950***	***26 950***
Debt instruments	-	-	*3 524 278*	***3 524 278***	***3 524 278***
Financial assets at amortised cost	65 483 884	-	-	**65 483 884**	**64 139 266**
Debt instruments	*30 412 349*	-	-	***30 412 349***	***30 392 467***
Due from credit institutions	*434 870*	-	-	***434 870***	***434 870***
Loans	*34 636 665*	-	-	***34 636 665***	***33 311 929***
Other financial assets	12 324 614	-	-	**12 324 614**	**12 324 614**
Total financial assets	**186 768 283**	**6 850 433**	**3 551 228**	**197 169 944**	**195 825 326**
Liabilities					
Due to credit institutions	19 149 473	-	-	**19 149 473**	**12 652 374**
Deposits	174 244 120	-	-	**174 244 120**	**229 673 442**
Derivative financial instruments	-	27 484	-	**27 484**	**27 484**
Subordinated liabilities	9 184 929	-	-	**9 184 929**	**13 931 538**
Other liabilities	3 917 924	-	-	**3 917 924**	**3 917 924**
Total liabilities	**206 496 446**	**27 484**	**-**	**206 523 930**	**260 202 762**

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46 FAIR VALUE HIERARCHY

(a) Financial instruments measured at fair value

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

Bank

As of 31 December 2020 Financial assets	Published price quotations (Level 1) EUR	Valuation techniques based on market observable inputs (Level 2) EUR	Valuation techniques not based on market observable inputs (Level 3) EUR	Total EUR
Financial assets at fair value through other comprehensive income	2 631 041	-	28 525	**2 659 566**
Financial assets at fair value through profit or loss	3 271 033	1 663 316	4 713 508	**9 647 857**
Derivatives	-	38 607	-	**38 607**
	5 902 074	**1 701 923**	**4 742 033**	**12 346 030**
Financial liabilities				
Derivatives	-	223 580	-	**223 580**
	-	**223 580**	**-**	**223 580**

As of 31 December 2019 Financial assets	Published price quotations (Level 1) EUR	Valuation techniques based on market observable inputs (Level 2) EUR	Valuation techniques not based on market observable inputs (Level 3) EUR	Total EUR
Financial assets at fair value through profit or loss	(5 208)	2 425 773	4 424 756	**6 845 321**
Financial assets at fair value through other comprehensive income	3 524 278	-	26 950	**3 551 228**
Derivatives	-	5 112	-	**5 112**
	3 519 070	**2 430 885**	**4 451 706**	**10 401 661**
Financial liabilities				
Derivatives	-	27 484	-	**27 484**
	-	**27 484**	**-**	**27 484**

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

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Included in category "Valuation techniques based on market observable inputs" (Level 2) are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument or based on available market data. Main asset classes included in this category are financial assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in hedge funds private equity funds with fair value obtained via fund managers and assets that are valued using own models whereby the majority of assumptions are market observable.

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

During the current year, there have not been transfers between fair value levels.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Financial assets at fair value through other comprehensive income EUR	**Financial assets at fair value through profit or loss EUR**	**Total EUR**
Balance as of 1 January 2020	**26 950**	**4 424 756**	**4 451 706**
Total comprehensive income:	1 575	118 495	**120 070**
in profit or loss	-	*118 495*	***118 495***
in OCI	*1 575*	-	***1 575***
Purchases	-	170 257	**170 257**
As of 31 December 2020	**28 525**	**4 713 508**	**4 742 033**

	Financial assets at fair value through other comprehensive income EUR	**Financial assets at fair value through profit or loss EUR**	**Total EUR**
Balance as of 1 January 2019	**206 663**	**3 832 674**	**4 039 337**
Total comprehensive income:	1 150	(13 249)	**(12 099)**
in profit or loss	-	*(13 249)*	***(13 249)***
in OCI	*1 150*	-	***1 150***
Purchases	-	605 331	**605 331**
Sale	(180 863)	-	**(180 863)**
As of 31 December 2019	**26 950**	**4 424 756**	**4 451 706**

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

		Significant unobservable inputs			
Type	**Valuation technique**	**Input**	**31.12.2020**	**31.12.2019**	**Inter-relation between significant unobservable inputs and fair value measurement**
Assets at fair value through profit or loss (forward exchange contracts)	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	Not applicable	Not applicable	Not applicable	Not applicable
Financial assets measured through other comprehensive income	Quotes from brokers	Illiquid securities bid prices	-	-	The estimated fair value would increase (decrease) if:
			-	-	Bid price quote increases
Financial assets measured through other comprehensive income	Valuation is based on fund manager dislosed net Asset Value	Net Asset value	-	-	The estimated fair value would increase (decrease) if:
			-	-	Net asset value increase (decrease)

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Notes to the separate and consolidated Financial Statements for the year ended 31 December 2020

Type	Valuation technique	Significant unobservable inputs: Input	31.12.2020	31.12.2019	Inter-relation between significant unobservable inputs and fair value measurement
Investments in subsidiaries	Income approach (discounted cashflow method)	Future cash flows	-	-	The estimated fair value would increase (decrease) if:
			-	-	Future cash flows increase (decrease)
		Discount rate	-	-	The estimated fair value would increase (decrease) if:
			-	-	Discount rate decrease (increase)

For the fair values of equity securities under available for sale category, reasonably possible change at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects:

	Effect on other comprehensive income	
	Increase	(Decrease)
As of 31 December 2020	**EUR**	**EUR**
Bid price movements (10% movement)	(1 177)	1 177
	(1 177)	**1 177**

	Effect on other comprehensive income	
	Increase	(Decrease)
As of 31 December 2019	**EUR**	**EUR**
Bid price movements (10% movement)	3 535	(3 535)
	3 535	**(3 535)**

Separate and consolidated Financial Statements

Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2020

(b) Financial instruments not measured at fair value

The table below analyses the fair values of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised:

As of 31 December 2020	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR	Carrying amount EUR
Financial assets					
Due on demand from central banks	-	-	84 970 668	**84 970 668**	**84 970 668**
Due on demand from credit institutions	-	-	3 996 129	**3 996 129**	**3 996 129**
Financial assets at amortised cost	17 578 679	-	36 718 487	**54 297 166**	**54 794 337**
Debt instruments	*17 578 679*	-	-	***17 578 679***	***17 551 879***
Due from credit institutions	-	-	*766 129*	***766 129***	***766 129***
Loans	-	-	*35 952 358*	***35 952 358***	***36 476 329***
	17 578 679	**-**	**125 685 284**	**143 263 963**	**143 761 134**
Financial liabilities					
Due to credit institutions	-	-	4 613 846	**4 613 846**	**4 613 846**
Deposits	-	-	176 944 506	**176 944 506**	**176 837 420**
Subordinated liabilities	-	-	5 549 380	**5 549 380**	**5 476 210**
Other liabilities	-	-	5 177 071	**5 177 071**	**5 177 071**
	-	**-**	**192 284 803**	**192 284 803**	**192 104 547**

As of 31 December 2019	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR	Carrying amount EUR
Financial assets					
Due on demand from credit institutions	-	-	10 275 099	**10 275 099**	**10 275 099**
Financial assets at amortised cost	64 139 266	-	33 746 799	**97 886 065**	**65 483 884**
Debt instruments	*64 139 266*	-	-	***64 139 266***	***30 412 349***
Due from credit institutions	-	-	*434 870*	***434 870***	***434 870***
Loans	-	-	*33 311 929*	***33 311 929***	***34 636 665***
	64 139 266	**-**	**44 021 898**	**108 161 164**	**75 758 983**
Financial liabilities					
Due to credit institutions	-	-	12 652 374	**12 652 374**	**19 149 473**
Deposits	-	-	229 673 442	**229 673 442**	**174 244 120**
Subordinated liabilities	-	-	13 931 538	**13 931 538**	**9 184 929**
Other liabilities	-	-	3 945 408	**3 945 408**	**3 945 408**
	-	**-**	**260 202 762**	**260 202 762**	**206 523 930**

Separate and consolidated Financial Statements

Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2020

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

Type	**Valuation technique**	**ıificant unobservable inputs**
Loans and advances due from financial institutions	Discounted cash flows	Discount rates
Loans and advances due from customers	Discounted cash flows	Discount rates, default rates
Deposits and balances due to financial institutions	Discounted cash flows	Discount rates
Deposits and balances due to customers	Discounted cash flows	Discount rates
Other borrowed funds	Discounted cash flows	Discount rates

47 EVENTS SUBSEQUENT TO THE REPORTING DATE

During the period from the last day of the reporting period to the date of signing these consolidated financial statements, no events have occurred, which
- would entail the necessity of making adjustments to these consolidated financial statements or
- ought to be explained in these consolidated financial statements.

48 GOING CONCERN

While reporting the loss for 2020 amounting to 1,173 thousand EUR of the Bank (the Group 3,095 thousand EUR), the Bank could decrease its losses for the year in comparison with 2019, where the loss for the Bank was 3,161 thousand EUR, (the Group 3,440 thousand EUR), respectively. Nevertheless, in 2020 the Bank could already report a total comprehensive income of 1,837 thousand EUR (for the Group loss of 84 thousand EUR) in comparison with 2019 with comprehesnive loss of 3,091 thousand EUR for the Bank and 3,370 thousand EUR for the Group, respectively. Also as provided in the Note 38 to the financial statements the Bank and the Group reported imrovements in its Capital Adequacy ratios of 16.43% and 14,92%, respectively, which have substantially increased from 2019 being 14.84% for the Bank and 14.45% for the Group.

These improvements were mostly achieved as the result of changes in the Group's accounting policies for accounting of its own buildings to fair value, restructuring of the Group's non performing loan portfolio, new investments made through its venture subsidiary (see Note 21) as well as numerous business and strategic initatives by resuming the lending process, restart of credit and business commitees.

These aforementioned activities have been initiated by the Bank's and the Group's management for further execution of its strategies for the purpose of increase and strengthening its capital adeuacy, return and liqudity ratios as well as attracting new capital injections during 2021 and 2022.

The management of the Bank and the Group admits the importance of the outcome of these activities as the consideration for continuance as going concern for the Bank and the Group.

Separate and consolidated Financial Statements

Notes to the separate and consolidated Financial Statements
for the year ended 31 December 2020

49 COVID 19 IMPACT

As the result of global pandemic of COVID-19 the management of the Bank and the Group have been consequently observing and assessing the impact of the social and economic restrictions on the current and future operations and their financial results on regular basis. The management made already the investments into technological solutions and platforms for the remote service provisions for Bank's clients and providing the back office solutions for the sustainable daily work of Bank's employees.

In the operational work of the Bank there indeed were significant changes, introducing home-office hours, necessary technology for staff to deliver top quality service regardless of office work hours. Bank's management adapted workflow of processes and ensured uninterrupted services at all times to all clients, at the same time ensuring safe space for its employees. Additional health insurances, regular anti-virus disinfection of all premises, adapting a office-hours schedule, introducing new technology – were among top priorities to the Bank's management.

In addition, the management of the Bank and the Group has been assessing and reviewing COVID-19 pandemic potential impact on its operational income as well as on the quality of its assets through consistent analysis and monitoring of the specific industries and clients and its investees.

In addition as provided above the management of the Bank continuously have been analyzing and assessing the following external data for the following items:
• Changes in fair value of debt and equity securities.
• Covid-19 pandemic and related monetary measures made by ECB and Central Banks, which significantly might affect the yield on government treasuries.
• Valuations inputs and assumptions which might become much more subjective, less reference to the market deals as less deals, lower rentals, occupancy rates.
• Decline in GDP and general purchasing power adds to competition in the sector, which could also affect client base, tariffs, revenues, ability of the bank to reduce non-resident share, adjusts ECL estimates.

As the result of respective pandemic restrictions and aforementioned management analysis and monitoring activities the management of the Bank recognized certain risks in respect of limitations to execute its plans in respect of additional capital raising possibilities (see the Note 38) as well as its limitations on the management's ability to obtain and apply reasonable assumptions and estimates to determine the proper market value of certain fair value investments abroad as at year end (See Note 17). Also the level and amounts of certain admin costs and technology investments increased due to C19 additional measures as provided into the first and second paragraphs of this Note.

Except as provided into the previous paragraph for the purposes of preparing of these financial statements the management assessed the overall risk impact of Covid-19 for the Bank and the Group as moderate and accordingly did not make any further significant changes into any other estimates or credit or market risk management policies as at 31 December 2020.

Nevertheless, with consideration of continuance of COVID-19 pandemic the management still regularly follows the further developments and analyzes potential of its impacts in 2021 and is properly prepared to assess and implement any further changes into accounting policies, estimates and risk management policies as well as review the respective risk grading once necessary to ensure the sustainable growth of the Bank and the Group as well as proper and safe provision of services to the clients.

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Independent Auditor's Report

To the shareholders of SE "Baltic International Bank"

Report on the Audit of the Separate and Consolidated Financial Statements

Our Qualified Opinion on the Separate and Consolidated Financial Statements

We have audited the separate financial statements of SE "Baltic International Bank" ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group") set out on pages 8 to 100 of the accompanying separate and consolidated Annual Report, which comprise:

- the separate and consolidated statement of financial position as at 31 December 2020;
- the separate and consolidated statement of comprehensive income for the year ended 31 December 2020;
- the separate and consolidated statement of changes in shareholders' equity for the year ended 31 December 2020;
- the separate and consolidated statement of cash flows for the year ended 31 December 2020;
- notes to the separate and consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of our report, 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 as at 31 December 2020, and of its separate and consolidated financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS").

Basis for Qualified Opinion

1. As at 31 December 2019, the Bank's investment in Latvia based entity was stated at purchase value in the Bank's balance sheet (further information is disclosed in note 21 to the separate and consolidated financial statements) which is reduced by impairment allowance, rather than at the fair value as required by the Bank's accounting policies and IFRS requirements. Had the Bank applied fair value measurement, the Bank's total assets and the Bank's equity as at 31 December 2019 would decrease by EUR 858 thousand.

2. The Bank's balance sheet shows the investment in units of an investment fund registered in an EU Member State in the amount of EUR 3,755 thousand as at 31 December 2020 and EUR 3,597 thousand as at 31 December 2019. The management of the Bank and the Group estimate for the fair value of this investment is based on the future projections of a start-

up owned by the investment fund, including its ability to finance the product-development phase and to establish the necessary production capacity, as well as ability to start generating revenue from 2021 and achieve operating profit starting from 2023 (further information is disclosed in note 17 (a) to the separate and consolidated financial statements). During the audit we were unable to obtain sufficient appropriate audit evidence to determine reliably whether and to what extent the fair value of these financial instruments differs from the fair value estimated by the management of the Bank and the Group as at 31 December 2020 and 31 December 2019. Consequently, we were not able to determine whether any adjustments to the carrying amount of the investment are necessary.

3. As disclosed in the note 36 (b), on 29 November 2019 the Financial and Capital Market Commission has declared an administrative fine of 1,556 thousand EUR on the Bank for the incompliance with the regulatory requirements related to the anti-money laundering. The Bank has appealed this decision in the Council of the Financial and Capital Market Commission. On 22 December 2020, the Commission adopted the decision without changes. The Bank submitted an application to the Regional Administrative Court for annulment of the decision. The Management of the Bank and the Group has recognised a provision in the amount of 778 thousand EUR as at 31 December 2020 and as at 31 December 2019 in these separate and consolidated financial statements which, it believes, represents its best estimate of the expenditure to be ultimately required to settle the obligation. During the audit we were unable to obtain sufficient appropriate audit evidence to determine whether the amount of the provision as at 31 December 2020 and as at 31 December 2019 is a reliable estimate as at 31 December 2020 and 31 December 2019 for the ultimate outcome of this legal process. Consequently, we were not able to determine whether any adjustments to these provision amounts were necessary.

4. As disclosed in the note 36 (a), the Bank is involved in legal proceedings against a third party, which includes a claim against the Bank amounting to 1,473 thousand EUR. On 10 January 2020, appellate court upheld the third party's claim in the abovementioned amount but dismissed the claim in regards with recovery of losses for unearned profit and interest. On 7 February 2020, the Bank lodged a cassation complaint which is not yet accepted. The Bank's and the Group's financial statements do not include any provisions in connection with these legal proceedings, as the management of the Bank and the Group does not expect the Bank to incur any liability at the end of the legal proceedings. During the audit we were unable to obtain sufficient appropriate audit evidence to determine whether provision should be recognised by the management for the ultimate outcome of this legal process. Consequently, we were not able to determine whether any adjustments are necessary. We also believe that disclosure presented in these financial statements is not appropriate and should include substantiation of the management position and analysis of possible outcomes.

5. As stated in the note 21, on 15 December 2020, the Group acquired 95% of the shares in two companies, namely SIA Augšvoleri and AS Krēmeri. These companies are jointly involved in the implementation of a long-term project in the territory of the Freeport of Riga. On the acquisition date, the management of the Group assessed the fair value of assets and liabilities acquired. In the acquisition, the Group, amongst others, acquired non-operational other assets and other liabilities in the amount EUR 2,314 thousand and EUR 854 thousand respectively. During the audit we were unable to obtain sufficient appropriate audit evidence to determine reliably fair value, accuracy and completeness of these other assets and other liabilities at the acquisition date and their carrying amounts as at 31 December 2020. Consequently, we were not able to determine whether any adjustments to these items are necessary.
6. As at 31 December 2020, the Bank had a prepayment amounting to EUR 540 thousand for purchase of the share in Estonian start-up entity (respective details are provided in the note 27 to the separate and consolidated financial statements). The management believes that the carrying amount of the prepayment reflects fair value of the shares acquired in this start-up entity. In our opinion, 100% allowance for the carrying amount of the prepayment is required, consequently, the total comprehensive income should be decreased by EUR 540 thousand in 2020, while other assets on 31 December 2020 should be decreased by the same amount.

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 *Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements* section of our report.

We are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) 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 International Code of Ethics for Professional Accountants (including International Independence Standards) and 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 qualified opinion.

Material Uncertainty Related to Going Concern

We draw attention to the Bank's and the Group's losses of EUR 3 095 thousand and EUR 1 173 thousand for 2020 and EUR 3 440 thousand and EUR 3 161 thousand for 2019, and consolidated total comprehensive losses of EUR 84 thousand for 2020 and of EUR 3 370 thousand for 2019. We also draw attention to notes 7, 8, 17, 20, 29, 36, 48, 49 of the separate and consolidated financial statements, which describe challenges faced by the Bank including sustainability of revenues as a result of the client de-risking process, legal proceedings and regulatory sanctions, potential negative deviations from the management's estimates of expected credit losses, provisions, and fair values for investments made in financial instruments, administrative buildings, and investment properties, as well as pandemic impact.

The potential negative outcomes of these challenges may adversely affect the Bank's and the Group's financial position, performance, and capital adequacy and other regulatory compliance.

The management's assessment about the Bank's and the Group's ability to continue as a going concern is primarily based on an assumption that the Bank will be able to improve business model, avoid losses from negative events or significantly reduce their impact on the Bank's capital, and that the Bank will be able to attract additional funding from current and new shareholders which will make investments in the Bank's equity in an amount sufficient to support the Bank and the Group in foreseeable future.

These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. Our opinion is not further modified in respect of this matter.

Emphasis of Matter

1. As disclosed in note 26 to the financial statements the Bank and the Group recognized accrued income for management of a loan under trust agreement amounting to EUR 1,210 thousand as at 31 December 2020 and EUR 1,253 thousand as at 31 December 2019. Collection of this income is subject to legal proceedings regarding realization of a collateral provided as security for the loan. Hence timing of collection of accrued income cannot be reasonably determined. Our opinion is not modified in respect of this matter.

2. We draw attention to note 27 to the financial statements. In January 2020, the Bank transferred to its foreign legal advisor EUR 2,241 thousand to be held in custody. The arrangement with counterparty does not specify further use of the funds as well as the purpose of the transaction itself. According to the Bank's management plans, these funds will be used to pay for legal and fund-raising services, but specific services have not yet been agreed, which raises uncertainty over the future use of the funds. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

In addition to the matters described in the *Basis for Qualified Opinion* and *Emphasis of Matter* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of loans to clients (the Bank)

Key audit matter	The loans and receivables due from customers comprise EUR 45,218 thousand at gross carrying value as at 31 December 2020 with total impairment allowances of EUR 8,742 thousand as at 31 December 2020 (more details are provided in note 20 of the separate and consolidated financial statements, and information about the accounting and measurement policies is provided in note 3). Identification of a significant increase in credit risk and assessment of lifetime expected credit loss requires the management to exercise subjective judgment and therefore, we considered this as a key audit matter.
Our audit response	We made detailed inspection of loan files covering 87% of outstanding loans to customers by the net carrying value of EUR 31,598 thousand as at 31 December 2020. As part of the procedure, we assessed the customer financial situation and capacity to support debt repayments or, if this was not the case, management's exit plans and activities, as well as available sources of loan repayment. Where key source of repayment is real estate provided as a security for the loan, we involved our internal valuation specialists who performed detailed assessment of assumptions and information sources used in valuation reports provided by independent valuers or the Bank. We specifically reviewed repayment scenarios for loans issued to borrowers from industries affected by COVID-19 pandemic and we ensured that the Bank correctly assessed impairment for such loans. We have assessed the accuracy and completeness of the financial instrument related disclosures such as classification of loans and development in loan loss allowances, and other disclosures made according to the IFRS requirements.

Valuation of investments in subsidiaries and other equity investments (the Bank and the Group)

Key audit matter	Investments in subsidiaries comprise EUR 4,120 thousand as at 31 December 2020 and unquoted equity instruments measured at fair value through profit or loss comprise EUR 6,389 thousand (more details are provided in the notes 17, 21 of the separate and consolidated financial statements and information about the accounting and measurement policies is provided in note 3).

	Determination of the fair value for investments in subsidiaries and unquoted equity instruments measured at fair value through profit or loss is associated with significant estimation uncertainty, as it involves subjective management judgments with respect to amounts of future capital expenditures, operating cash flows based on the expected demand and possible commercial arrangements with the counterparties, timing of the cash flows, growth rates, discount rates and observed market analogues when estimating fair value for real estate property held by the subsidiaries. Due to the circumstances described above, we defined the valuation of investments in subsidiaries and unquoted equity instruments as a key audit matter.
Our audit response	We analysed business and financial projections and key management assumptions for fair valuations of the equity investments and the underlying assets and corroborated those with analysis of market information available from external sources. We performed sensitivity analysis for key assumptions to assess their impact on the recoverable value of the investment. We involved our internal valuation experts to assess the investments which valuation included the most complex financial models and judgements. We assessed the adequacy of the Bank's disclosures related to the assumptions and significant judgments used in estimating fair value of investments in subsidiaries and other equity instruments measured at fair value through profit or loss as well as other disclosures required by IFRS.

Valuation of other assets (the Bank and the Group)

Key audit matter	Other assets comprise EUR 13,191 thousand for the Group and EUR 9,731 thousand for the Bank as at 31 December 2020 (more details are provided in note 27 of the separate and consolidated financial statements, and information about the accounting and measurement policies is provided in the note 3). Other assets include such items as accounts receivables and prepayments for purchase of shares which measurement requires subjective management judgements and includes assessment of recoverability for the receivables and fair value for prepayments made for purchase of shares. Due to the circumstances described above, we defined initial and subsequent measurement of other assets as a key audit matter.
Our audit response	We audited the Bank's measurement of other assets. As part of the procedure, we assessed the counterparties' financial situation and capacity to support repayment of receivables or, if this was not the case, management's exit plans and activities, as well as available sources of repayment. For receivables secured with collateral we reviewed valuation of the collateral. For prepayments for shares we analysed business and financial forecasts and key management assumptions used in valuation of prepayments, corroborated

those with analysis of market information available from external sources, performed sensitivity analysis.

We assessed the adequacy of the Bank's disclosures related to the assumptions and significant judgments used in valuation of other assets as well as other disclosures required by IFRS.

Loans and other receivables sold to customers (the Bank)

Key audit matter	As disclosed in the note 35, the Bank sold part of its loan portfolio and other receivables in the amount of EUR 19.7 million to a group of buyers comprising two of the Bank's customers and a company controlled by the majority shareholder of the Bank. The transaction was closed in December 2019 when loans were transferred to trust management. We consider this a key audit matter as this transaction involved significant part of the loan portfolio and loans remained under the Bank's trust management as at 31 December 2020 and 31 December 2019.
Our audit response	We reviewed the terms and conditions of this transaction to ascertain whether these are in line with the IFRS 9 requirements for the derecognition of financial instruments. We discussed with the Bank's management the economic nature of this transaction, audited respective transaction documentation, and analysed source of funds used by the buyers. We obtained written confirmations from the counterparties to the portfolio sale transactions as well as from the owners of the portfolios in trust as at 31 December 2020 and 31 December 2019.

Fair values of investment properties (the Bank and the Group)

Key audit matter	As at 31 December 2020 the carrying amount of investment property portfolio is EUR 12,052 thousand for the Bank and EUR 12,722 thousand for the Group (more details on investment properties are provided in note 23 while information on the accounting and measurement principles is provided in note 3 of the separate and consolidated financial statements). Majority of these properties were acquired through the foreclosure or restructuring of loans issued by the Bank. These properties have limited liquidity and require subjective management judgements in fair value estimation at the reporting date. Considering the size of investment property portfolio and its potential impact on the financial position and results of the Bank and the Group we defined this area as a key audit matter.
Our audit response	We involved our internal valuation experts to assess, on a sample basis, valuation reports of the management and independent appraisers commissioned by the Bank, including appropriateness of the valuation methods, valuation assumptions and conclusions, and corroborated those with analysis of market information available from external sources. We performed

sensitivity analysis for key assumptions to assess their impact on the investment properties fair values.

We assessed the accuracy and completeness of the Bank's and the Group's disclosures related to the assumptions and significant judgments used as well as other disclosures required by IFRS.

Banking services to non-resident customers (the Bank)

Key audit matter	Non-resident customers represent 61% of deposits as at 31 December 2020 (further information is provided in note 29 of the separate and consolidated financial statements). We consider this as a key audit matter considering high regulatory scrutiny related to this client segment as well as fine imposed by the Finance and Capital Market Commission at the end of 2019 for incompliances within the anti-money laundering internal control system.
Our audit response	We performed a detailed analysis of the Bank's due diligence procedures and controls with respect to new and current customers as well as the Bank's monitoring processes and controls over the customer transactions on a sample basis. We reviewed correspondence with the Finance and Capital Market Commission to assess matters and potential risks related to non-resident customers. We also reviewed the Bank's internal audit work related to anti-money laundering internal controls.

Reporting on Other Information

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

- the Report of the Council and the Board of Directors, as set out on pages 3 to 5 of the accompanying Annual Report,
- the composition of the Supervisory Council and the Management Board, as set out on page 6 of the accompanying Annual Report;
- the Statement on Management Responsibility, as set out on page 7 of the accompanying Annual Report.

Our qualified opinion on the separate and consolidated financial statements does not cover the other information included in the 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 entity and its 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 113 Regulations on the Preparation of the Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies ("Regulation No113").

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

- 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 Regulation113.

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 International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of 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 the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and/or the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Bank and/or the 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.

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 objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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.

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 shareholders' meeting on 31 March 2020 to audit the separate and consolidated financial statements of SE "Baltic International Bank" for the year ended 31 December 2020. Our total uninterrupted period of engagement is three years, covering the years ending 31 December 2018, 31 December 2019 and 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank and the 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 the Group any of the prohibited non-audit services (NASs) referred to in EU Regulation (EU) No 537/2014. We also remained independent of the audited Bank and the Group in conducting the audit.

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

Andrei Surmach is the responsible engagement partner and Irita Cimdare is the responsible sworn auditor on the audit resulting in this independent auditor's report.

SIA "BDO ASSURANCE"
Licence No 182

Andrei Surmach
Partner
on behalf of SIA "BDO ASSURANCE"

Irita Cimdare
Member of the Board
Sworn auditor
Certificate No 103

Riga, Latvia
31 March 2021