AS RIETUMU BANKA

2020 Annual Report

Contents

Report of Council and Board of Directors

Dear Shareholders, Customers and Business Partners,

Both the global and Latvian economies continue to operate in the face of difficulties caused by the pandemic. In this situation, entrepreneurial activity and a well-considered, flexible state policy in supporting private business and the domestic market as a whole and its promising industries are of particular importance. We see that many of our clients are now working very actively and not postponing development issues for the future, and the bank supports them in this, providing, among other things, its expertise and financial resources.

AS “Rietumu Banka” (the Bank) continues working successfully with its business customers, primarily from Latvia and the Baltic countries, as well as other regions of the EU. Among our priorities remain lending, investing and other forms of business financing. For development in this area the Bank has an excellent capital basis, has both the resources and experience available which are required for the implementation of wide-scale and ambitious business ideas.

Principal activities

The Bank was established in the Republic of Latvia as a Joint Stock Company and was granted its general banking license on 5 May 1992, number of the license – 06.01.04.018/245. The registered address of the Bank’s head office is Vesetas street 7, Riga, Latvia, registration number - 40003074497. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange.

Profitability

The Group’s after-tax profit attributable to the equity holders of the Bank for the year 2020 was EUR 10 million (2019: 21 million). The Group generated an after-tax return on equity of 3.59% (2019: 5.78%) and an after-tax return on assets of 0.74% (2019: 1.41%).

The Group’s operating income was EUR 69 million (2019: EUR 73 million). Net fee and commission income was EUR 15 million (2019: EUR 12 million). The Group’s cost to income ratio was 56% for the year ended 31 December 2020 (2019: 54%). The cumulative result of the above is that the Group reached a pre-tax profit margin of 18%.

Assets

As at 31 December 2020 the Group’s total assets were EUR 1,469 million. The Group follows a conservative approach to asset allocation and about 49% of the Group’s assets invested in liquidity management portfolios. About 6% of the liquidity management portfolio is invested in short term money market placement with large mainly European banks. The tenure of these placements is up to 7 days. The bond portfolio primarily consists of corporate investment grade securities.

Lending

As a result of the uncertain environment in the region the Bank has substantially scaled down its commercial lending in the CIS countries and currently has become more active in lending of medium-large scale corporates in the Baltics. In addition, the Group focussed on reducing concentration risks of large lending projects. This resulted in the lending portfolio being diversified over a large group of medium sized loans rather than the portfolio being concentrated in a smaller group of larger loans. Loans and receivables to customers reached EUR 560 million showing only slight decrease compared to the balance of 2019 of EUR 585 million. This year the Bank plans moderate portfolio growth. The effective average interest rate for 2020 was 4.51%.

The Bank follows a very conservative lending policy while offering innovative and individually tailored products that suit the requirements of each individual customer the best. During 2020 the Group continued to focus on both commercial and residential real estate projects, production, agriculture, trade, loan portfolio finance businesses.

Taking into account that the Group's main customer base consists of mainly established medium and large businesses in Latvia and the other Baltic States, 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. Within the guidelines established by the European Central Bank the Bank has extended principal holidays to loans during the year 2020. The main sectors where principal holidays were granted were commercial real estate, trade and retails centres, and hotels. Covid-19 had a minimal impact on non-bank subsidiaries within the Group.

Group Companies

The major non-banking companies of the Group include leasing and consumer finance companies, repossessed real estate and other repossessed collateral maintenance companies and asset management and financial companies. It is the Bank’s strategy as much as possible to fully integrate its subsidiaries into the Bank’s management and control systems. The activities of Group companies are financed by the Bank via capital investments and loans. In most cases the Bank owns 100% of the shares of its subsidiaries.

The Group fully owns an asset management company called AS “Rietumu Asset Management” IPS that provides asset management services to the Bank’s customers. The asset management company provides individual portfolios for customers as well as investment into Latvian registered funds – “Rietumu Asset Management Fund – Fixed Income Investment Grade USD” and “Rietumu Asset Management Fund – Fixed Income High Yield USD”.

The Group’s Belorussian leasing business focuses on industrial equipment leasing which contributed to the Group’s profit before income tax in the amount of EUR 1,1 million for the year ended 31 December 2020. The Bank partly owns and finances a consumer lending company named SIA “InCREDIT GROUP” which is registered and operates in Latvia. As of 31 December 2020, the net loan portfolio of SIA “InCREDIT GROUP” was EUR 51 million and it contributed to the profit of the Group in the amount of EUR 1,4 million.

SIA “RB Investments” Group owns most of the significant real estate that the Bank repossessed as well as other assets that the Bank took over on defaulted loans. Most of the repossessed assets are located in Riga and the Riga region. SIA “RB Investments” Group is renting out a portion of these assets and plans to sell most of its portfolio of assets in the coming years.

Funding, Equity and Expand Capital Base

The Group’s current accounts and deposits due to customers amounted EUR 1,072 million. Current accounts represented EUR 608 million or 57% of total current accounts and customer deposits. Term deposits amounted to EUR 464 million as at 31 December 2020 including EUR 56 million of subordinated deposits. Keeping in mind the maturity profile of liabilities, the Bank continues relying on internet platforms in order to diversify the funding base using medium-term deposits from individuals in EU. Currently the Bank has access to German retail market, but in the first half of 2021 it is planned to start attracting deposits from the Netherlands. The average remaining tenor of term deposits as at 31 December 2020 was 1.6 years with the average effective interest rate of 2.01%. The average effective interest rate for subordinated deposits in 2020 was 5.34%.

Group total shareholders’ equity reached EUR 331 million as of 31 December 2020. Group Tier I and total capital adequacy ratios were 21.03% (2019: 20.34 %) and 22.61% (2019: 22.48%) respectively.

2021 and Beyond

The results that the Bank and the Group has reached provide an excellent basis for the further development of the Bank and the Group. They reflect the appropriateness of the chosen course and the presence of key conditions for its implementation: financial and intellectual resources, a solid capital base and modern technologies.

We owe our success to our customers and business partners and the trust that they have placed in us. We would like to thank our customers and business partners for their support and we are looking forward to continue developing the Bank and the Group successfully in 2021 and beyond.

Sustainability Report prepared by the management is set out in a separate statement and is available on Bank's website https://www.rietumu.com.

Financial results of the Group

	2020	2019	2018	2017
At year end (EUR'000)				
Total assets	1,469,042	1,703,706	1,552,981	3,009,558
Loans and receivables due from customers	560,086	585,291	617,899	832,340
Current accounts and deposits due to customers	1,072,456	1,319,833	1,019,696	2,340,512
Total shareholder's equity	331,437	324,443	471,461	478,755
For the year (EUR'000)				
Net profit before tax	12,764	24,510	24,848	40,678
Net profit after tax	11,768	23,000	23,461	33,494
Operating income	69,192	72,822	104,458	136,611
Ratios				
Earnings per share (EUR) – basic and diluted				
After tax	0.10	0.19	0.17	0.28
Return on equity				
Before tax	3.89%	6.16%	5.21%	8.36%
After tax	3.59%	5.78%	4.92%	6.89%
Return on assets				
Before tax	0.80%	1.51%	1.45%	1.25%
After tax	0.74%	1.41%	1.37%	1.03%
Capital adequacy ratio	22.61%	22.48%	36.01%	24.08%
Profit margin	18.45%	33.66%	23.79%	29.78%
Loan portfolio to total assets ratio	38.13%	34.35%	39.79%	27.66%
Number of employees	644	701	856	1,070

Financial results of the Bank

	2020	2019	2018	2017
At year end (EUR'000)				
Total assets	1,479,183	1,718,724	1,542,405	2,998,620
Loans and receivables due from customers	606,346	638,523	695,343	916,987
Current accounts and deposits due to customers	1,082,424	1,332,529	1,033,539	2,359,214
Total shareholder's equity	324,014	307,770	457,510	459,614
For the year (EUR'000)				
Net profit before tax	18,826	19,105	22,480	41,008
Net profit after tax	18,125	18,431	21,483	33,034
Operating income	64,742	53,144	88,027	122,444
Ratios				
Earnings per share (EUR) - basic and diluted				
After tax	0.15	0.17	0.18	0.26
Return on equity				
Before tax	6.07%	4.93%	4.83%	8.81%
After tax	5.84%	4.76%	4.62%	7.02%
Return on assets				
Before tax	1.30%	1.14%	1.19%	1.27%
After tax	1.25%	1.10%	1.14%	1.03%
Capital adequacy ratio	22.76%	21.96%	36.62%	24.36%
Profit margin	29.40%	35.95%	25.54%	33.49%
Loan portfolio to total assets ratio	40.99%	37.15%	45.08%	30.58%
Number of employees	385	429	567	765

STATEMENTS OF MANAGEMENT RESPONSIBILITY

The Management of AS "Rietumu Banka" 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 separate and consolidated financial statements on pages 15 to 116 are prepared in accordance with source documents and present fairly the financial position of the Bank and the Group as of 31 December 2020 and the results of their operations and cash flows for the year ended 31 December 2020.

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

The Management of AS "Rietumu Banka" is responsible for the maintenance of proper accounting records, the safeguarding of the Bank's and the Group's assets and the prevention and detection of fraud and other irregularities in the Bank and in the Group. The Management is also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Finance and Capital Markets Commission and other legislation of the Republic of Latvia.

On behalf of the Management of AS "Rietumu Banka":

Deputy Chairman of the Executive Board Ruslans Stecjuks	Member of the Executive Board Jelena Buraja

5 February 2021

The Council and the Board of Directors

During the year and as of the date of the signing of the financial statements:

The Council of the Bank

1 January 2020 – 31 December 2020

Name	*Position*	*Date of appointment and current term*
Leonids Esterkins	Chairman of the Council	25/09/97 (14/05/18-14/05/21)
Arkadijs Suharenko	Deputy Chairman of the Council	25/09/97 (14/05/18-14/05/21)
Brendan Thomas Murphy	Deputy Chairman of the Council	07/09/05 (14/05/18-14/05/21)
Dermot Fachtna Desmond	Member of the Council	07/09/05 (14/05/18-14/05/21)
Valentins Blugers	Member of the Council	25/03/11 (14/05/18-14/05/21)

The Executive Board of the Bank

1 January 2020 – 24 August 2020

Name	*Position*	*Date of appointment and current term*
Rolf Paul Fuls	Chairman of the Executive Board	23/09/19-23/09/22
Ruslans Stecjuks	Member of the Executive Board, Deputy Chairman	23/09/19-23/09/22
Ilja Suharenko	Member of the Executive Board, Deputy Chairman	23/09/19-23/09/22
Jelena Buraja	Member of the Executive Board	23/09/19-23/09/22

24 August 2020 – 05 October 2020

Name	*Position*	*Date of appointment and current term*
Rolf Paul Fuls	Chairman of the Executive Board	23/09/19-23/09/22
Ruslans Stecjuks	Member of the Executive Board, Deputy Chairman	23/09/19-23/09/22
Ilja Suharenko	Member of the Executive Board, Deputy Chairman	23/09/19-05/10/20
Jelena Buraja	Member of the Executive Board	23/09/19-23/09/22
Vladlens Topcijans	Member of the Executive Board	24/08/20-24/08/23

5 October 2020 – 31 December 2020

Name	*Position*	*Date of appointment and current term*
Rolf Paul Fuls	Chairman of the Executive Board	23/09/19-23/09/22
Ruslans Stecjuks	Member of the Executive Board, Deputy Chairman	23/09/19-23/09/22
Jelena Buraja	Member of the Executive Board	23/09/19-23/09/22
Vladlens Topcijans	Member of the Executive Board	24/08/20-24/08/23

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS "Rietumu Banka"

Report on the Audit of the Bank's Separate and the Group's Consolidated Financial Statements

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS "Rietumu Banka" ("the Bank") and accompanying consolidated financial statements of the Bank and its subsidiaries ("the Group") set out on pages 15 to 116 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 profit or loss and other comprehensive income for the year then ended;
- the separate and consolidated statement of changes in the shareholders' equity for the year then ended;
- the separate and consolidated statement of cash flows for the year then ended;
- notes to the separate and consolidated financial statements, including a summary of significant accounting policies and other disclosures.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Bank and the Group 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.

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *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 opinion.

Emphasis of Matter
On 6 July 2017 a French Court ruled in its first-instance judgment that the Bank was guilty of aggravated money laundering and was ordered to pay a criminal fine of EUR 80,000 thousand, and damages, jointly and severally with other defendants, of EUR 10,113 thousand to the Republic of France. The court ruling was appealed both by the Bank and by the French prosecutors. The next hearings are expected to take place on 8, 9 and 10 February 2021. The Bank and the Group believe that the amount of the provision (EUR 34,000 thousands) recognized in these separate and consolidated financial statements represent their best estimate of the expenditure to be ultimately required to settle the obligation, however, the Bank and the Group also recognize that, due to the inherent uncertainty associated with the proceedings is of such nature, that the actual expenditure required to settle the claim could be lower or substantially higher than the amount of provisions made.

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 separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report:

Impairment of the loans to customers (the Bank)

Key audit matter	27% of gross amount of loans and receivables due from customers as at 31 December 2020 are classified as credit-impaired (more details are provided in the note 19.2 (b) of the separate and consolidated financial statements), and 56% of the net amount of loans to customers as at 31 December 2020 are due from customers based and operating outside Latvia (more details on geographical analysis of the loan portfolio are provided in the note 19.2 (d) of the separate and consolidated financial statements). We believe that these factors indicate presence of an increased audit risk related to the assessment of potential impairment of the value of loans and therefore considered this as a key audit matter.
Our audit response	We assessed whether the Bank's and the Group's accounting policies in relation to the impairment of loans to customers are in compliance with the IFRS. We made detailed review of loan files covering 79% of the net amount of outstanding loans to customers as at 31 December 2020 (98% of loans classified as credit-impaired). As part of the review, we assessed the customer financial situation and capacity to support sustainable debt service payments or, if this was not the case, management's exit plans and activities, as well as available sources of loan repayment.

As in many cases the key source of loan recovery was realisation of collateral associated with specific loans, primarily, real estate, we did detailed review of assumptions and information sources used in the valuation reports provided by independent valuation specialists engaged by the Bank or its debtors, including independent checks on market prices for comparable properties. Where required, we asked to reassess initial expected credit loss assessment and make changes in related loan loss allowances.

Valuation of investment properties (the Group)

Key audit matter	The balance sheet value of the Group's investment property portfolio as at 31 December 2020 is EUR 81,879 thousand (more details on investment properties are provided in the note 26 while information on the measurement principles is provided in the note 3 (d)(ii) of the separate and consolidated financial statements). Significant part of these represent properties were acquired through the foreclosure of loans issued by the Bank. These properties have limited liquidity and represent significant challenge to determine their fair value at the reporting date. Considering the size of investment property portfolio and its potential impact on the financial results of the Group we defined this area as a key audit matter.
Our audit response	We assessed, on a sample basis, independent valuation reports commissioned by the Bank or the Group's entities including matters such as selection of the valuation methods and key assumptions underlying value calculations - comparable market transactions, cash flow projections, discount rates, capitalisation rates. For a number of cases, we did sensitivity analysis for certain assumptions within the valuation to assess the effect of their potential changes on the investment property fair values. We assessed the adequacy of the Group's disclosures related to the assumptions and significant judgments used at estimating fair values of investment properties.

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 6 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 7 of the accompanying Annual Report,
- the composition of the Supervisory Council and the Management Board, as set out on page 8 of the accompanying Annual Report.

Our 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 No 113").

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 Regulation 113.

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 5 May 2020 to audit the separate and consolidated financial statements of AS Rietumu Banka for the year ended 31 December 2020. Our total uninterrupted period of engagement is three years, covering the periods ending 31 December 2018 to 31 December 2020.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank and 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 the prohibited non-audit services (NASs) referred to of 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.

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

"BDO ASSURANCE" SIA
Licence No 182

Mārtiņš Zutis
on behalf of SIA "BDO ASSURANCE"

Irita Cimdare
Member of the Board
Responsible sworn auditor
Certificate No 103

Riga, Latvia
5 February 2021

SEPARATE AND CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 '000 EUR Group	2020 '000 EUR Bank	2019 '000 EUR Group	2019 '000 EUR Bank
Interest income	6	49,570	40,453	51,527	38,811
Interest expense	6	(15,707)	(15,183)	(17,879)	(17,324)
Net interest income		**33,863**	**25,270**	**33,648**	**21,487**
Fee and commission income	7	18,608	18,087	18,400	17,719
Fee and commission expense	8	(3,456)	(3,049)	(5,918)	(5,200)
Net fee and commission income		**15,152**	**15,038**	**12,482**	**12,519**
Net gain on financial assets at fair value through profit or loss	9	6,245	6,245	611	675
Net foreign exchange gain	10	2,269	5,372	11,542	10,394
Net realised gain on financial assets at fair value through other comprehensive income	11	2,516	2,516	1,562	1,562
Net realised gain on debt instruments at amortised cost		372	372	153	153
Share of losses of equity accounted investees (net of income tax)		(3)	-	(28)	-
Other income	12	8,778	9,929	12,852	6,354
Operating income		**69,192**	**64,742**	**72,822**	**53,144**
Impairment losses	13	(17,826)	(18,325)	(9,130)	(8,084)
Provisions charges		(86)	(72)	(31)	(16)
General and administrative expenses	14	(38,516)	(27,519)	(39,151)	(25,939)
Profit before income tax		**12,764**	**18,826**	**24,510**	**19,105**
Income tax expense	15	(996)	(701)	(1,510)	(674)
Profit for the period		**11,768**	**18,125**	**23,000**	**18,431**
Attributable to:					
Equity holders of the Bank		**10,409**		**21,219**	
Non-controlling interest		**1,359**		**1,781**	

The separate and consolidated statements of profit or loss and other comprehensive income are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 116.

Deputy Chairman of the Executive Board
Ruslans Stecjuks

Member of the Executive Board
Jeļena Buraja

05 February 2021

SEPARATE AND CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020	2020 '000 EUR Group	2020 '000 EUR Bank	2019 '000 EUR Group	2019 '000 EUR Bank
Profit for the period	**11,768**	**18,125**	**23,000**	**18,431**
Other comprehensive income				
Items that will not to be reclassified to profit or loss				
Fair value changes of equity instruments measured at fair value through other comprehensive income	(296)	(296)	-	-
Items that are or may be reclassified to profit or loss				
Foreign currency translation differences for foreign operations	(1,129)	-	4	-
Other reserves - net change	1	-	(66)	-
Financial assets at fair value through other comprehensive income – net change in fair value	(1,585)	(1,585)	5,824	5,824
Other comprehensive income for the period	**(3,009)**	**(1,881)**	**5,762**	**5,824**
Total comprehensive income for the period	**8,759**	**16,244**	**28,762**	**24,255**
Attributable to:				
Equity holders of the Group	**7,400**		**26,981**	
Non-controlling interest	**1,359**		**1,781**	

The separate and consolidated statements of profit or loss and other comprehensive income are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 116.

Deputy Chairman of the Executive Board
Ruslans Stecjuks

Member of the Executive Board
Jeļena Buraja

05 February 2021

SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2020	Note	31 Dec 2020 '000 EUR Group	31 Dec 2020 '000 EUR Bank	31 Dec 2019 '000 EUR Group	31 Dec 2019 '000 EUR Bank
Assets					
Cash and balances due from the Bank of Latvia	16	261,362	261,340	503,089	503,072
Deposits and balances due from banks	17	77,240	76,818	81,493	80,911
Financial assets at fair value through profit or loss	18	16,250	16,141	10,155	10,049
Financial assets at amortised cost	19				
Debt securities	19.1	64,291	64,291	60,536	60,536
Loans and receivables due from customers	19.2	560,086	606,346	585,291	638,523
Financial assets at fair value through other comprehensive income	20	344,496	344,496	290,490	290,490
Non-current assets held for sale		4,577	-	763	596
Investments in subsidiaries	21	-	27,319	-	29,466
Equity accounted investees	22	2	-	4	-
Property and equipment	23	37,348	26,714	38,424	34,654
Intangible assets	24	1,936	1,923	2,092	2,074
Investment property	26	81,879	40,891	90,059	35,114
Current tax asset		258	-	317	174
Deferred tax asset	32	583	-	107	-
Other assets	27	18,734	12,904	40,886	33,065
Total Assets		**1,469,042**	**1,479,183**	**1,703,706**	**1,718,724**

The separate and consolidated statements of financial position are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 116.

SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 December 2020	Note	31 Dec 2020 '000 EUR Group	31 Dec 2020 '000 EUR Bank	31 Dec 2019 '000 EUR Group	31 Dec 2019 '000 EUR Bank
Liabilities and Shareholders' Equity					
Financial instruments at fair value through profit or loss	18	54	54	94	94
Deposits and balances due to banks	28	4,482	4,465	2,920	2,920
Current accounts and deposits due to customers	29	1,072,456	1,082,424	1,319,833	1,332,529
Issued debt securities	30	613	-	712	-
Provisions	36	34,191	34,225	34,105	34,154
Current tax liability		26	-	50	-
Deferred tax liability	32	126	-	99	-
Other liabilities and accruals	31	25,657	34,001	21,450	41,257
Total Liabilities		**1,137,605**	**1,155,169**	**1,379,263**	**1,410,954**
Share capital	33	168,916	168,916	168,916	168,916
Share premium	33	52,543	52,543	52,543	52,543
Revaluation reserve	33	1,869	-	1,890	-
Fair value reserve	33	1,697	1,697	3,578	3,578
Currency translation reserve		(4,688)	-	(3,559)	-
Other reserves	33	40	23	39	23
Retained earnings		107,331	100,835	96,898	82,710
Total Equity Attributable to Equity Holders of the Bank		**327,708**	**324,014**	**320,305**	**307,770**
Non-controlling Interest		**3,729**	**-**	**4,138**	**-**
Total Shareholders' Equity		**331,437**	**324,014**	**324,443**	**307,770**
Total Liabilities and Shareholders' Equity		**1,469,042**	**1,479,183**	**1,703,706**	**1,718,724**

The separate and consolidated statements of financial position are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 116.

Deputy Chairman of the Executive Board
Ruslans Stecjuks

Member of the Executive Board
Jeļena Buraja

05 February 2021

SEPARATE AND CONSOLIDATED STATEMENTS OF CASH FLOWS For the year ended 31 December 2020	**Note**	**2020 '000 EUR Group**	**2020 '000 EUR Bank**	**2019 '000 EUR Group**	**2019 '000 EUR Bank**
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax		12,764	18,826	24,510	19,105
Amortisation and depreciation	23,24	2,022	1,974	2,629	2,851
(Gain)/loss from sale of investment property		(892)	(753)	(76)	(307)
Revaluation of investment property		2,556	(392)	(279)	341
Share of (income)/loss of equity accounted investees		2	-	28	-
Increase of provisions		86	71	29	16
Assets write off/(recovery of assets written off)		(2,852)	(4,395)	20	(355)
(Gain)/loss on disposal of property and equipment		(146)	(32)	3	(23)
(Gain)/loss on sale of subsidiaries		605	335	(2,527)	-
Impairment losses	13	17,826	18,325	9,130	8,084
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**31,971**	**33,959**	**33,467**	**29,712**
(Increase)/decrease in financial assets at fair value through profit or loss		(581)	(578)	1,660	1,622
(Increase)/decrease in loans and receivables from customers		9,067	16,410	24,847	26,669
(Increase)/decrease in financial assets at fair value through other comprehensive income		(56,558)	(56,558)	(125,756)	(125,756)
(Increase)/decrease in other assets		21,580	20,176	(7,632)	(7,451)
Increase/(decrease) in derivative liabilities		(40)	(40)	94	94
Increase/(decrease) in current accounts and deposits due to customers		(247,377)	(250,105)	298,936	298,990
(Increase)/decrease in non-current assets held for sale		819	596	1,625	-
Increase/(decrease) in other liabilities and accruals		3,943	(468)	(3,081)	(3,787)
Increase/(decrease) in cash and cash equivalents from operating activities before corporate income tax		**(237,176)**	**(236,608)**	**224,160**	**220,093**
Corporate income tax		(961)	(527)	1,281	1,988
Net cash and cash equivalents from operating activities		**(238,137)**	**(237,135)**	**225,441**	**222,081**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment and intangible assets	23,24	(1,363)	(621)	(1,171)	(972)
Proceeds from sale of property, plant and equipment and other assets		-	-	28	28
Increase in equity investments in other entities and acquisition of subsidiaries		-	690	-	-
(Increase)/decrease in investment property	26	(1,732)	(5,385)	(1,858)	802
Proceeds from sale of subsidiary		-	355	3,061	3,342
(Increase)/decrease in debt securities at amortized cost		(4,200)	(4,200)	(25,073)	(25,073)
(Acquisition)/sale of non-controlling interest		(298)	-	(75)	-
Cash and cash equivalents used in / from investing activities		**(7,593)**	**(9,161)**	**(25,088)**	**(21,873)**

The separate and consolidated statements of cash flows are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 116.

SEPARATE AND CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended 31 December 2020

	Note	2020 ’000 EUR Group	2020 ’000 EUR Bank	2019 ’000 EUR Group	2019 ’000 EUR Bank
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase/(decrease) in other reserves		1	-	(66)	-
Issued debt securities	30	(99)	-	650	-
Dividends paid	33	(1,470)	-	(175,708)	(173,995)
Repayment of lease liability		(244)	(1,074)	(152)	(1,074)
Cash and cash equivalents used in/from financing activities		**(1,812)**	**(1,074)**	**(175,276)**	**(175,069)**
Net cash flow for the period		**(247,542)**	**(247,370)**	**25,077**	**25,139**
Cash and cash equivalents at the beginning of the year		**581,662**	**581,063**	**556,585**	**555,924**
Cash and cash equivalents at the end of the year	34	**334,120**	**333,693**	**581,662**	**581,063**

The separate and consolidated statements of cash flows are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 116.

Deputy Chairman of the Executive Board
Ruslans Stecjuks

Member of the Executive Board
Jeleņa Buraja

05 February 2021

GROUP CONSOLIDATED STATEMENTS OF CHANGES IN THE SHAREHOLDERS’ EQUITY

For the year ended 31 December 2019

	Attributable to Equity Holders of the Bank									
	Share capital ’000 EUR	**Share premium ’000 EUR**	**Revaluation reserve ’000 EUR**	**Fair value reserve ’000 EUR**	**Foreign currency translation reserve ’000 EUR**	**Other reserves ’000 EUR**	**Retained earnings ’000 EUR**	**Total ’000 EUR**	**Non-controlling interest ’000 EUR**	**Total Equity ’000 EUR**
Balance at 1 January 2019	**168,916**	**52,543**	**1,914**	**(2,246)**	**(3,563)**	**105**	**249,647**	**467,316**	**4,145**	**471,461**
Transactions with shareholders recorded directly in equity										
Dividends paid (Note 33)	-	-	-	-	-	-	(173,995)	(173,995)	-	**(173,995)**
Transactions with non-controlling interest										
Loss of control	-	-	-	-	-	-	-	-	(47)	**(47)**
Dividends paid to non-controlling interest shareholders	-	-	-	-	-	-	-	-	(1,713)	**(1,713)**
Transactions with third parties related to units of funds controlled by Group	-	-	-	-	-	-	-	-	(28)	**(28)**
Comprehensive income										
Profit for the current year	-	-	-	-	-	-	21,219	21,219	1,781	**23,000**
Other comprehensive income	-	-	-	5,824	4	(66)	-	5,762	-	**5,762**
Other										
Depreciation of revalued property	-	-	(27)	-	-	-	27	-	-	-
Revaluation of property and equipment	-	-	3	-	-	-	-	3	-	**3**
Balance at 31 December 2019	**168,916**	**52,543**	**1,890**	**3,578**	**(3,559)**	**39**	**96,898**	**320,305**	**4,138**	**324,443**

The Group consolidated statements of changes in the shareholders’ equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 116.

GROUP CONSOLIDATED STATEMENTS OF CHANGES IN THE SHAREHOLDERS' EQUITY

For the year ended 31 December 2020

Attributable to Equity Holders of the Bank

	Share capital '000 EUR	Share premium '000 EUR	Revaluation reserve '000 EUR	Fair value reserve '000 EUR	Foreign currency translation reserve '000 EUR	Other reserves '000 EUR	Retained earnings '000 EUR	Total '000 EUR	Non-controlling interest '000 EUR	Total Equity '000 EUR
Balance at 1 January 2020	**168,916**	**52,543**	**1,890**	**3,578**	**(3,559)**	**39**	**96,898**	**320,305**	**4,138**	**324,443**
Transactions with non-controlling interest										
Loss of control	-	-	-	-	-	-	-	-	(298)	**(298)**
Dividends paid to non-controlling interest shareholders	-	-	-	-	-	-	-	-	(1,470)	**(1,470)**
Comprehensive income										
Profit for the current year	-	-	-	-	-	-	10,409	10,409	1,359	**11,768**
Other comprehensive income	-	-	-	(1,881)	(1,129)	1	-	(3,009)	-	**(3,009)**
Other										
Depreciation of revalued property	-	-	(24)	-	-	-	24	-	-	-
Revaluation of property and equipment	-	-	3	-	-	-	-	3	-	**3**
Balance at 31 December 2020	**168,916**	**52,543**	**1,869**	**1,697**	**(4,688)**	**40**	**107,331**	**327,708**	**3,729**	**331,437**

The Group consolidated statements of changes in the shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 116.

Deputy Chairman of the Executive Board
Ruslans Stecjuks

Member of the Executive Board
Jelena Buraja

05 February 2021

BANK’S SEPARATE STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY
For the year ended 31 December 2020

	Share capital ’000 EUR	**Share premium ’000 EUR**	**Fair value reserve ’000 EUR**	**Other reserves ’000 EUR**	**Retained earnings ’000 EUR**	**Total equity ’000 EUR**
Restated balance at 1 January 2019	**168,916**	**52,543**	**(2,246)**	**23**	**238,274**	**457,510**
Transactions with shareholders recorded directly in equity						
Dividends paid	-	-	-	-	(173,995)	**(173,995)**
Comprehensive income						
Profit for the period	-	-	-	-	18,431	**18,431**
Other comprehensive income	**-**	**-**	5,824	-	-	**5,824**
Balance at 31 December 2019	**168,916**	**52,543**	**3,578**	**23**	**82,710**	**307,770**
Comprehensive income						
Profit for the period	-	-	-	-	18,125	**18,125**
Other comprehensive income	**-**	**-**	(1,881)	-	-	**(1,881)**
Balance at 31 December 2020	**168,916**	**52,543**	**1,697**	**23**	**100,835**	**324,014**

The Bank’s separate statements of changes in shareholders’ equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 24 to 116.

Deputy Chairman of the Executive Board
Ruslans Stecjuks

Member of the Executive Board
Jeļena Buraja

05 February 2021

1 Background

Principal activities

These financial statements include the separate financial statements of AS “Rietumu Banka” (the “Bank”) and the consolidated financial statements of the Bank and its subsidiaries (together referred to as the “Group”).

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia and the Financial and Capital Market Commission (FCMC) of the Republic of Latvia. The average number of people employed by the Group during the year was 664 (2019: 701) and by the Bank 385 (2019: 429).

Principal subsidiaries of the Group (total assets in excess of EUR 5,000 thousand)

Name	Country of incorporation	Principal activities	Ownership	
			31 Dec 2020	**31 Dec 2019**
SIA “RB Investments”	Vesetas Str.7, Riga, Latvia	Investments	100%	100%
Rietumu Lizing OOO	Odoevskogo Str.117, 6th floor, office 9, Minsk, Belarus	Leasing company	100%	100%
SIA “Vesetas 7”	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
SIA “OVERSEAS Estates”	Vesetas Str.7, Riga, Latvia	Terminal	100%	100%
SIA “InCREDIT GROUP”	Krisjana Barona Str.130, Riga, Latvia	Customer lending	51%	51%
SIA “KI Nekustamie ipasumi”	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
SIA “KI 135”	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
KI Invest OOO	Nauchnij Str.19, Moscow, Russia	Real estate operating	100%	100%
SIA “KI Zeme”	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%

2 Basis of preparation

(a) Statements of compliance

The accompanying separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS), and regulations of the Financial and Capital Market Commission of the Republic of Latvia (FCMC) in force as at the reporting date.

The Board of Directors approved these separate and consolidated financial statements for issue on 05 February 2021.

(b) Basis of measurement

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

- financial assets at fair value through profit or loss are stated at fair value;
- financial assets at fair value through other comprehensive income are stated at fair value;
- non-current assets held for sale which are stated at lower their carrying amount and fair value less cost to sell;
- owner occupied buildings which are stated at revalued amounts being the fair value at the date of valuation less subsequent accumulated depreciation and any accumulated impairment losses;
- investment property and collateral assumed on non-performing loans is stated at fair value.

(c) Functional and Presentation Currency

These financial statements are presented in thousands of euro (EUR 000's).

The functional currencies of the Bank and principal subsidiaries of the Bank are EUR, except for the principal subsidiaries listed below:

Rietumu Lizing OOO	BYN (Belarussian Ruble)
KI Invest OOO	RUB (Russian Rouble)

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of these separate and consolidated financial statements. The accounting policies have been consistently applied to all periods presented in these financial statements, except for the change in accounting policies described in Note 3(u).

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Bank and its subsidiary companies at the spot exchange rates on the date of the transactions set by the European Central Bank.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between 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 fair value are translated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated into the functional currency at the spot exchange rate at the date of transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the translation of equity instruments at fair value through profit or loss, which are recognised in equity through other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency of the Group at exchange rates set by the European Central Bank at the reporting date. The income and expenses of foreign operations are translated into the presentation currency of the Group at average exchange rate for the reporting period. Foreign currency differences are recognised in other comprehensive income and accumulated in a currency translation reserve, except that the translation difference is allocated to non-controlling interest. Upon disposal of subsidiary, the balance of currency translation reserve is reclassified to profit and loss.

(iii) Foreign exchange rates

	31 Dec 2020	Average 2020	31 Dec 2019	Average 2019
USD	1.2271	1.1422	1.1234	1.1195
BYN	3.1680	2.7900	2.3637	2.3415
RUB	91.4671	82.7248	69.9563	72.4553

3 Significant accounting policies, continued

(b) Basis of consolidation

(i) Subsidiaries

The Group’s subsidiaries are those entities which it directly or indirectly controls. Control over an entity is evidenced by the Group’s ability to exercise its power in order to affect any variable returns that the Group is exposed to through its involvement with the entity. When assessing whether to consolidate an entity, the Group evaluates a range of control factors, namely:– the purpose and design of the entity – the relevant activities and how these are determined– whether the Group’s rights result in the ability to direct the relevant activities – whether the Group has exposure or rights to variable returns – whether the Group has the ability to use its power to affect the amount of its returns. Where voting rights are relevant, the Group is deemed to have control where it holds, directly or indirectly, more than half of the voting rights over an entity unless there is evidence that another investor has the practical ability to unilaterally direct the relevant activities.

The Group also assesses existence of control where it does not control the majority of the voting power but has the practical ability to unilaterally direct the relevant activities. This may arise in circumstances where the size and dispersion of holdings of the shareholders give the Group the power to direct the activities of the investee. The Group reassesses the consolidation status at least at every quarterly reporting date. Therefore, any changes in the structure leading to a change in one or more of the control factors, require reassessment when they occur. This includes changes in decision making rights, changes in contractual arrangements, changes in the financing, ownership or capital structure as well as changes following a trigger event which was anticipated in the original documentation. All intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated on consolidation. Consistent accounting policies are applied throughout the Group for the purposes of consolidation. At the date that control of a subsidiary is lost, the Group a) derecognizes the assets (including attributable goodwill) and liabilities of the subsidiary at their carrying amounts, b) derecognizes the carrying amount of any noncontrolling interests in the former subsidiary, c) recognizes the fair value of the consideration received and any distribution of the shares of the subsidiary, d) recognizes any investment retained in the former subsidiary at its fair value and e) recognizes any resulting difference of the above items as a gain or loss in the income statement. Any amounts recognized in prior periods in other comprehensive income in relation to that subsidiary would be reclassified to the Consolidated Statement of Income or transferred directly to retained earnings if required by other IFRSs.

(ii) Equity accounted investees

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50% of the voting power of associated entity. The consolidated financial statements include the Group’s share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group’s share of losses exceeds the Group’s interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(iii) 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 Group’s interest in the investee. 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.

(iv) Non – controlling interest

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

3 Significant accounting policies, continued

(v) Investment in subsidiaries and associates in Bank’s separate financial statements

Investments in subsidiaries and associates are measured in the Bank’s separate financial statements at cost less impairment allowance, if any.

(vi) Asset management

The Bank and the Group hold assets which are purchased on behalf of investors (securities and other assets managed). The assets held on behalf of investors are accounted in off balance sheet and are not included in the separate and consolidated financial statements.

(c) Goodwill

Goodwill represents the excess of the cost of a business combination over the Bank’s or the Group’s interest in the fair value of the net identifiable assets and contingent liabilities of the acquiree at the date of acquisition.

The Bank and the Group measure goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally at fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Goodwill is included in intangible assets.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses, if any. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that goodwill might be impaired and is measured at cost less any accumulated impairment losses. Cash generating units for goodwill impairment testing are payment card business.

Negative goodwill (bargain purchase gain) arising on a business combination is recognised immediately in profit or loss.

(d) Fair value measurement principles

A number of the Bank’s and Group’s accounting policies and disclosures require the determination of fair value 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 Bank or the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When measuring the fair value of an asset or a liability, the Bank and 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.

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 Bank and the Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. In addition, when applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

3 Significant accounting policies, continued

(i) Financial assets and liabilities

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

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

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank and the Group have positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk.

(ii) Investment property and owner’s occupied buildings

The fair value of property is based on internal valuations performed by the Bank and the Group that are, on a regular basis (once per year or when market conditions significantly change), corroborated with external, independent valuations prepared by valuation companies, having appropriate professional qualifications and recent experience in the location and category of property being valued. The fair values are based on market values, being the estimated amount for which property could be sold on the date of the valuation between willing buyer and a willing seller in an arm’s length transaction after proper marketing where the parties had each acted knowledgeably and willingly. In the year when property is obtained, purchase price could be accepted as fair value.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

(iii) Intangible assets

The fair value of licenses acquired in a business combination is based on the discounted estimated cash flows from the business activity subject to the license. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earning method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the rated flows.

3 Significant accounting policies, continued

(e) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank and the Group in the management of their short-term commitments, less balances due to credit institutions with a maturity of less than 3 months.

(f) Financial instruments

(i) Classification

The Bank and the Group initially recognise a financial asset or a financial liability in its balance sheet when, and only when the Bank and the Group becomes a party to the contract.

All financial assets, except equity instruments and derivatives, are classified based on a combination of the business model for managing the assets and the instruments’ contractual cash flow characteristics. Equity instruments and derivatives are classified as measured at fair value at profit or loss.

Under IFRS 9, financial assets are classified into the following categories:

- Financial assets at amortized cost (AMC)
- Financial assets at fair value through other comprehensive income (FVOCI),
- Financial assets at fair value through profit or loss (FVTPL).

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- and the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are mandatorily measured at FVTPL.

Business model assessment

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

In general, the business model assessment of the Group and the Bank can be summarized as follows:

- Loans and receivables have a “held to collect” business model. The financial assets consist of loans and balances with financial institutions. The management and reporting of performance are based on collecting the contractual cash flows.
- The Bank and the Group has portfolios of bonds within the “held to collect” business model, the “held to collect and sell” business models and “other” business models.
- Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

3 Significant accounting policies, continued

Assessment whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank and the Group consider the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank and the Group consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets - e g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money - e.g. periodic reset of interest rates.

The Bank and the Group classifies all financial liabilities as subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are subsequently measured at fair value.

(ii) Measurement

A financial asset or liability is initially measured at its fair value and, except for a financial asset or liability at fair value through profit or loss, includes transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in the profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Subsequent to initial recognition, financial assets other than financial assets and financial liabilities measured at amortised cost, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal.

All debt securities measured at amortised cost, loans and receivables and financial liabilities at amortised cost are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Loss allowance for expected credit losses on financial assets that are measured at amortised cost or at fair value through other comprehensive income is recognised in accordance with note 3 (l).

(iii) Gains and losses on subsequent measurement

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

- a gain or loss on a financial asset classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on debt securities classified as at fair value through other comprehensive income is recognised in fair value reserve through other comprehensive income (except for impairment

3 Significant accounting policies, continued

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

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

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised including the instances where the terms change substantially or impaired, and through the unwinding of interest using the effective interest rate method.

Regular way purchases and sales of financial assets are accounted for at settlement date.

(iv) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank and the Group transfer substantially all of the risks and rewards of ownership of the financial asset or when the Bank and the Group neither transfer, nor retain substantially all risks and rewards of ownership but does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for derecognition that is created or retained by the Bank and the Group is recognised as a separate asset or liability. A financial liability is derecognised when it is extinguished.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

(v) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Bank and the Group classify all derivative financial instruments as financial instruments at fair value through profit and loss.

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.

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank and the Group account for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

(vi) Offsetting

Financial assets and liabilities are offset and the net amount reported 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.

3 Significant accounting policies, continued

(g) Leases

At inception of a contract, the Group and the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group and the Bank uses the definition of a lease in IFRS 16.

The Bank and the Group as lessee

At commencement or on modification of a contract that contains a lease component, the Group and the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group and the Bank recognise a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group and the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Group and the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group’s estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group uses the practical expedient of low-value items where any item generating cash outflows of less than EUR 5 thousand during the lease term is expensed as incurred with no right-of-use asset or lease liability recognition.

COVID-19-related rent concessions

The Group and the Bank has applied COVID-19-Related Rent Concessions – Amendment to IFRS 16. The Group and the Bank applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Group and the Bank applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Group and the Bank chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Group and the Bank assesses whether there is a lease modification.

3 Significant accounting policies, continued

The bank and the Group as lessor

When the Group and the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group and the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

(h) Property and equipment

(i) Owned assets

Items of property and equipment are carried at cost less accumulated depreciation, less accumulated impairment losses, except for land and buildings 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.

Where an item of property and equipment comprises, major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Revaluation

Land and buildings of the Bank and the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the land and buildings being revalued. A revaluation increase on an item of land and building is recognised in equity through other comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss.

A reduction in the value on an item of land or buildings is recognised in profit or loss 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.

(iii) Depreciation

Depreciation is charged to the statements of profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date when the asset becomes available for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed annually. The estimated useful lives are as follows:

Buildings	50 years
Equipment	2.5 to 10 years
Furniture	8-10 years
Safe deposit boxes	20 years
Vehicles	8 years

(i) 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 or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss in other operating income.

3 Significant accounting policies, continued

(j) Repossessed collateral

If the borrower fails to fulfil the contractual obligations, the Bank may decide that the loan agreement will be terminated and that the right to collateral pledged as security, will be exercised. According to Latvian law, the Bank and the Group cannot assume formal title of the asset pledge, but can initiate the sale, proceeds of which will be used to repay or partly repay the outstanding loan receivable. As the Bank and the Group are assuming the de facto title to the asset, and retain no contractual obligation to the original borrower, the Bank and the Group classify the asset as other assets. As well, when the Group and Bank acquires (i.e. gains a full title to) an asset in this way, the asset’s classification follows the nature of its intended use by the Group and the Bank. When the Group or the Bank is uncertain of its intentions with respect to land and buildings that it has repossessed, those properties are classified as other assets. The repossessed collaterals are initially recognised at take-over value which set to be a notional cost.

Subsequently, management determines a recoverable amount which usually is fair value less cost to sell as at period end using market data.

(k) Intangible assets

Intangible assets, which are acquired by the Bank and the Group, are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to the statements of profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 6-10 years.

(l) Measurement of expected credit losses on financial assets

The Group and the Bank uses the three-stage expected credit loss impairment model according IFRS 9 for loans and receivables due from customers and due from banks, financial guarantees and loan commitments, and bonds measured at amortised cost or fair value through other comprehensive income. The impairment charge for expected credit losses depends on whether the credit risk has increased significantly since initial recognition.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group and the Bank has established a policy to perform an assessment at the end of each reporting period of the whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.
The Bank and the Group classifies loans, financial guarantees and commitments, bonds measured at amortised cost or fair value through other comprehensive income into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing loans: when loans are fist recognized, the Bank and the Group recognizes an allowance based on twelve months expected credit losses.
- Stage 2 – Loans with significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the Bank and the Group records an allowance for the lifetime expected credit loss.
- Stage 3 – Impaired loans: Financial assets are recognized in Stage 3 when there is objective evidence that the loan is impaired. The Bank and the Group recognizes the lifetime expected credit losses for these loans.

3 Significant accounting policies, continued

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

Significant increase in credit risk

The classification of balances between stage 1 and stage 2 for the purpose of calculating expected credit losses depends on whether the credit risk has increased significantly since initial recognition. The Group and the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's and the Bank's historical experience and expert credit assessment and including forward-looking information. The assessment of whether credit risk has increased significantly since initial recognition for loans and receivables due from customers is performed on collective basis by considering overdue period and credit risk grade migration:

- Stage 1 includes loans with below 31 overdue days and loans not defined by Stage 2 or Stage 3;
- Stage 2 includes loans with above 30 overdue days till below 91 overdue days and loans with rating that has been lowered from A or B to C, and loans with credit rating of E and D;
- Stage 3 includes loans with above 90 overdue days and additionally loans according to other qualitative indicators.

For significant loans the Group and the Bank determines the expected credit losses individually.

For bonds measured at amortized cost or fair value through other comprehensive income and Deposits and balances due from banks assessment of increase in credit risk is performed by considering composite credit rating. Decrease in credit rating by more than 3 notches since the settlement date is considered as a significant increase in credit risk and bond is transferred from stage 1 to stage 2. Bond is transferred from stage 2 to stage 3 when it becomes credit-impaired. Low credit risk exemption is not used by the Group and the Bank.

Credit risk grades

The Bank allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Bank uses these

grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Exposures of loans due from customers are allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures is subject to ongoing monitoring, which result in an exposure being moved to a different credit risk grade. A, B, C, D and E are bank assigned rating classes based on internal rating approach, where A is the lowest credit risk and E – highest credit risk. Rating classes are assigned according to the following rating scores: $A \in (8;10]$, $B \in (6;8]$, $C \in (3;6]$, $D \in (1;3]$, $E \in [0;1]$.

For bonds measured at amortized cost or fair value through other comprehensive income composite credit rating is calculated in accordance with Regulation No 575/2013 of the European Parliament and of the Council using data provided by rating agencies.

3 Significant accounting policies, continued

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.

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.

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.

3 Significant accounting policies, continued

Write off

The gross carrying amount of a financial asset is written off when the Group and the Bank has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group and the Bank has a policy of writing off the gross carrying amount when the financial asset is past due, and no recoveries are expected for the asset. The Group and the Bank individually makes an assessment with respect to the timing and amount of write‑off based on whether there is a reasonable expectation of recovery. The Group and the Bank expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's and the Bank's procedures for recovery of amounts due.

(m) Impairment of non-financial assets

The carrying amounts of the Bank's and the Group's non-financial assets, other than investment property and deferred tax assets, 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. The recoverable amount of goodwill is estimated at each reporting date.

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 cash-generating units for non-financial assets impairment testing are payment card business and non-banking activities on individual subsidiaries level.

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.

(n) Provisions

A provision is recognised when the Bank and the Group have a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, which can be estimated reliably, 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.

Loss allowance for expected credit losses in accordance with IFRS 9 on loan commitments and guarantee contracts is recognised as provisions. For methodology of calculation refer to note 3(l).

3 Significant accounting policies, continued

(o) Credit related commitments

In the normal course of business, the Bank and the Group enter into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees.

Financial guarantees are contracts that require the Bank and the Group 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.

(p) Taxation

(i) Current 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.

(ii) Deferred tax for Group companies located in Latvia

In accordance with the Annual Reports and Consolidated Annual Reports Law of the Republic of Latvia, companies are permitted to recognise deferred tax supported by justified reasons. In such cases, deferred tax should be recognised, assessed and disclosed in the financial statements in line with the International Financial Reporting Standards (IFRS) as adopted by the EU. Under IAS 12 *Income taxes*, deferred tax assets and liabilities should be recognised by applying a rate expected to be applied to retained earnings. 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 is only applied to distributed profits, while the 0% rate applied to retained earnings. Therefore, deferred tax assets and liabilities are recognisable as nil.

(iii) Deferred tax for other Group companies

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

3 Significant accounting policies, continued

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) Income and expense recognition

(i) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Bank and the Group estimate future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

Fees and commission income and expenses that are integral part to the effective interest rate on financial assets and liabilities are included in the measurement of the effective interest rate.

(ii) Fee and commission income and expense

Fee and commission income, including mainly account servicing fees, investment management fees and credit card servicing fees, are recognised as the related services are provided. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expressed as the services are received.

(iii) Net gain/loss on financial assets at fair value through profit or loss

Net gain/loss on financial instrument at fair value through profit or loss comprises gains less losses related to trading assets and liabilities and derivatives held for risk management purposes, and includes realised and unrealised fair value changes and foreign exchange differences.

(r) Dividends

The Bank and the Group receive dividends from the equity instruments that are recorded to income when the right to receive payment is established. Proposed dividends are recognised in the financial statements only when approved by shareholders.

(s) Employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in general administrative expenses. The Bank and The Group pay fixed security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements.

(t) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale or distribution rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with Group's and Bank's accounting policies. Thereafter the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as non-current assets held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale, assets are no longer depreciated.

3 Significant accounting policies, continued

(u) Changes in accounting policies

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

The Group and the Bank have adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2020.

- *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 details of accounting policies are set out in note 5 (viii).

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

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 Group has applied the amendment retrospectively. The amendment has no impact on retained earnings at 1 January 2020.

The Group and the Bank negotiated rent concessions for the office premises leases as a result of the severe impact of the COVID-19 pandemic during the year. The amount recognised in profit or loss for the reporting period to reflect changes in lease payments arising from rent concessions to which the Bank has applied the practical expedient for COVID-19-related rent concessions is 13 thousand EUR, the Group 19 thousand EUR.

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.

4 Risk management

Risk management of the Group and the Bank is an integral part of management process. The Group and the Bank has developed a Risk profile which analyses all risks and risk drivers to which the Group and the Bank is exposed, and which is consistent with the Group's and the Bank's business model. In accordance with Risk profile for the Group and the Bank, the most important risks for the Group and the Bank are credit risk, liquidity risk, market risk, money laundering and terrorism and proliferation financing risks, sanctions risk, operational risk.
This note presents information about the Bank's and the Group's exposure to each of the above risks, the Group's and the Bank's objectives, policies and processes for measuring and managing risk.

(a) Risk management policies and procedures

The Bank's and the Group's risk management policies aim to identify, analyse and manage the risks faced by the Bank and the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Council of the Bank has overall responsibility for the oversight of the risk management framework for the Bank and the Group, overseeing the management of key risks and reviewing its risk management policies as well as approving material exposures.

4 Risk management, continued

The Board of Directors of the Bank is responsible for establishing its risk management procedures, monitoring and implementation of risk mitigation measures and making sure that the Bank and the Group operate within the established risk parameters.

Chief risk officer of the Bank is responsible for the overall risk management, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. Chief risk officer reports directly to the Council of the Bank.

Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Credit risk is managed and controlled by Credit Committee; interest rate and liquidity risks by Asset and Liability Committee, Money Laundering and Terrorism and Proliferation Financing and sanctions risks levels are managed and controlled by Compliance Committee.

(b) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank and the Group. The Bank and the Group have developed policies and procedures to manage and control credit risk. The Group's and the Bank's credit policy, credit risk strategy and Risk management policy is reviewed and approved by the Council of the Bank.

The Credit Committee reviews all loan applications on the basis of submissions by the Lending Department and the Risk Management Department. The Credit Valuation Committee reviews and evaluates the quality of existed loans on the basis of submissions and accounts by the Lending Department and the Risk Management Department.

The Credit Valuation Committee reviews and evaluates the quality of existed loans on the basis of submissions and accounts by the Lending Department and the Risk Management Department.

The Group and the Bank regularly review credit and securities portfolios in order to assess the structure, quality and concentration of the portfolio, as well as to monitor market trends and control credit risk levels.

The Bank's and the Group's acceptable levels of credit risk are described in the Strategic Development Plan and in the Credit Risk Management Strategy. The Risk Management Department monitors acceptable levels of credit risk on a regular basis. Identification, monitoring, and management of the concentration risk in the Group and the Bank is carried out on the basis of internal policies and procedures. In order to control and minimize the concentration risk, there are limits on the concentration of credit risk by industry, collateral type, and geography established. Concentration risk limits are set in the Bank's Strategic plan and are controlled on a regular basis. In addition, the Bank conducts stress testing of the loan portfolio by the type of industry and collateral in order to simulate potential losses associated with concentration risk.

For additional information see note 3 (l).

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

4 Risk management, continued

Maximum credit risk exposure

		Gross maximum credit exposure			
	Notes	**Group**	**Bank**	**Group**	**Bank**
31 December		**2020**	**2020**	**2019**	**2019**
EUR'000					
Cash and balances with the Bank of Latvia	16	261,362	261,340	503,089	503,072
Deposits and balances due from banks, gross	17	77,240	76,818	81,501	80,919
Loans and receivables due from customers, gross	19.2	573,234	619,031	599,782	668,721
Financial assets at fair value through profit or loss	18	627	627	444	444
Financial assets at fair value through other comprehensive income	20	344,366	344,366	290,490	290,490
Debt securities at amortised cost, gross	19.1	65,399	65,399	61,199	61,199
Total financial assets		**1,322,228**	**1,367,581**	**1,536,505**	**1,604,845**
Loan commitments	35	34,170	45,351	36,385	45,398
Financial guarantees	35	6,619	6,619	13,833	13,833
Other commitments	35	143	143	107	107
Total guarantees and commitments		**40,932**	**52,113**	**50,325**	**59,338**
Total maximum credit risk exposure		**1,363,160**	**1,419,694**	**1,586,830**	**1,664,183**

The following table sets out information about the credit quality of loans and receivables due from customers, financial assets measured at amortised cost and debt investments at fair value through other comprehensive income. Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' and expected credit losses included in note 3 (l).

COVID-19

In response to the COVID-19 coronavirus pandemic, during the year the Bank has granted six months principal payment grace to performing private customers and legal entities during 2020 within the moratorium initiated by FCMC and EBA (EBA / GL / 2020/02 "Guidelines on legislative and non-legislative moratoriums on loan payments applied in the light of the COVID-19 crisis"). As at 31 December 2020 preferential schedules are ended for all loans.

4 Risk management, continued

Loans and receivables due from customers

31 December 2020

The Group

EUR’000	Gross amount			Expected credit losses and provisions			Carrying amount		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Past due period									
Not past due and past due <= 30 days	359,234	57,137	92,776	(1,904)	(819)	(6,674)	**357,330**	**56,318**	**86,102**
Past due > 30 days <= 90 days	-	456	433	-	(107)	(53)	**-**	**349**	**380**
Past due > 90 days	-	-	63,198	-	-	(3,591)	**-**	**-**	**59,607**
Total	**359,234**	**57,593**	**156,407**	**(1,904)**	**(926)**	**(10,318)**	**357,330**	**56,667**	**146,089**
Commitments and Guarantees	**71,907**	**78**	**31,411**	**(191)**	**-**	**-**	**71,716**	**78**	**31,411**

The Bank

EUR’000	Gross amount			Expected credit losses and provisions			Carrying amount		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Past due period									
Not past due and past due <= 30 days	377,517	73,121	103,369	(1,475)	(1,345)	(6,352)	**376,042**	**71,776**	**97,017**
Past due > 30 days <= 90 days	-	139	-	-	(4)	-	**-**	**135**	**-**
Past due > 90 days	-	-	64,885	-	-	(3,509)	**-**	**-**	**61,376**
Total	**377,517**	**73,260**	**168,254**	**(1,475)**	**(1,349)**	**(9,861)**	**376,042**	**71,911**	**158,393**
Commitments and Guarantees	**126,185**	**72**	**32,406**	**(225)**	**-**	**-**	**125,960**	**72**	**32,406**

4 Risk management, continued

31 December 2019

The Group

EUR'000	Gross amount			Expected credit loss and provisions			Carrying amount		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Past due period									
Not past due and past due <= 30 days	407,094	6,327	50,235	(2,016)	(130)	(5,455)	**405,078**	**6,197**	**44,780**
Past due > 30 days <= 90 days	-	975	33,598	-	(144)	(428)	**-**	**831**	**33,170**
Past due > 90 days	-	-	101,553	-	-	(6,318)	**-**	**-**	**95,235**
Total	**407,094**	**7,302**	**185,386**	**(2,016)**	**(274)**	**(12,201)**	**405,078**	**7,028**	**173,185**
Commitments and Guarantees	**108,606**	**19**	**1,051**	**(105)**	**-**	**-**	**108,501**	**19**	**1,051**

The Bank

EUR'000	Gross amount			Expected credit losses and provisions			Carrying amount		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Past due period									
Not past due and past due <= 30 days	440,671	8,125	86,076	(1,634)	(166)	(23,135)	**439,037**	**7,959**	**62,941**
Past due > 30 days <= 90 days	-	550	33,453	-	(11)	(395)	**-**	**539**	**33,058**
Past due > 90 days	-	-	99,846	-	-	(4,857)	**-**	**-**	**94,989**
Total	**440,671**	**8,675**	**219,375**	**(1,634)**	**(177)**	**(28,387)**	**439,037**	**8,498**	**190,988**
Commitments and Guarantees	**146,972**	**1,638**	**3,272**	**(122)**	**(32)**	**-**	**146,850**	**1,606**	**3,272**

4 Risk management, continued

Debt securities at amortised cost

31 December 2020

The Group and the Bank

EUR'000

	Gross amount			Expected credit losses			Carrying amount		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Composite credit rating									
BB+ to B-	60,031	1,045	-	(583)	(33)	-	**59,448**	**1,011**	**-**
CCC+	-	4,323	-	-	(491)	-	**-**	**3,832**	**-**
Total	**60,031**	**5,368**	**-**	**(583)**	**(524)**	**-**	**59,448**	**4,843**	**-**

31 December 2019

The Group and the Bank

EUR'000

	Gross amount			Expected credit loss			Carrying amount		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Composite credit rating									
BB+ to B-	60,028	976	195	(617)	(38)	(8)	**59,411**	**938**	**187**
Total	**60,028**	**976**	**195**	**(617)**	**(38)**	**(8)**	**59,411**	**938**	**187**

4 Risk management, continued

Financial assets at fair value though other comprehensive income

31 December 2020

The Group and the Bank

EUR'000

	Gross amount			Expected credit losses			Carrying amount		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Composite credit rating									
AAA to B-	336,994	7,815	-	(457)	(409)	-	**336,537**	**7,406**	**-**
CCC+ to CCC-	277	-	600	(37)	-	(446)	**240**	**-**	**154**
Not rated	-	-	29	-	-	-	**-**	**-**	**29**
Total	**337,271**	**7,815**	**629**	**(494)**	**(409)**	**(446)**	**336,777**	**7,406**	**183**

31 December 2019

The Group and the Bank

EUR'000

	Gross amount			Expected credit losses			Carrying amount		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Composite credit rating									
AAA to B-	286 436	4 354	-	(451)	(218)	-	**285 985**	**4 136**	**-**
CCC+ to CCC-	308	56	-	(37)	(19)	-	**271**	**37**	**-**
Not rated	-	-	61	-	-	-	**-**	**-**	**61**
Total	**286 744**	**4 410**	**61**	**(488)**	**(237)**	**-**	**286 256**	**4 173**	**61**

(c) Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Bank's and the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and other price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the Chairman of the Board of Directors. Market risk limits are approved by ALCO based on recommendations of the Risk Management Department.

The Bank and the Group manage their market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits, which are monitored on a regular basis by the Risk Management Department.

In addition, the Bank and the Group use a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. In order to identify the market risk of financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, the Bank and the Group uses the following parameters:

- Changes in the SWAP and money market yield curve (based on ECB scenario) to measure the impact from interest rate risk;

4 Risk management, continued

- Changes in credit spreads by the type of borrower (based on ECB scenario) to measure the impact from credit risk;
- Market price depreciation to measure the impact from equity risk.

Moreover, Bank measures value at risk (VaR) and value at interest rate risk (VaIRR) to control the potential losses arising from financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss.

The VaR shows the potential loss amount for 1-day and 10-day periods with 99% confidence level.

The Group	**2020**		**2019**	
'000 EUR	**VaR 1d 99%**	**VaR 10d 99%**	**VaR 1d 99%**	**VaR 10d 99%**
Financial assets at fair value through other comprehensive income	(495)	(4,108)	(351)	(1,108)
Financial assets at fair value through profit or loss	-	-	(9)	(29)

The Bank	**2020**		**2019**	
'000 EUR	**VaR 1d 99%**	**VaR 10d 99%**	**VaR 1d 99%**	**VaR 10d 99%**
Financial assets at fair value through other comprehensive income	(495)	(4,108)	(351)	(1,108)
Financial assets at fair value through profit or loss	-	-	(9)	(29)

(i) Interest rate risk

Interest rate risk is a possible unfavourable impact on the profit and the economic value of the Bank and the Group due to fluctuations of interest rates.

The Bank and the Group are 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 if unexpected movements arise.

The Bank and the Group have developed changes to the interest rate risk valuation and management system as well as in policies and procedures to manage interest rate risk in line with the EBA Guidelines (EBA/GL/2018/02) on interest rate risk management from non-trading book activities.

The main objective of the policy is to determine and take a set of measures to minimise the possible unfavourable impact of the interest rate fluctuations on earnings and economic value of the Bank and the Group.

The Bank and the Group uses the following quantitative risk assessment methods for interest rate risk assessment:

- GAP analysis (the volume of mismatches in different time bands);
- modified duration (change of economic value according to a scenario of interest rate fluctuations);
- stress testing (impact on earnings of the Bank and the Group according to a scenario of interest rate fluctuations and change of economic value according to a scenario of interest rate fluctuations).

For further analysis of interest repricing refer to Note 42 Interest rate risk analysis.

An analysis of sensitivity of the net income for the year to changes of market interest rate impacting the interest income on variable interest rate financial instrument and the fair value of fixed interest rate

4 Risk management, continued

financial instruments measured at fair value based on a scenario of a 100-basis point (bp) symmetrical fall or rise in all yield curves, all other variables remaining constant, is as follows:

Group	**2020**		**2019**	
’000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
100bp parallel increase	2,060	-	6,559	-
100bp parallel decrease	(2,060)	-	(6,559)	-

Bank	**2020**		**2019**	
’000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
100bp parallel increase	2,638	-	6,398	-
100bp parallel decrease	(2,638)	-	(6,398)	-

(ii) Currency risk

The Bank and the Group have 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 and the Group’s exposure to currency risk at year-end refer to Note 41 Currency analysis.

An analysis of sensitivity of the Bank’s and the Group’s net income and other comprehensive income for the year to changes in the foreign currency exchange rates based on positions existing as at 31 December 2020 and 2019 and a scenario of a 5% change in USD to EUR exchange rates, while the other variable remain constant, is as follows:

Group	**2020**		**2019**	
’000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
5% appreciation of USD against EUR	(1,385)	-	(300)	-
5% depreciation of USD against EUR	1,385	-	300	-

Bank	**2020**		**2019**	
’000 EUR	**Profit for the period**	**Other comprehensive income**	**Profit for the period**	**Other comprehensive income**
5% appreciation of USD against EUR	(372)	-	(41)	-
5% depreciation of USD against EUR	372	-	41	-

4 Risk management, continued

(iii) 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 and the Group take a long or short position in a financial instrument.

An analysis of sensitivity of the Bank’s and the Group’s price risk is included in the VaR model described in note 4 (c).

(d) Liquidity risk

Liquidity risk is the risk that the Bank and the Group 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 and the Group. 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.

The Bank and the Group maintain liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Bank’s and the Group’s liquidity policies are reviewed and approved by the Council of the Bank.

The Bank and the Group seek to actively support a diversified and stable funding base comprising 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 policies of the Bank and the Group require:

- 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 traded as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

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

The process of the Bank’s liquidity management includes assessment and analysis of banking financing sources. A significant source of funding is customer demand deposits, most of which are current accounts. These funds are considered to be open-ended, i.e. they have no contractual maturity and are available to customers without any restrictions on withdrawals. Experience of the Bank and conducted statistical analysis, applied on historical data of changes on current account and card account balances, makes it possible to estimate the effective maturity of such funds remaining in the accounts of the Bank. Current accounts and the conceptually similar deposit types due to "on demand" are classified in line with the Bank's experience regarding the life cycle of these deposits with the Bank. The following table provides a breakdown of demand deposits based on the time of their presence in the account, which does not exceed 5 years.

4 Risk management, continued

Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. Both the interest and principal cash flows should be included in the analysis as this best represents the liquidity risk being faced by the Group and the Bank.

The Group

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2020:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	4,499	-	-	-	-	**4,499**	**4,482**
Current accounts and deposits due to customers	260,126	68,014	265,666	482,183	19,884	**1,095,873**	**1,072,456**
Other borrowed funds-bonds-issued debt securities	-	-	643	-	-	**643**	**613**
Lease liability	33	79	290	1,104	689	**2,195**	**1,908**
Other financial liabilities	5,651	-	-	4,955	-	**10,606**	**10,606**
Derivative liabilities	-	4	50	-	-	**54**	**54**
Total	**270,309**	**68,097**	**266,649**	**488,242**	**20,573**	**1,113,870**	**1,090,119**
Guarantees (maximum credit risk exposure)	**-**	**-**	**-**	**-**	**6,762**	**6,762**	**7,900**
Credit related commitments (maximum credit risk exposure)	**34,170**	**-**	**-**	**-**	**-**	**34,170**	**34,170**

Analysis of financial liabilities' undiscounted cash flows based on effective maturity as at 31 December 2019:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	2,920	-	-	-	-	**2,920**	**2,920**
Current accounts and deposits due to customers	344,802	78,771	240,973	661,188	23,764	**1,349,498**	**1,319,833**
Other borrowed funds-bonds-issued debt securities	-	-	-	788	-	**788**	**712**
Lease liability	53	100	461	1,769	624	**3,007**	**2,262**
Other financial liabilities	1,693	-	-	3,545	-	**5,238**	**5,238**
Derivative liabilities	1	93	-	-	-	**94**	**94**
Total	**349,469**	**78,964**	**241,434**	**667,290**	**24,388**	**1,361,545**	**1,331,059**
Guarantees (maximum credit risk exposure)	**-**	**-**	**-**	**-**	**4,500**	**4,500**	**13,939**
Credit related commitments (maximum credit risk exposure)	**36,385**	**-**	**-**	**-**	**-**	**36,385**	**36,385**

4 Risk management, continued

The Bank

Analysis of financial liabilities’ undiscounted cash flows based on effective maturity as at 31 December 2020:

EUR’000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	4,465	-	-	-	-	**4,465**	**4,465**
Current accounts and deposits due to customers	272,407	67,947	260,922	489,510	21,133	**1,111,919**	**1,082,424**
Lease liability	155	309	1,393	7,128	22,187	**31,172**	**22,910**
Other financial liabilities	642	-	-	4,955	-	**5,597**	**5,597**
Derivative liabilities	-	4	50	-	-	**54**	**54**
Total	**277,669**	**68,260**	**262,365**	**501,593**	**43,320**	**1,153,207**	**1,115,450**
Guarantees (maximum credit risk exposure)	**-**	**-**	**-**	**-**	**6,762**	**6,762**	**7,900**
Credit related commitments (maximum credit risk exposure)	**45,351**	**-**	**-**	**-**	**-**	**45,351**	**45,351**

Analysis of financial liabilities’ undiscounted cash flows based on effective maturity as at 31 December 2019:

EUR’000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	2,920	-	-	-	-	**2,920**	**2,920**
Current accounts and deposits due to customers	360,233	78,772	238,523	660,731	23,765	**1,362,024**	**1,332,529**
Lease liability	199	400	1,799	11,597	28,618	**42,613**	**30,840**
Other financial liabilities	1,262	-	-	3,532	-	**4,794**	**4,794**
Derivative liabilities	1	93	-	-	-	**94**	**94**
Total	**364,615**	**79,265**	**240,322**	**675,860**	**52,383**	**1,412,445**	**1,371,177**
Guarantees (maximum credit risk exposure)	**-**	**-**	**-**	**-**	**4,500**	**4,500**	**13,939**
Credit related commitments (maximum credit risk exposure)	**45,398**	**-**	**-**	**-**	**-**	**45,398**	**45,398**

4 Risk management, continued

The Group

The table below analyses the Bank's and the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2020:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	4,499	-	-	-	-	**4,499**	**4,482**
Current accounts and deposits due to customers	621,821	40,061	215,084	199,023	19,884	**1,095,873**	**1,072,456**
Other borrowed funds-bonds-issued debt securities	-	-	643	-	-	**643**	**613**
Lease liability	33	79	290	1,104	689	**2,195**	**1,908**
Other financial liabilities	5,651	-	-	4,955	-	**10,606**	**10,606**
Derivative liabilities	-	4	50			**54**	**54**
Total	**632,004**	**40,144**	**216,067**	**205,082**	**20,573**	**1,113,870**	**1,090,119**
Guarantees (maximum credit risk exposure)	**-**	**-**	**-**	**-**	**6,762**	**6,762**	**7,900**
Credit related commitments (maximum credit risk exposure)	**34,170**	**-**	**-**	**-**	**-**	**34,170**	**34,170**

Analysis of financial liabilities' contractual undiscounted cash flows as at 31 December 2019:

EUR'000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	2,920	-	-	-	-	**2,920**	**2,920**
Current accounts and deposits due to customers	717,536	53,867	196,566	357,765	23,764	**1,349,498**	**1,319,833**
Other borrowed funds-bonds-issued debt securities	-	-	-	788	-	**788**	**712**
Lease liability	53	100	461	1,769	624	**3,007**	**2,262**
Other financial liabilities	1,693	-	-	3,545	-	**5,238**	**5,238**
Derivative liabilities	1	93				**94**	**94**
Total	**722,203**	**54,060**	**197,027**	**363,867**	**24,388**	**1,361,545**	**1,331,059**
Guarantees (maximum credit risk exposure)	**-**	**-**	**-**	**-**	**4,500**	**4,500**	**13,939**
Credit related commitments (maximum credit risk exposure)	**36,385**	**-**	**-**	**-**	**-**	**36,385**	**36,385**

4 Risk management, continued

The Bank

Analysis of financial liabilities’ contractual undiscounted cash flows as at 31 December 2020:

EUR’000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	4,465	-	-	-	-	**4,465**	**4,465**
Current accounts and deposits due to customers	634,119	40,061	212,641	198,992	19,884	**1,105,697**	**1,082,424**
Lease liability	155	309	1,393	7,128	22,187	**31,172**	**22,910**
Other financial liabilities	642	-	-	4,955	-	**5,597**	**5,597**
Derivative liabilities	-	4	50	-	-	**54**	**54**
Total	**639,381**	**40,374**	**214,084**	**211,075**	**42,071**	**1,146,985**	**1,115,450**
Guarantees (maximum credit risk exposure)	**-**	**-**	**-**	**-**	**6,762**	**6,762**	**7,900**
Credit related commitments (maximum credit risk exposure)	**45,351**	**-**	**-**	**-**	**-**	**45,351**	**45,351**

Analysis of financial liabilities’ contractual undiscounted cash flows as at 31 December 2019:

EUR’000	Demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	More than 5 years	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Deposits and balances due to banks	2,920	-	-	-	-	**2,920**	**2,920**
Current accounts and deposits due to customers	732,967	53,868	194,116	357,308	23,765	**1,362,024**	**1,332,529**
Lease liability	199	400	1,799	11,597	28,618	**42,613**	**30,840**
Other financial liabilities	1,262	-	-	3,532	-	**4,794**	**4,794**
Derivative liabilities	1	93	-	-	-	**94**	**94**
Total	**737,349**	**54,361**	**195,915**	**372,437**	**52,383**	**1,412,445**	**1,371,177**
Guarantees (maximum credit risk exposure)	**-**	**-**	**-**	**-**	**4,500**	**4,500**	**13,939**
Credit related commitments (maximum credit risk exposure)	**45,398**	**-**	**-**	**-**	**-**	**45,398**	**45,398**

4 Risk management, continued

Liquidity coverage ratio

The Group and the Bank comply with Capital Requirements Regulation (CRR) and the LCR Delegated Regulation in relation to liquidity risk management. Liquid assets are identified in accordance with CRR regulation. "Net liquidity outflows" means the amount which results from deducting a credit institution's liquidity inflows from its liquidity outflows. Following table shows liquidity coverage ratio % (minimal requirement 100%):

	31 December 2020 '000 EUR	31 December 2020 '000 EUR	31 December 2019 '000 EUR	31 December 2019 '000 EUR
	Group	**Bank**	**Group**	**Bank**
Liquidity buffer	340,559	340,538	557,939	557,924
Net liquidity outflow	73,030	74,236	86,382	87,222
Liquidity coverage ratio (%)	**466.33%**	**458.72%**	**645.90%**	**639.66%**

(e) Risk of Money Laundering and Terrorism and Proliferation Financing, and Violation of Sanctions

The risk of money laundering and terrorism and proliferation financing is the impact and likelihood that the credit institution may be used in the laundering of proceeds derived from criminal activity or in terrorism and proliferation financing in relation to the financial services it provides, its customer base, the geographic operational profile of its customers, and the supply channels of products and services.

The objective of the Bank's operating policy is to provide business activities in conformity with the legislation and international requirements regulating actions, securing itself against the risk to get involved in possible money laundering and terrorism and proliferation financing transactions and those that violate restrictions of the applicable national and international sanctions, to minimise the possibility to cooperate with the customers whose activities fail to comply with the legislation and the Bank's policy, to protect the Bank from possible losses, to prevent damage to the Bank's reputation and not to permit the loss of confidence in the Bank.

To achieve these objectives the Bank in its activity fulfils the following tasks:

- observes, fulfils and introduces in its activity requirements of laws of the Republic of Latvia and international legislation, recommendations and guidelines by supervision authorities;
- according to requirements of the legislation and supervision authorities develops and implements internal regulatory documents – procedures, regulations, orders;
- according to requirements of the legislation cooperates with state institutions and correspondent banks;
- ensures sufficient financial, material and human resources to implement the Bank's policy;
- organises and trains the staff in the sphere of anti-money laundering and anti-terrorism/ proliferation financing, observance of sanctions regimes, compliance with the legislation and implementation of the Bank's policy;
- implements in its daily activity principles under the Bank's policy;
- controls the execution of the Bank's policy.

To mitigate ML/TPF risk, the bank has formulated an internal ML/TPF risk management and prevention system encompassing activities and measures aimed at ensuring compliance with the requirements of the Anti-Money Laundering and Counter-Terrorism/Proliferation Financing Law, Cabinet Regulations, FCMC Regulations and other applicable regulations.

There is according to the AML requirements designated AML/CTPF Board Member, whose area of responsibility is the activity of the Bank in AML/CTPF. The designated AML/CTPF Board Member controls the observance of requirements of the Bank's policy and other external and internal AML/CTPF

4 Risk management, continued

regulations in the Bank, and together with the Board makes strategic decisions within the framework of the Bank's policy to be implemented.

The Bank has formed the Compliance Committee - a collegial body aimed to make significant, long-term decisions on the measures to be taken to ensure the compliance of business activity of the Bank with the AML/CTPF legislation and the observance of the applicable sanctions regimes, as well as to protect the Bank from its involvement into malicious illegal activities, thus compromising the good reputation of the Bank and as a result to prevent from losses arising from above said.

The Bank has formed a structural unit for AML/CTPF and the applicable national and international sanctions monitoring – the Internal Control Department. The main purpose of the structural unit is daily implementation of actions aimed at AML/CTPF, prevention of the breach of the applicable national and international sanctions regimes, the customer identification and due diligence, monitoring of customer transactions, detection of suspicious transactions and reporting relevant data to the authorized bodies/supervision authorities.

The Head of the Internal Control Department is the designated AML/CTPF officer appointed in the Bank according to requirements of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing of the Republic of Latvia. The Head of the Internal Control Department ensures the execution of requirements of the policy in the Bank by making day-to-day decisions on the measures implementing the policy and is in charge for the information exchange with supervision authorities.

The following international and national sanctions are binding to the Bank – those of the United Nations (UN), the European Union (EU), the Republic of Latvia and the Office of Foreign Assets Control (OFAC) of the US Department of the Treasury.

Sanctions Policy of the Bank sets out the key principles and requirements that govern the Bank's approach to sanctions of the UN, the EU, the Republic of Latvia and the OFAC.

The Bank prohibits business activity, including prohibitions on commencing or continuing relationship with a customer or provision of products or services or facilitation of transactions that the Bank believes may violate the applicable sanctions legislation or the Sanctions Policy.

There is an allocated Sanctions Officer, who oversees, improves and develops the internal regulations according to legislative requirements of the EU and the Republic of Latvia and ensures the best practice and efficiency in sanctions monitoring by ensuring integrity and compliance with the internal requirements.

The Bank's main AML/sanctions policy principles are as follows:

The Bank according to its activity type by assessing and understanding ML/TPF risk and the risk of breaching applicable national and international sanction restrictions, associated with its activity and customers, develops AML/CTPF internal control system, which includes drafting respective policies and procedures.

The Bank allocates and contributes sufficient financial, material and intellectual resources to ensure due activity, to monitor its customers' activity and to implement the Bank's policy.

The Bank ensures that the employees in charge with identification, registration, servicing, monitoring and due diligence of the Bank's customers understand and acknowledge risks associated with ML/TPF and breach of sanctions regimes, AML/CTPF legislation and organises regular personnel training to improve their skills to meet requirements of the internal control system, raise their qualification and quality of work.

The Bank at least once in 18 calendar months ensures that an independent examination of the ML/TPF and sanctions breach risk management internal control system, including the information technology solutions used, is carried out and where required takes measures to improve the efficiency of the internal control system.

The Bank, in compliance with the requirements of the legislation and legal empowerment of the participant of civil law relations of the private law, ensures the activity of the internal control system

4 Risk management, continued

that allows to know its customers’ business activities according to the specific character of the customers’ business, and monitors and conducts due diligence of transactions by documenting such activities to secure itself against the risk to get involved in possible ML/TPF transactions and breaches of the national and international sanctions restrictions.

The Bank cooperates or starts to cooperate only with foreign banks, which have AML/CTPF legislation in effect in its country, and the foreign banks observe this legislation. The Bank does not cooperate with foreign shell banks, banks located in jurisdictions with low “Know Your Customer” standards or recognised as banks not cooperating in combating ML/TPF.

The Bank, when forming mutually beneficial long-term business relations with a customer, performs its activity in the way, which ensures that it is safe against the risk of being involved in possible ML/TPF transactions and breaches of the national and international sanctions regimes.

AML/CTPF activities are implemented by all the employees of the Bank’s structural units involved in the customer engagement, identification, service and due diligence.

FCMC regularly performs reviews/audits of the Bank’s compliance with the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing. The latest audit commenced on September 2019 and is still ongoing.

In order to improve the Bank’s compliance with AML several external reviews and audits were performed by independent parties.

The latest comprehensive external AML audit for compliance with the requirements of the Latvian legislation has been performed by AS “KPMG Baltics” from April 2020 to July 2020.

This audit was divided into 3 main parts: first topic was related to internal control system's compliance with the national Latvian AML/CTPF and Sanctions legislation; second topic was related to IT systems for AML/CTPF Risk Management compliance; and third one - was a gap analysis with respect to the previous audit and implementation of previous findings. To remind, the previous comprehensive external AML audit was conducted from November 2017 to April 2018 by AS” KPMG Baltics”. Based on the audit results, the Bank developed an action plan for the implementation of recommendations aimed at specific improvements in the internal control system, which were approved by the Bank's Management Board. As of April 2019, the Bank implemented planned improvements to the internal control system, which was reported to the Latvian Regulator (FCMC).

With respect to the most recent audit of 2020 - in the framework of internal control system’s compliance evaluation with the national Latvian AML/CTPF and Sanctions legislation – the total number of 245 indicators have been checked and 86% of them were assessed as in full compliance. Such areas as sanctions compliance, structure of internal control system, training, customer due diligence including enhanced due diligence, normative regulations implementation into internal procedures and others - were assessed positively. The action plan was developed in order to implement separate recommendations (vast majority of them are low to middle impact) and as at January 31, 2021 its implementation is completed.

Besides it, in 2019 the Bank has assigned AS “KPMG Baltics” to perform the gap analysis of the findings set out by the Navigant audit for compliance with US legislation and requirements that was conducted earlier (in 2016). The aim of this gap analysis was to compare the Bank’s implemented actions as outlined in the Action Plan and audit’s recommendations to cover the identified gaps with the US regulatory requirements and industry better practice. No observations have been assessed as “significant” or “critical”.

In addition, Internal Audit Service performs internal audits of the Bank’s AML risks management system on a regular basis.

The Financial and Capital Market Commission on 24 May 2019 initiated an administrative case against the Bank regarding the violation of the requirements specified in Clause 5.5 of the Cabinet of Ministers Regulations No. 674 “Regulations Regarding the List of Unusual Transaction Indicators and the Procedures for Submitting Reports on Unusual or Suspicious Transactions”, dated 14.11.2017, (hereinafter – Regulations No. 674) regarding the submission of reports on unusual transactions where

4 Risk management, continued

the client sends or receives cross-border payment in foreign currency the amount of which is equivalent to EUR 500 thousand or more. The Bank is in negotiation process with Financial and Capital Market Commission on conclusion of the Administrative agreement within administrative case. As at 31 December 2020 the Bank has not made any provisions for contingent liability as the management of the Bank is certain that if there would be a fine, the amount will not have any material effect on the financial statements.

(f) Operational risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes or procedures, human error, system failure or external events. The definition includes legal risk and information risk.

In order to prevent increase of operational risk, the Bank and Group provides monitoring of operational risks, i.e. – daily monitoring on how the Bank's and Group's employees follow the internal regulations, permanent monitoring of the employees' performance quality, as well as regular monitoring of business processes and technological liaison.

To ensure conditions for effective disclosure of significant operational risk, as well as general evaluation of operational risk, the Risk Management Department maintains an analytical Bank's and Group's operational risk management database "RB Operational risk", which provides complete information regarding operational risk events, their types and scope in terms of activities directions, particular bank operations and other deals, conditions of their emergence and disclosure; and regarding losses, which have occurred. The Board of Directors of the Bank in cooperation with the Risk Management Department informs the Council of the Bank on the key directions of concentration of operational risk, causes for its emergence and measures taken to decrease any possible operational losses.

(g) Capital Management

The Bank's and the Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders returns is also recognised and the Bank and the Group recognise the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantage and security afforded by a solid capitalization. The Financial and Capital Market Commission sets and monitors capital requirements for the Bank and for the Group.

The Bank and the Group define as capital those items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission, banks must maintain a ratio of capital to risk weighted assets (capital ratio) above the prescribed minimum level. As at 31 December 2020, the individual minimum level for the Bank is 10.7% (2019: 12.3%). The Bank was in compliance with the statutory capital ratio during the years ended 31 December 2020 and 31 December 2019. As at 31 December 2020 required for the Bank TSCR (total capital requirement) ratio is 10.7%, OCR (overall capital requirement) ratio is 14.52% (2019: TSCR ratio 12.3%, OCR ratio 16.09%).

4 Risk management, continued

The following table shows the composition of the Bank's and the Group's capital position calculated in accordance with the requirements of 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 and amending Regulation (EU) No 648/2012 (CRR):

	2020 '000 EUR Group	2020 '000 EUR Bank	2019 '000 EUR Group	2019 '000 EUR Bank
Tier 1 capital				
Share capital	168,916	168,916	168,916	168,916
Share premium	52,543	52,543	52,543	52,543
Other reserves	23	23	23	23
Accumulated other comprehensive income	(171)	1,697	2,609	3,578
Other transitional adjustment to CET1 Capital	4,642	5,250	5,630	6,375
Value adjustments due to the requirements for prudent valuation	(361)	(360)	(301)	(300)
Retained earnings from prior years	93,646	82,710	71,882	64,279
Current year profit	11,433	18,125	21,739	18,431
Intangible assets	(1,936)	(1,923)	(2,092)	(2,074)
Deferred tax assets	(583)	-	(107)	-
Additional deductions of CET1 Capital due to Article 3 (CRR)	(52,190)	(50,797)	(42,782)	(41,673)
Total tier 1 capital	**275,962**	**276,184**	**278,060**	**270,098**
Tier 2 capital				
Long term deposits qualifying as regulatory capital	20,731	20,731	29,307	29,307
Total tier 2 capital	**20,731**	**20,731**	**29,307**	**29,307**
Total capital	**296,693**	**296,915**	**307,367**	**299,405**
Total risk exposure amount	**1,312,286**	**1,304,390**	**1,367,430**	**1,363,640**
Total capital ratio	**22.61%**	**22.76%**	**22.48%**	**21.96%**

Calculations are performed based on prudential consolidation group according to the Basel Accord of (EU) Regulation No 575/2013 a.19.

5 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, estimates and assumption 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.

5 Use of estimates and judgments, continued

Key sources of estimation uncertainty and judgement:

(i) Allowances for expected credit losses on financial assets at amortised cost and financial assets at fair value through other comprehensive income

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated and separate financial statements is included in the following notes:

Note 3(i) and Note 3(u): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

Note 3(l): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, incorporation forward-looking information into measurement of ECL and models used to measure ECL.

(ii) Determining fair value of financial instruments

All financial instruments that are carried at fair value were valued based on their market value. Fair value of financial instruments carried at amortised cost is stated at present value of future estimated cash flows discounted by a market interest rate. For short term financial assets and liabilities, the fair value approximate amortised cost.

(iii) Determining fair value of investment property and owner-occupied property

Investment property is stated at its fair value with all changes in fair value recorded in profit or loss. Property used in own business operation (Vesetas street 7, Riga) is revaluated to fair value on regular periodic basis with changes in revaluation recognised through other comprehensive income in a revaluation reserve and subsequent amortisation is recognised in the profit and loss statements. When measuring the fair value of the property, management relies on external valuations based either on income valuation method or comparative valuation method and assesses the reliability of such valuation in light of the current market situation. Income method is based on discounted estimated future cash flows from the property. Comparative method is based on recent market transactions with comparable property.

(iv) Impairment of assets shown under other assets

Assets are valued at lower of cost and net realisable value. When assessing net realisable value of assets, management prepares several valuation models (e.g. replacement cost, discounted future cash flows) and compares them to observable market data (e.g. similar transactions taking place on the market, offer made by potential buyers).

(vi) Impairment of investments in subsidiaries

Investments in subsidiaries are valued at cost less accumulated impairment losses in the Bank's separate financial statements. On a regular basis, the Bank compares the cost of investment with the carrying amount of net assets of a subsidiary to see whether any impairment indication exists. In addition, the management assessed future cash flows to be generated by the subsidiaries and as a result of this assessments concluded that there is no objective evidence of impairment of the investment. If impairment indication exists, the recoverable amount of the investment is calculated based on discounted estimated future cash flows of the subsidiary. Future cash flows are based on budgets and projections prepared by the subsidiary and assessed for reasonableness.

5 Use of estimates and judgments, continued

(vii) Useful lives of equipment

Estimated useful lives of equipment are based on practical experience over using similar equipment in the past. Each year damaged items and technically out-of-date items are identified and their useful life or carrying amount is adjusted individually.

(viii) Acquisition of new subsidiaries

Upon each acquisition of a subsidiary, the Group evaluates whether it obtained control over business as defined by IFRS adopted by EU, in which case acquisition accounting is applied. If control is gained only over individual assets and liabilities, the consideration paid is allocated to the acquired assets and liabilities.

(ix) Estimating provisions

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Management of the Bank and the Group estimates the amount that the Bank and the Group would rationally pay to settle the obligation. Estimates of outcome and financial effect are determined by the judgement of the management, supplemented by experience of similar transactions and, if necessary, reports from independent experts.

6 Net interest income

	2020 ’000 EUR Group	2020 ’000 EUR Bank	2019 ’000 EUR Group	2019 ’000 EUR Bank
Interest income				
Loans and receivables due from customers	37,030	28,131	41,966	29,318
Loans and receivables due from financial institutions	626	452	1,325	1,318
Financial assets at fair value through other comprehensive income	6,801	6,800	4,033	4,033
Financial assets at Amortised Cost	5,070	5,070	4,115	4,113
Financial assets at fair value through profit or loss	-	-	29	29
Other interest income	43	-	59	-
	49,570	**40,453**	**51,527**	**38,811**
Interest expense				
Current accounts and deposits due to customers	10,591	10,495	10,664	10,498
Deposits and balances due to financial institutions	1,318	1,346	2,265	2,273
Other interest expense	3,798	3,342	4,950	4,553
	15,707	**15,183**	**17,879**	**17,324**

Effective interest rate on account balances in certain currencies is negative. As the interest resulting from a negative effective interest rate on financial assets reflects an outflow of economic benefits, it is presented as interest expense.

7 Fee and commission income

	2020 ’000 EUR Group	2020 ’000 EUR Bank	2019 ’000 EUR Group	2019 ’000 EUR Bank
Commission from account servicing	9,050	9,055	9,507	9,513
Money transfers	2,166	2,166	2,395	2,395
Commission income from payment cards	1,610	1,610	2,132	2,132
Revenue from customer asset management and brokerage commissions	1,635	1,123	1,428	842
Commissions for trust services provided	555	555	564	564
Commission from documentary operations	193	193	113	113
E-commerce	25	25	150	150
Cash withdrawals	43	43	72	72
Other	3,331	3,317	2,039	1,938
	18,608	**18,087**	**18,400**	**17,719**

8 Fee and commission expense

	2020 '000 EUR Group	2020 '000 EUR Bank	2019 '000 EUR Group	2019 '000 EUR Bank
Payment card expenses	803	803	1,073	1,073
Agent commissions	433	-	2,357	1,846
On correspondent accounts	120	120	151	151
Brokerage fees	638	638	766	597
Other	1,462	1,488	1,571	1,533
	3,456	**3,049**	**5,918**	**5,200**

9 Net gain/(loss) on financial assets at fair value through profit or loss

	2020 '000 EUR Group	2020 '000 EUR Bank	2019 '000 EUR Group	2019 '000 EUR Bank
Equity instruments	6,331	6,331	674	738
Debt securities	(34)	(34)	9	9
Other	(52)	(52)	(72)	(72)
	6,245	**6,245**	**611**	**675**

In 2020, the Bank realized a profit from VISA shares revaluation.

10 Net foreign exchange gain/(loss)

	2020 '000 EUR Group	2020 '000 EUR Bank	2019 '000 EUR Group	2019 '000 EUR Bank
Gain/(loss) from revaluation of financial assets and liabilities	301	(18)	1,218	25
Gain on spot transactions and derivatives	1,968	5,390	10,324	10,369
	2,269	**5,372**	**11,542**	**10,394**

In 2020, Bank’s foreign exchange revenue decline reflects adjustments made to customer base while implementing recent improvements to internal AML/CFTC policies. In 2021 the Bank is expecting foreign exchange revenues to stay at the 2020 level with possible slight growth.

11 Net realised gain on financial assets at fair value through other comprehensive income

	2020 '000 EUR Group	2020 '000 EUR Bank	2019 '000 EUR Group	2019 '000 EUR Bank
Debt securities	2,516	2,516	1,562	1,562
	2,516	**2,516**	**1,562**	**1,562**

12 Other income/(expense)

	2020 ’000 EUR Group	2020 ’000 EUR Bank	2019 ’000 EUR Group	2019 ’000 EUR Bank
Lease income from premises	2,816	116	3,631	214
Fair value change of Investment property (note 26)	(2,556)	392	279	(341)
Penalties received	484	186	2,221	1,896
(Write off assets)/recovery of assets written off	2,852	4,395	(20)	355
Gain/(loss) from sale of property and equipment	146	32	(3)	23
Gain from sale of investment property	892	753	76	307
Dividends received	138	3,024	148	3,254
Gain/(loss) from derecognition of subsidiary (note 44)	(605)	(335)	2,527	-
Negative goodwill write-off	-	-	156	-
Income from steel processing	2,510	-	2,592	-
Other	2,101	1,366	1,245	646
	8,778	**9,929**	**12,852**	**6,354**

Income from steel processing is generated by a subsidiary of the Group which principal activity is manufacturing.

13 Impairment losses

	2020 ’000 EUR Group	2020 ’000 EUR Bank	2019 ’000 EUR Group	2019 ’000 EUR Bank
Impairment losses				
Loans and advances due from banks	-	-	(8)	(8)
Loans and receivables due from customers	(23,121)	(23,315)	(9,963)	(9,392)
Financial assets at fair value through other comprehensive income	(674)	(674)	(567)	(567)
Debt securities at amortised cost	(445)	(445)	(111)	(111)
Investments in subsidiaries	-	(1,527)	-	(1)
Other non-financial assets	(622)	-	(809)	(702)
	(24,862)	**(25,961)**	**(11,458)**	**(10,781)**
Reversals of impairment losses				
Loans and advances due from banks	-	-	1	1
Loans and receivables due from customers	6,983	7,548	2,202	2,576
Financial assets at fair value through other comprehensive income	3	3	72	72
Debt securities at amortised cost	-	-	37	37
Investments in subsidiaries	-	70	-	-
Other non-financial assets	50	15	16	11
	7,036	**7,636**	**2,328**	**2,697**
Net impairment losses	**(17,826)**	**(18,325)**	**(9,130)**	**(8,084)**

14 General and administrative expenses

	2020 ’000 EUR Group	2020 ’000 EUR Bank	2019 ’000 EUR Group	2019 ’000 EUR Bank
Employee compensation	14,121	9,659	15,621	10,292
Salaries to Board of Directors and Council	1,647	1,134	2,332	1,824
Payroll related taxes on employee remuneration	3,726	2,583	4,305	2,907
Depreciation and amortisation	2,022	1,974	2,630	2,851
Repairs and maintenance	3,569	1,144	3,146	771
Taxes other than on corporate income and payroll	2,174	1,210	2,615	1,452
IT related costs	1,234	1,231	1,315	1,311
Rent	382	91	425	98
Representative office	232	164	294	196
Advertising and marketing	541	120	879	190
Communications and information services	704	602	732	613
Travel and transport expenses	499	177	791	376
Professional services	2,668	2,791	3,240	3,296
Provision for bonus and payroll related taxes	1,542	1,542	1,175	1,175
Representation	130	122	149	133
Credit card service	123	123	176	176
Insurance	446	355	297	201
Employee health insurance	159	144	173	160
Audit services	269	172	367	252
Subscription of information	456	456	211	211
Office supplies (Stationery)	58	15	79	21
Security	71	119	74	118
Other	1,862	1,710	2,839	2,029
Reversal of provisions for the management bonus	(119)	(119)	(4,714)	(4,714)
	38,516	**27,519**	**39,151**	**25,939**

The amount of reversed provision for bonuses represents the part of potential bonuses which, in addition to bonuses annually paid out by the Bank and the Group, might be paid discretionary by the Bank, subject to certain conditions.
Audit services includes fee in amount of EUR 7 thousand for other assurance engagements.

15 Income tax expense

(a) Income tax expense recognised in the profit and loss

	2020 ’000 EUR Group	2020 ’000 EUR Bank	2019 ’000 EUR Group	2019 ’000 EUR Bank
Current tax expense				
Current tax expense	1,496	701	1,273	674
Deferred tax	(500)	-	237	-
Total income tax expense in the profit and loss	**996**	**701**	**1,510**	**674**

The tax rate applicable in countries in which group entities operate:	**2020**	**2019**
Latvia	20.00%	20.00%
Belarus	18.00%	18.00%
Cyprus	12.50%	12.50%
Russia	20.00%	20.00%

(b) Reconciliation of effective tax rate:

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. Before 2018 corporate income tax in Latvia was payable for financial year taxable profit.

16 Cash and balances due from the Bank of Latvia

Cash and balances due from the Central Bank of Latvia comprised of the following items:

	31 Dec 2020 ’000 EUR Group	31 Dec 2020 ’000 EUR Bank	31 Dec 2019 ’000 EUR Group	31 Dec 2019 ’000 EUR Bank
Cash	851	829	1,519	1,502
Balances due from the Bank of Latvia	260,511	260,511	501,570	501,570
	261,362	**261,340**	**503,089**	**503,072**

Deposits due from the Bank of Latvia represent the balance outstanding on the correspondent account due from the Bank of Latvia in EUR. This includes compulsory reserves.

In accordance with the Bank of Latvia’s regulations, the Bank is required to maintain a compulsory reserve.

The compulsory reserve is compared to the Bank’s average monthly correspondent account balance in EUR. The Bank’s average correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement during the reporting year.

17 Deposits and balances due from banks

	31 Dec 2020 ’000 EUR Group	31 Dec 2020 ’000 EUR Bank	31 Dec 2019 ’000 EUR Group	31 Dec 2019 ’000 EUR Bank
Demand accounts				
Latvian commercial banks	415	-	155	-
Other OECD banks	64,234	64,234	61,818	61,818
Non-OECD banks	12,592	12,585	19,528	19,101
Expected credit losses	(1)	(1)	(8)	(8)
Total Demand accounts	**77,240**	**76,818**	**81,493**	**80,911**

Concentration of placements with banks

As at 31 December 2020 the Bank and the Group had 3 balances (2019: 4), which exceeded 10% of total loans and receivables from banks.

The largest balances due from credit institutions as of 31 December 2020 in the Bank and the Group were as follows:

	31 Dec 2020 ‘000 EUR	%
Raiffeisenbank Bank International AG	43,954	57.22
Euroclear Bank SA/NV	19,010	24.75
Alfa Bank AO	11,065	14.40
Total	**74,029**	**96.37**

The largest balances due from credit institutions as of 31 December 2019 in the Bank and the Group were as follows:

	31 Dec 2019 ‘000 EUR	%
Erste Group Bank AG	35,729	44.15
Alfa Bank AO	14,256	16.46
Raiffeisenbank Bank International AG	13,323	14.44
Euroclear Bank SA/NV	11,684	17.62
Total	**74,992**	**92.67**

18 Financial assets at fair value through profit or loss

	31 December 2020 ’000 EUR Group	31 December 2020 ’000 EUR Bank	31 December 2019 ’000 EUR Group	31 December 2019 ’000 EUR Bank
Equity instruments	15,569	15,460	9,617	9,511
Derivative financial instruments	681	681	538	538
Financial assets at fair value through profit or loss	**16,250**	**16,141**	**10,155**	**10,049**
Derivative financial instruments	(54)	(54)	(94)	(94)
Financial liabilities at fair value through profit or loss	**(54)**	**(54)**	**(94)**	**(94)**

The Bank and the Group classify derivative financial instruments and trading portfolio under this category. Financial assets are classified mandatory at fair value through profit or loss.

Derivative financial assets and liabilities

The Group	31 Dec 2020 ’000 EUR Carrying amount	31 Dec 2020 ’000 EUR Notional amount	31 Dec 2019 ’000 EUR Carrying amount	31 Dec 2019 ’000 EUR Notional amount
Assets				
Option premium	2	630	53	3,472
Forward contracts	62	18,488	3	9,705
Futures contracts	617	n/a	482	n/a
Total derivative financial assets	**681**		**538**	
Liabilities				
Forward contracts	54	18,480	94	11,576
Futures contracts	-	69,383	-	74,518
Total derivative liabilities	**54**		**94**	

The Bank	31 Dec 2020 ’000 EUR Carrying amount	31 Dec 2020 ’000 EUR Notional amount	31 Dec 2019 ’000 EUR Carrying amount	31 Dec 2019 ’000 EUR Notional amount
Assets				
Option premium	2	630	53	3,472
Forward contracts	62	18,488	3	9,705
Futures contracts	617	n/a	482	n/a
Total derivative financial assets	**681**		**538**	
Liabilities				
Forward contracts	54	18,480	94	11,576
Future contracts	-	69,383	-	74,518
Total derivative liabilities	**54**		**94**	

19 Financial assets at amortised cost

19.1 Debt securities

	31 Dec 2020 '000 EUR Group	31 Dec 2020 '000 EUR Bank	31 Dec 2019 '000 EUR Group	31 Dec 2019 '000 EUR Bank
- Corporate bonds				
European Union countries	55,046	55,046	54,037	54,037
Non-European Union countries	10,352	10,352	7,162	7,162
Expected credit losses	(1,107)	(1,107)	(663)	(663)
Total corporate debt securities	**64,291**	**64,291**	**60,536**	**60,536**

Analysis of movements in the allowance for expected credit losses:

31 December 2020

The Group and the Bank, EUR'000

	Opening balance as at 1 Jan 2020	Origination and acquisition	Derecognition and repayments	Changes in credit risk, net	Other adjustments	Closing balance as at 31 Dec 2020
Stage 1	622	17	(9)	(46)	(1)	583
Stage 2	33	5	(3)	489	-	524
Stage 3	8	-	1	(9)	-	-
Total	**663**	**22**	**(11)**	**434**	**(1)**	**1,107**

31 December 2019

The Group and the Bank, EUR'000

	Opening balance as at 1 Jan 2019	Origination and acquisition	Derecognition and repayments	Changes in credit risk, net	Other adjustments	Closing balance as at 31 Dec 2019
Stage 1	590	30	(3)	5	-	622
Stage 2	-	-	-	34	(1)	33
Stage 3	-	4	-	4	-	8
Total	**590**	**34**	**(3)**	**43**	**(1)**	**663**

19.2 Loans and receivables due from customers

	31 Dec 2020 ’000 EUR Group	31 Dec 2020 ’000 EUR Bank	31 Dec 2019 ’000 EUR Group	31 Dec 2019 ’000 EUR Bank
Companies				
Finance leases	18,180	-	23,628	-
Loans	426,519	553,120	436,116	594,885
Individuals				
Finance leases	9,470	-	11,309	-
Loans	119,065	65,911	128,729	73,836
Expected credit losses	(13,148)	(12,685)	(14,491)	(30,198)
Net Loans and receivables from customers	**560,086**	**606,346**	**585,291**	**638,523**

(a) Finance leases

Loans and receivables from customers include the following finance lease receivables for leases:

	31 Dec 2020 ’000 EUR Group	31 Dec 2019 ’000 EUR Group
Gross investment in finance leases, receivable		
Less than one year	16,540	20,462
More than one year	17,155	22,279
Total gross investment in finance leases	33,695	42,741
Unearned finance income	(6,045)	(7,804)
Net investment in finance lease before allowance	27,650	34,937
Expected credit losses	(243)	(237)
Net investment in finance lease	**27,407**	**34,700**
The net investment in finance leases comprises:		
Less than one year	13,196	16,207
Between one and five years	14,211	18,493
Net investment in finance lease	**27,407**	**34,700**

19.2 Loans and receivables due from customers, continued

(b) Credit quality of loan portfolio

(i) Ageing structure of loan portfolio

The Group, 31 Dec 2020

EUR'000	Gross amount			Expected credit loss	Net carrying amount	Uncollateralised exposure of net carrying amount
	Stage 1	Stage 2	Stage 3			
Not past due and past due <= 30 days	359,234	57,137	92,776	(9,399)	499,748	87,130
Past due > 30 days <= 90 days	-	456	433	(160)	729	217
Past due > 90 days	-	-	63,198	(3,589)	59,609	3,399
Total	**359,234**	**57,593**	**156,407**	**(13,148)**	**560,086**	**90,746**

The Bank, 31 Dec 2020

EUR'000	Gross amount			Expected credit loss	Net carrying amount	Uncollateralised exposure of net carrying amount
	Stage 1	Stage 2	Stage 3			
Not past due and past due <= 30 days	377,517	73,121	103,369	(9,172)	544,835	53,257
Past due > 30 days <= 90 days	-	139	-	(4)	135	-
Past due > 90 days	-	-	64,885	(3,509)	61,376	3,167
Total	**377,517**	**73,260**	**168,254**	**(12,685)**	**606,346**	**56,42456,424**

19.2 Loans and receivables due from customers, continued

The Group, 31 Dec 2019

EUR’000	Gross amount			Expected credit loss	Net carrying amount	Uncollateralised exposure of net carrying amount
	Stage 1	Stage 2	Stage 3			
Not past due and past due <= 30 days	407,094	6,327	50,235	(7,602)	456,054	104,021
Past due > 30 days <= 90 days	-	975	33,598	(572)	34,001	822
Past due > 90 days	-	-	101,553	(6,317)	95,236	2,742
Total	**407,094**	**7,302**	**185,386**	**(14,491)**	**585,291**	**107,585**

The Bank, 31 Dec 2019

EUR’000	Gross amount			Expected credit loss	Net carrying amount	Uncollateralised exposure of net carrying amount
	Stage 1	Stage 2	Stage 3			
Not past due and past due <= 30 days	440,671	8,125	86,076	(24,935)	509,937	60,706
Past due > 30 days <= 90 days	-	550	33,453	(406)	33,597	522
Past due > 90 days	-	-	99,846	(4,857)	94,989	2,504
Total	**440,671**	**8,675**	**219,375**	**(30,198)**	**638,523**	**63,732**

19.2 Loans and receivables due from customers, continued

(ii) Analysis of loan portfolio by type of collateral

The following table provides the analysis of the loan portfolio, net of impairment, by main types of collateral as at 31 December 2020:

The Group

EUR'000	31 Dec 2020	% of loan portfolio	31 Dec 2019	% of loan portfolio
Commercial buildings	181,373	32.39	189,090	32.31
Commercial assets pledge	107,838	19.26	118,768	20.29
Traded securities	28,783	5.14	23,010	3.93
Mortgage on residential properties	40,053	7.15	38,118	6.51
Land mortgage	54,853	9.79	48,435	8.28
Without collateral	90,746	16.20	107,585	18.38
Other mortgage	29,028	5.18	23,560	4.03
Guarantee	-	-	1,588	0.27
Deposit	120	0.02	348	0.06
Other	-	-	89	0.01
Finance lease	27,292	4.87	34,700	5.93
Total	**560,086**	**100.00**	**585,291**	**100.00**

The Bank

EUR'000	31 Dec 2020	% of loan portfolio	31 Dec 2019	% of loan portfolio
Commercial buildings	221,334	36.50	238,237	37.31
Commercial assets pledge	167,866	27.67	190,380	29.82
Traded securities	28,783	4.75	23,010	3.60
Mortgage on residential properties	40,053	6.61	38,118	5.97
Land mortgage	59,095	9.75	52,677	8.25
Without collateral	56,424	9.31	63,732	9.98
Other mortgage	32,672	5.39	30,342	4.75
Guarantee	-	-	1,588	0.25
Deposit	120	0.02	348	0.06
Other	-	-	91	0.01
Total	**606,347**	**100.00**	**638,523**	**100.00**

The amounts shown in the table's above represent the carrying amount of the loans, and not the fair value of the collateral.

19.2 Loans and receivables due from customers, continued

(iii) Movements in the expected credit losses

The following tables show reconciliation from the opening to the closing balance of the expected credit losses for the year 2020:

The Group

EUR’000

	Opening balance 1 Jan 2020	Origination and acquisition	Disposals and repayments	Changes in credit risk, net	Decrease due to write-offs	Other adjustments	Closing balance, 31 Dec 2020
Stage 1	2,016	833	(458)	(432)	-	(55)	1,904
Stage 2	274	18	(48)	683	-	(1)	926
Stage 3	12,201	388	(1,046)	16,200	(17,398)	(27)	10,318
Total	**14,491**	**1,239**	**(1,552)**	**16,451**	**(17,398)**	**(83)**	**13,148**

The Bank

EUR’000

	Opening balance 1 Jan 2020	Origination and acquisition	Disposals and repayments	Changes in credit risk, net	Decrease due to write-offs	Other adjustments	Closing balance, 31 Dec 2020
Stage 1	1,634	495	(149)	(297)	(202)	(6)	1,475
Stage 2	177	2	(8)	1,178	-	-	1,349
Stage 3	28,387	46	(840)	15,340	(33,206)	134	9,861
Total	**30,198**	**543**	**(997)**	**16,221**	**(33,408)**	**128**	**12,685**

Loans and receivables due from customers with a contractual amount of 17,398 thousand EUR for the Group and 33,408 thousand EUR for the Bank were written off during 2020 and are still subject to enforcement activity.

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

The Group

EUR’000

	Opening balance 1 Jan 2019	Origination and acquisition	Disposals and repayments	Changes in credit risk, net	Decrease due to write-offs	Other adjustments	Closing balance, 31 Dec 2019
Stage 1	2,506	898	(600)	(805)	-	17	2,016
Stage 2	621	48	(67)	(428)	-	100	274
Stage 3	68,481	1,327	(182)	7,570	(64,810)	(185)	12,201
Total	**71,608**	**2,273**	**(849)**	**6,337**	**(64,810)**	**(68)**	**14,491**

19.2 Loans and receivables due from customers, continued

The Bank

EUR’000

	Opening balance 1 Jan 2019	Origination and acquisition	Disposals and repayments	Changes in credit risk, net	Decrease due to write-offs	Other adjustments	Closing balance, 31 Dec 2019
Stage 1	2,363	436	(263)	(906)	-	4	1,634
Stage 2	679	15	(5)	(512)	-	-	177
Stage 3	83,629	980	(173)	7,244	(63,544)	251	28,387
Total	**86,671**	**1,431**	**(441)**	**5,826**	**(63,544)**	**255**	**30,198**

Loans and receivables due from customers with a contractual amount of 64,810 thousand EUR for the Group and 63,544 thousand EUR for the Bank were written off during 2019 and are still subject to enforcement activity.

(c) Industry analysis of the loan portfolio

	31 Dec 2020 ’000 EUR Group	31 Dec 2020 ’000 EUR Bank	31 Dec 2019 ’000 EUR Group	31 Dec 2019 ’000 EUR Bank
Financial services	153,679	219,629	171,607	245,901
Real estate management	166,317	222,121	156,284	220,001
Individuals	111,926	61,471	123,126	70,482
Transport and communication	36,675	38,844	27,830	30,144
Wholesale and retailing	27,419	27,373	31,020	30,969
Investments in finance lease	27,407	-	34,700	-
Construction	11	-	1,185	1,173
Manufacturing	2,526	2,954	12,868	13,392
Tourism	3,759	3,753	719	713
Other	30,367	30,201	25,952	25,748
	560,086	**606,346**	**585,291**	**638,523**

(d) Geographical analysis of the loan portfolio

	31 Dec 2020 ’000 EUR Group	31 Dec 2020 ’000 EUR Bank	31 Dec 2019 ’000 EUR Group	31 Dec 2019 ’000 EUR Bank
Latvia	234,598	269,404	212,343	257,418
Other OECD countries	149,426	149,345	174,049	174,024
Non-OECD countries	176,062	187,597	198,899	207,081
	560,086	**606,346**	**585,291**	**638,523**

(e) Significant credit exposures

According to regulatory requirements, the Bank and the Group are not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As at 31 December 2020 and 2019 the Bank and the Group were in compliance with this requirement.

20 Financial assets at fair value through other comprehensive income

	2020 '000 EUR Group	**2020 '000 EUR Bank**	**2019 '000 EUR Group**	**2019 '000 EUR Bank**
Debt securities				
- with rating from AAA to A	143,907	143,907	111,097	111,097
- with rating from BBB+ to BBB-	116,582	116,582	104,896	104,896
- non-investment grade	83,847	83,847	74,436	74,436
- without rating	29	29	61	61
Equity investments	131	131	-	-
Total fair value	**344,496**	**344,496**	**290,490**	**290,490**
Acquisition cost	344,148	344,148	287,637	287,637
Revaluation	1,697	1,697	3,578	3,578
Impairment allowance	(1,349)	(1,349)	(725)	(725)
Total fair value	**344,496**	**344,496**	**290,490**	**290,490**

Analysis of movements in the allowance for expected credit losses:

31 December 2020

The Group and the Bank,

EUR'000

	Opening balance, 1 Jan 2020	**Origination and acquisition**	**Derecognition and repayments**	**Changes in credit risk, net**	**Other adjustments**	**Closing balance, 31 Dec 2020**
Stage 1	488	206	(296)	109	(14)	493
Stage 2	237	97	(483)	592	(34)	409
Stage 3	-	1	(229)	674	1	447
Total	**725**	**304**	**(1,008)**	**1,375**	**(47)**	**1,349**

31 December 2019

The Group and the Bank,

EUR'000

	Opening balance, 1 Jan 2019	**Origination and acquisition**	**Derecognition and repayments**	**Changes in credit risk, net**	**Closing balance, 31 Dec 2019**
Stage 1	230	290	(91)	59	488
Stage 2	-	2	(239)	474	237
Stage 3	-	12	-	(12)	-
Total	**230**	**304**	**(330)**	**521**	**725**

21 Investments in subsidiaries

Investment in subsidiaries at 31 December 2020 (‘000 EUR):

Company	Address	Share Capital	Equity	Bank’s share of total share capital, %	Gross carrying amount
SIA “RB Investments”	Vesetas str.7, Riga, Latvia	14,229	7,435	100%	14,228
RB Securities Ltd.	Stasinou str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	11,602	2,755	99.99%	10,956
SIA “OVERSEAS Estates”	Vesetas str.7, Riga, Latvia	9,480	1,355	100%	7,346
AS “Rietumu Asset Management” IPS	Vesetas str.7, Riga, Latvia	500	733	100%	500
Rietumu Lizing OOO	Odoevskogo str.117, 6th floor, office 9, Minsk, Belarus	275	3,687	99.5%	2,363
SIA “InCREDIT GROUP”	Krisjana Barona str.130, Riga, Latvia	500	7,610	51%	255
SIA “RB Drosiba”	Vesetas str.7, Riga, Latvia	71	220	100%	71
SIA “Vesetas 7”	Vesetas str.7, Riga, Latvia	142	10,112	100%	3,263
NOD “Nakotnes Atbalsta fonds”	Vesetas str.7, Riga, Latvia	-	1,502	100%	-
SIA “Euro Textile Group”	Ganibu dambis str. 30, Riga, Latvia	887	(1,474)	100%	1,000
SIA “KI Fund	Vesetas str. 7, Riga, Latvia	5,719	3,358	100%	5,719
Impairment allowance					(18,382)
Total Bank’s investment in subsidiaries, net					**27,319**

The Group had no restrictions to the ability to access or use assets, and settle liabilities, of the Group with respect to entities included in the consolidated financial statements.

21 Investments in subsidiaries, continued

Investment in subsidiaries at 31 December 2019 ('000 EUR):

Company	Address	Share Capital	Equity	Bank's share of total share capital, %	Gross carrying amount
SIA "RB Investments"	Vesetas str.7, Riga, Latvia	14,229	10,594	100%	14,228
RB Securities Ltd.	Stasinou str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia Eleftherias, P.C.1060, Nicosia, Cyprus	11,602	2,970	99.99%	10,956
SIA "OVERSEAS Estates"	Vesetas str.7, Riga, Latvia	9,480	1,420	100%	7,346
AS "Rietumu Asset Management" IPS	Vesetas str.7, Riga, Latvia	500	952	100%	500
Rietumu Lizing OOO	Odoevskogo str.117, 6th floor, office 9, Minsk, Belarus	275	4,902	99.5%	2,362
SIA "InCREDIT GROUP"	Krisjana Barona str.130, Riga, Latvia	500	7,972	51%	255
SIA "RB Drosiba"	Vesetas str.7, Riga, Latvia	71	193	100%	71
SIA "Vesetas 7"	Vesetas str.7, Riga, Latvia	142	9,048	100%	3,263
"Rietumu Bankas labdaribas fonds"	Vesetas str.7, Riga, Latvia	-	2,602	100%	-
SIA "Euro Textile Group"	Ganibu dambis str. 30, Riga, Latvia	887	(1,037)	100%	1,000
SIA "Rietumu Jazz"	Vesetas str. 7, Riga, LatviaVesetas str.7, Riga, Latvia	3	1	100%	3
SIA "Aristida Briana 9"	Aristida Briana str. 9, Riga, Latvia	558	78	100%	112
SIA "Lilijas 28"	Vesetas str. 7, Riga, Latvia	182	293	100%	620
SIA "KI Fund"	Vesetas str. 7, Riga, Latvia	5,719	3,778	100%	5,719
Impairment allowance					(16,969)
Total Bank's investment in subsidiaries, net					**29,466**

21 Investments in subsidiaries, continued

Movements in the impairment allowance

Movements in the investment in subsidiaries impairment allowance for the year ended 31 December 2020 and 2019 are as follows:

	2020 '000 EUR Bank	2019 '000 EUR Bank
Allowance for impairment		
Balance at 1 January	16,969	16,983
Charge for the year	1,527	1
Reversal for the year	(70)	-
Sales of subsidiary	(42)	-
Liquidation of subsidiary	(2)	(15)
Balance at 31 December	**18,382**	**16,969**

22 Equity accounted investees

The Group owns a share in the following associates, both associated companies provide information services and their assets consist mainly from property and equipment for their operations. The total assets and revenues are not material to the Group.

Name	Country of incorpora-tion	Principal activities	Ownership %	Amount of investment	Ownership %	Amount of investment
				31 December 2020 '000 EUR		31 December 2019 '000 EUR
SIA "AED Rail Service"	Latvia	Railway information services	43.00%	2	43.00%	4
SIA "Dzelzceļu Tranzīts"	Latvia	Railway information services	49.12%	-	49.12%	-
Total				**2**		**4**

23 Property and equipment

The Group

Cost/Revalued amount '000 EUR	**Land and buildings, Right of use assets**	**Construction in progress**	**Vehicles**	**Office equipment and machinery**	**Advances**	**Total**
At 1 January 2020	**39,692**	**571**	**2,626**	**17,095**	**21**	**60,005**
Additions	508	-	60	300	311	**1,179**
Disposals	(415)	-	(381)	(1,173)	-	**(1,969)**
Transfers	-	-	306	18	(324)	**-**
Disposal of subsidiary	-	-	-	(5)	-	**(5)**
Revaluation	17	-	-	-	-	**17**
FX translation effect	(171)	(131)	(10)	(22)	-	**(334)**
At 31 December 2020	**39,631**	**440**	**2,601**	**16,213**	**8**	**58,893**
Depreciation						
At 1 January 2020	**7,510**	7	**2,041**	**12,023**	**-**	**21,581**
Depreciation charge	1,057	1	160	474	-	**1,692**
Disposals	(164)	-	(334)	(1,191)	-	**(1,689)**
Disposal of subsidiary	-	-	-	(5)	-	**(5)**
FX translation effect	(4)	-	(5)	(25)	-	**(34)**
At 31 December 2020	**8,399**	**8**	**1,862**	**11,276**	**-**	**21,545**
Net carrying amount						
At 31 December 2020	**31,232**	**432**	**739**	**4,937**	**8**	**37,348**
At 31 December 2019	**32,182**	**564**	**585**	**5,072**	**21**	**38,424**

23 Property and equipment, continued

The Group, continued

Cost/Revalued amount '000 EUR	**Land and buildings, Right of use assets**	**Construction in progress**	**Vehicles**	**Office equipment and machinery**	**Advances**	**Total**
At 1 January 2019	**38,046**	**4,178**	**2,708**	**21,181**	**230**	**66,343**
Additions	-	548	138	325	20	**1,031**
Disposals	(56)	(26)	(222)	(501)	-	**(805)**
Transfers	-	(23)	-	147	(124)	**-**
Sale of subsidiary	(900)	-	-	(4,059)	(105)	**(5,064)**
Reclassification to investment property	-	(4,175)	-	-	-	**(4,175)**
Revaluation	(10)	-	-	-	-	**(10)**
FX translation effect	79	69	2	2	-	**152**
Introduction of IFRS 16	2,533	-	-	-	-	**2,533**
At 31 December 2019	**39,692**	**571**	**2,626**	**17,095**	**21**	**60,005**
Depreciation						
At 1 January 2019	**6,784**	**-**	**1,815**	**14,872**	**-**	**23,471**
Depreciation charge	1,129	-	332	622	-	**2,083**
Disposals	(70)	-	(215)	(479)	-	**(764)**
Adjustment	-	-	112	-	-	**112**
Sale of subsidiary	(386)	-	-	(2,981)	-	**(3,367)**
Transfer	-	7	-	(7)	-	**-**
FX translation effect	53	-	(3)	(4)	-	**46**
At 31 December 2019	**7,510**	**7**	**2,041**	**12,023**	**-**	**21,581**
Net carrying amount						
At 31 December 2019	**32,182**	**564**	**585**	**5,072**	**21**	**38,424**
At 31 December 2018	**31,262**	**4,178**	**893**	**6,309**	**230**	**42,872**

23 Property and equipment, continued

Revalued assets

As at 31 December 2020 and 2019, properties consisting of office buildings and land were revalued based on report by external independent and qualified property appraisers with recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the property portfolio every year.

The fair value measurement for property (land and buildings) has been categorised as a Level 3 in the fair value hierarchy.

The following table shows the valuation techniques used in measuring the fair value of the significant items of property, as well as the significant unobservable inputs used. The remaining items of properties belonging to the subsidiaries of the Group are considered to be not significant for the Bank and the Group.

Type	**Valuation technique**	**Significant unobservable inputs**	**Inter-relation between significant unobservable inputs and fair value measurement**
Office premises in administrative building in the net carrying amount of EUR 484 thousand (2019: EUR 571 thousand) located in Minsk, Belarus	Market comparison technique: the fair value was based on results of comparable sales of similar buildings	Price per m^2 – 761 EUR (2019: EUR 893)	The fair value would increase (decreased) if the price per m^2 was higher (lower).
Office building (17,071 m2) and land in the amount of EUR 28,813 thousand (2019: EUR 29,471 thousand) located in Riga, Latvia	Discounted cash flows technique: the model is based on discounted cash flows from rental income.	Rental income per m^2 of EUR 14.5 (2019: EUR 13) Discount rate of 7 % (2019: 6.5%)	The estimated fair value would increase (decrease) if: - Rental income per m^2 was higher (lower) - The discount rate was lower (higher) - Annual capital expense are lower (higher) - The occupancy rate was higher (lower)

23 Property and equipment, continued

The Bank

’000 EUR	Land and Buildings, Right of use assets	Vehicles	Office equipment	Advances	Total
Cost/Revalued amount					
1 January 2020	**32,015**	**2,491**	**12,405**	**20**	**46,931**
Additions	-	29	101	311	**441**
Disposals	(6,709)	(316)	(986)	-	**(8,011)**
Transfers	-	306	18	(324)	**-**
At 31 December 2020	**25,306**	**2,510**	**11,538**	**7**	**39,361**
Depreciation and impairment losses					
At 1 January 2020	**1,711**	**1,955**	**8,611**	**-**	**12,277**
Depreciation charge	1,356	144	143	**-**	**1,643**
Disposals	-	(288)	(985)	**-**	**(1,273)**
At 31 December 2020	**3,067**	**1,811**	**7,769**	**-**	**12,647**
Net carrying amount					
At 31 December 2020	**22,239**	**699**	**3,769**	**7**	**26,714**
At 31 December 2019	**30,304**	**536**	**3,794**	**20**	**34,654**

’000 EUR	Land and Buildings, Right of use assets	Construction in progress	Vehicles	Office equipment	Advances	Total
Cost/Revalued amount						
1 January 2019	**-**	**3,518**	**2,572**	**12,339**	**124**	**18,553**
Additions	-	533	134	166	20	**853**
Disposals	-	-	(215)	(100)	-	**(315)**
Transfers	-	124	-	-	(124)	**-**
Reclassification to investment property	-	(4,175)	-	-	-	**(4,175)**
Introduction of IFRS 16	32,015	-	-	-	-	**32,015**
At 31 December 2019	**32,015**	**-**	**2,491**	**12,405**	**20**	**46,931**
Depreciation and impairment losses						
At 1 January 2019	**-**	**-**	**1,740**	**8,427**	**-**	**10,167**
Depreciation charge	1,711	-	318	279	**-**	**2,308**
Disposals	-	-	(215)	(95)	**-**	**(310)**
Adjustment	-	-	112	-	**-**	**112**
At 31 December 2019	**1,711**	**-**	**1,955**	**8,611**	**-**	**12,277**
Net carrying amount						
At 31 December 2019	**30,304**	**-**	**536**	**3,794**	**20**	**34,654**
At 31 December 2018	**-**	**3,518**	**832**	**3,912**	**124**	**8,386**

24 Intangible assets

The Group

'000 EUR	**Goodwill**	**Software**	**Other**	**Advances**	**Total**
Cost amount					
At 1 January 2020	**1,069**	**13,336**	**59**	**734**	**15,198**
Additions	-	87	4	93	**184**
Disposals	-	(11)	-	-	**(11)**
Transfers	-	97	-	(97)	**-**
FX translation effect	-	-	(5)	(1)	**(6)**
At 31 December 2020	**1,069**	**13,509**	**58**	**729**	**15,365**
Amortisation and impairment losses					
At 1 January 2020	**-**	**13,070**	**36**	**-**	**13,106**
Amortisation charge	-	326	4	-	**330**
Disposals	-	(11)	5	-	**(6)**
FX translation effect	-	-	(1)	-	**(1)**
At 31 December 2020	**-**	**13,385**	**44**	**-**	**13,429**
Net carrying amount					
At 31 December 2020	**1,069**	**124**	**14**	**729**	**1,936**
At 31 December 2019	**1,069**	**266**	**23**	**734**	**2,092**

'000 EUR	**Goodwill**	**Software**	**Other**	**Advances**	**Total**
Cost amount					
At 1 January 2019	**1,069**	**13,197**	**1,532**	**754**	**16,552**
Additions	-	-	21	119	**140**
Disposals	-	-	(6)	-	**(6)**
Sale of subsidiary	-	-	(1,488)	-	**(1,488)**
Transfers	-	139	-	(139)	**-**
At 31 December 2019	**1,069**	**13,336**	**59**	**734**	**15,198**
Amortisation and impairment losses					
At 1 January 2019	**-**	**12,531**	**1,182**	**-**	**13,713**
Amortisation charge	-	539	8	-	**547**
Disposals	-	-	(6)	-	**(6)**
Sale of subsidiary	-	-	(1,148)	-	**(1,148)**
At 31 December 2019	**-**	**13,070**	**36**	**-**	**13,106**
Net carrying amount					
At 31 December 2019	**1,069**	**266**	**23**	**734**	**2,092**
At 31 December 2018	**1,069**	**666**	**350**	**754**	**2,839**

Goodwill of EUR 1,069 thousand (2019: EUR 1,069 thousand) originated on the acquisition of a payment card business unit in 2001.

24 Intangible assets, continued

The Bank

’000 EUR	**Goodwill**	**Software**	**Other**	**Advances**	**Total**
Cost amount					
At 1 January 2020	**1,069**	**13,549**	**36**	**24**	**14,678**
Additions	-	87	-	93	**180**
Transfers	-	98	-	(98)	**-**
At 31 December 2020	**1,069**	**13,734**	**36**	**19**	**14,858**
Amortisation and impairment losses					
At 1 January 2020	**-**	**12,575**	**29**	**-**	**12,604**
Amortisation charge	-	326	5	**-**	**331**
Disposals	-	-	-	**-**	**-**
At 31 December 2020	**-**	**12,901**	**34**	**-**	**12,935**
Net carrying amount					
At 31 December 2020	**1,069**	**833**	**2**	**19**	**1,923**
At 31 December 2019	**1,069**	**974**	**7**	**24**	**2,074**

’000 EUR	**Goodwill**	**Software**	**Other**	**Advances**	**Total**
Cost amount					
At 1 January 2019	**1,069**	**13,411**	**40**	**45**	**14,565**
Additions	-	-	-	119	**119**
Disposals	-	-	(6)	**-**	**(6)**
Transfers	-	138	2	(140)	**-**
At 31 December 2019	**1,069**	**13,549**	**36**	**24**	**14,678**
Amortisation and impairment losses					
At 1 January 2019	**-**	**12,037**	**30**	**-**	**12,067**
Amortisation charge	-	538	5	**-**	**543**
Disposals	-	-	(6)	**-**	**(6)**
At 31 December 2019	**-**	**12,575**	**29**	**-**	**12,604**
Net carrying amount					
At 31 December 2019	**1,069**	**974**	**7**	**24**	**2,074**
At 31 December 2018	**1,069**	**1,374**	**10**	**45**	**2,498**

Goodwill of EUR 1,069 thousand (2019: EUR 1,069 thousand) originated on the acquisition of a payment card business unit in 2001.

25 Right-of-use assets and Lease liabilities

Property and equipment comprise owned and leased assets that do not meet the definition of investment property.

	31 December 2020 ’000 EUR Group	31 December 2020 ’000 EUR Bank	31 December 2019 ’000 EUR Group	31 December 2019 ’000 EUR Bank
Property and equipment owned	35,414	4,475	36,289	4,350
Right-of-use assets	1,934	22,239	2,135	30,304
Total	**37,348**	**26,714**	**38,424**	**34,654**

The Group and the Bank leases land and buildings. Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

	31 December 2020 Land and buildings ’000 EUR Group	31 December 2020 Land and buildings ’000 EUR Bank	31 December 2019 Land and buildings ’000 EUR Group	31 December 2019 Land and buildings ’000 EUR Bank
Balance at 1 January	2,135	30,304	2,533	32,015
Depreciation charge for the period	(230)	(1,356)	(398)	(1,711)
ROU change	29	(6,709)	-	-
Balance at 31 December	**1,934**	**22,239**	**2,135**	**30,304**

Lease liabilities

Lease liability is included in the position Other liabilities and accruals. For maturity analysis of contractual undiscounted cash flows see note 4 (d).

Amounts recognized in profit or loss

	31 December 2020 ’000 EUR Group	31 December 2020 ’000 EUR Bank	31 December 2019 ’000 EUR Group	31 December 2019 ’000 EUR Bank
Interest expense on lease liabilities	65	858	112	1,143
Depreciation charge	230	1,356	398	1,711
Total	**295**	**2,214**	**510**	**2,854**

26 Investment property

Investment property comprises residential properties and commercial properties, such as land or parts of buildings, and premises owned by the Group companies, which the Group does not occupy.

	31 Dec 2020 ’000 EUR Group	31 Dec 2020 ’000 EUR Bank	31 Dec 2019 ’000 EUR Group	31 Dec 2019 ’000 EUR Bank
Balance at 1 January	90,059	35,114	84,373	9,343
Disposal of subsidiary (note 44)	(8,377)	-	(2,117)	-
Acquisition of subsidiary	58	-	1,322	-
Transferred from loans	-	-	-	23,335
Transferred from property and equipment	-	-	4,175	4,175
Transferred to Non-current assets held for sale	(4,633)	-	(596)	(596)
Additions	14,229	8,685	7,959	75
Disposals/Sales	(4,178)	(3,300)	(5,984)	(877)
Revaluations	(2,556)	392	279	(341)
Currency revaluation	(2,723)	-	648	-
Balance at 31 December	**81,879**	**40,891**	**90,059**	**35,114**

Rental income and operating expense for the year ended 31 December 2020, the Group:

	Carrying amount ’000 EUR	Rental income ‘000 EUR	Operating expenses ‘000 EUR
Investment property rented out	44,483	2,816	1,656
Investment property held for value appreciation	37,396	-	324
Total	**81,879**	**2,816**	**1,980**

Rental income and operating expense for the year ended 31 December 2019, the Group:

	Carrying amount ’000 EUR	Rental income ‘000 EUR	Operating expenses ‘000 EUR
Investment property rented out	45,672	3,631	1,644
Investment property held for value appreciation	44,387	-	748
Total	**90,059**	**3,631**	**2,392**

Rental income and operating expenses are presented under Other income (Other expenses) in the statements of profit or loss.

All investment properties represent Level 3 fair value hierarchy.

26 Investment property, continued

The following table shows the valuation technique used in measuring fair value of investment property of the Group and significant unobservable inputs used as at 31 December 2020:

Type	Valuation technique	Significant unobservable inputs	Carrying amount '000 EUR
Residential property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 *	
- Riga		EUR 312 – 2,600	8,386
- Jurmala		EUR 434 – 2,406	6,048
- Other areas in Latvia		EUR 518 – 1,613	6,393
Land	Market comparison technique: The fair value was based on results of comparable sales of similar land plots	Average price per m^2 *	
- Riga		EUR 2.5 – 67	5,158
- Jurmala		EUR 7 – 27	1,210
- Other areas in Latvia		EUR 0.2 – 50	6,699
Commercial property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 *	
- Riga		EUR 459 – 1,333	14,637
- Other areas in Latvia		EUR 216	5,277
- Belarus		EUR 311	386
- Moscow, Russia		EUR 1,060-3,103	11,935
- Riga region	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Rental income per m^2 EUR 3.8-8.38 Annual discount rate of 6-8% Collection rate 90-100%	2,143
Commercial property - Hotels (Latvia)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 12% Average annual price per room EUR 22,664	5,935
- Port terminal (Ventspils)	Discounted cash flows technique: The model is based on discounted cash flows from transhipment, storage and blending of palm oil products	Income from palm oil products transhipment 12.59 EUR / t. Transhipment volume limit up to 200 thousand tons per year. Annual discount rate of EBITDA 12.7%. Capitalization rate 10.7%.	4,140
- Residential, office and shop premises (Riga)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average sales price per m^2 * EUR 685-972	3,532
Total			**81,879**

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

Inter-relation between significant unobservable inputs and fair value measurement - the fair value would increase (decreased) if the price per m^2 was higher (lower), rental income per m2 was higher (lower), the discount rate was lower (higher), annual capital expense is lower (higher), the occupancy rate was higher (lower).

26 Investment property, continued

The following table shows the valuation technique used in measuring fair value of investment property of the Group and significant unobservable inputs used as at 31 December 2019:

Type	Valuation technique	Significant unobservable inputs	Carrying amount ‘000 EUR
Residential property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 *	
- Riga		EUR 1,390 – 2,516	8,996
- Jurmala		EUR 902 – 2,479	3,653
- Other areas in Latvia		EUR 919 – 1,488	8,007
Land	Market comparison technique: The fair value was based on results of comparable sales of similar land plots	Average price per m^2 *	
- Riga		EUR 3 – 70	5,249
- Jurmala		EUR 7 – 63	1,544
- Other areas in Latvia		EUR 0.3 – 23	7,470
Commercial property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 *	
- Riga		EUR 276 – 1,485	19,791
- Other areas in Latvia		EUR 67 – 204	255
- Belarus		EUR 549	801
- Moscow, Russia		EUR 1,664-3,550	8,524
- Riga region	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Rental income per m^2 EUR 4.5 Annual discount rate of 6%	2,321
Commercial property - Residential and commercial premises (Riga)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m^2 for renovated premises* EUR 2,300-2,500 Rental income per m2 EUR 3.5- 4.75 Annual discount rate of 7%	8,619
- Hotels (Latvia)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 8.5-9.5% EUR 35 – 250 income per hotel room The occupancy rate increasing over time from 37% to 60%	7,158
- Terminal (Ventspils)	Discounted cash flows technique: The model is based on discounted cash flows from transhipment, storage and blending of palm oil products	Income from palm oil products transhipment 12.59 EUR / t. Transhipment volume limit up to 200 thousand tons per year. Annual discount rate of EBITDA 12.7%. Capitalization rate 10.7%.	4,140
- Residential, office and shop premises (Riga)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average sales price per m^2 * EUR 677-989	3,531
Total			**90,059**

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

Inter-relation between significant unobservable inputs and fair value measurement - the fair value would increase (decreased) if the price per m^2 was higher (lower), rental income per m2 was higher (lower), the discount rate was lower (higher), annual capital expense is lower (higher), the occupancy rate was higher (lower).

27 Other assets

	31 Dec 2020 ’000 EUR Group	31 Dec 2020 ’000 EUR Bank	31 Dec 2019 ’000 EUR Group	31 Dec 2019 ’000 EUR Bank
Other financial assets				
Cash in transit	6,759	6,452	27,238	27,199
Other	1,521	19	48	20
Other non-financial assets				
Collateral assumed on non-performing loans	-	-	2,387	2,387
Prepayments	1,900	763	1,725	436
Recoverable VAT	982	117	2,328	-
Other debtors	2,904	1,717	3,225	1,171
Other	5,642	4,036	6,289	3,980
Impairment allowance	(974)	(200)	(2,354)	(2,128)
	18,734	**12,904**	**40,886**	**33,065**

Analysis of movements in the impairment allowance

	2020 ’000 EUR Group	2020 ’000 EUR Bank	2019 ’000 EUR Group	2019 ’000 EUR Bank
Balance at 1 January	2,354	2,128	3,649	3,331
Charge for the year	622	-	809	702
Recovery	(50)	(15)	(16)	(11)
Disposal of subsidiary	(9)	-	-	-
Acquisition of subsidiaries	-	-	4	-
Written off	(1,940)	(1,910)	(2,096)	(1,897)
Currency revaluation	(3)	(3)	4	3
Balance at 31 December	**974**	**200**	**2,354**	**2,128**

28 Deposits and balances due to banks

	31 Dec 2020 ’000 EUR Group	31 Dec 2020 ’000 EUR Bank	31 Dec 2019 ’000 EUR Group	31 Dec 2019 ’000 EUR Bank
Vostro demand accounts	4,482	4,465	2,920	2,920
	4,482	**4,465**	**2,920**	**2,920**

Concentration of deposits and balances due to banks

As at 31 December 2020 the Bank and the Group had balances with three clients (four as at 31 December 2019), which exceeded 10 % of total deposits and balances from banks. The gross value of these balances as of 31 December 2020 was EUR 1,486 thousand, EUR 1,377 thousand, EUR 873 thousand accordingly (2019: EUR 941 thousand, EUR 830 thousand, EUR 663 thousand and EUR 344 thousand).

29 Current accounts and deposits due to customers

	31 Dec 2020 '000 EUR Group	31 Dec 2020 '000 EUR Bank	31 Dec 2019 '000 EUR Group	31 Dec 2019 '000 EUR Bank
Private companies				
- current accounts	374,511	386,808	448,007	463,438
- term deposits	42,154	42,132	32,978	32,556
Total private companies	**416,665**	**428,940**	**480,985**	**495,994**
Government				
- current accounts	90	90	45	45
- term deposits	8	-	13	-
Total government	**98**	**90**	**58**	**45**
Private individuals				
- current accounts	233,079	233,079	254,557	254,557
- term deposits	422,614	420,315	584,233	581,933
Total private individuals	**655,693**	**653,394**	**838,790**	**836,490**
Total current accounts and deposits due to customers	**1,072,456**	**1,082,424**	**1,319,833**	**1,332,529**

(a) Geographical analysis

	31 Dec 2020 '000 EUR Group	31 Dec 2020 '000 EUR Bank	31 Dec 2019 '000 EUR Group	31 Dec 2019 '000 EUR Bank
Latvia	241,290	247,963	284,363	289,916
Other OECD countries	462,888	462,888	588,430	595,766
Non-OECD countries	368,278	371,573	447,040	446,847
	1,072,456	**1,082,424**	**1,319,833**	**1,332,529**

(b) Concentrations of current accounts and customer deposits

As of 31 December 2020 and 2019, the Bank and the Group had no customers, whose balances exceeded 10% of total customer accounts.

(c) Subordinated deposits

As of 31 December 2020 the Bank and the Group had subordinated deposits of EUR 55,947 thousand (2019: EUR 64,640 thousand).

30 Issued debt securities

On 1th October 2018 Rietumu Lizing OOO. issued unsecured bonds with maturity of three years and interest payments quarterly, interest rate 6% annually The Group is in full compliance with the term and conditions of issued debt securities as at 31 December 2020 and 2019.

	2020 '000 EUR Group	**2019 '000 EUR Group**
Balance at 1 January	**712**	**62**
Change from financing cash flows		
Purchased	316	650
Repaid	(291)	-
Accrued interest	46	-
Currency translation	(170)	-
Total changes from financing cash flows	**(99)**	**650**
Balance at 31 December	**613**	**712**

31 Other liabilities and accruals

	31 Dec 2020 '000 EUR Group	**31 Dec 2020 '000 EUR Bank**	**31 Dec 2019 '000 EUR Group**	**31 Dec 2019 '000 EUR Bank**
Other financial liabilities				
Management bonus accrual	4,966	4,955	3,545	3,532
Deposits guarantee fund	338	338	436	436
Estimated liability for FCMC	158	158	203	203
Dividends payable	107	107	416	416
Lease liability	1,908	22,910	2,262	30,840
Cash in transit	3,300	-	-	-
Other	1,737	39	638	207
Other non-financial liabilities				
Deferred income	4,099	360	3,783	490
Annual leave accrual	1,575	1,100	1,483	1,020
VAT payable	571	-	374	260
Prepayments	213	114	378	263
Accounts payable to suppliers	2,398	105	3,591	212
Accrued liabilities	3,656	3,490	2,724	2,144
Other	631	325	1,617	1,234
	25,657	**34,001**	**21,450**	**41,257**

32 Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2020 and 2019.

These taxable and tax-deductible temporary differences, which have no expiry dates, are listed below at their tax affected accumulated values:

The Group

	Assets		**Liabilities**		**Net**	
’000 EUR	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Property and equipment	100	145	(32)	(22)	68	123
Investment property	101	63	(255)	(305)	(154)	(242)
Other assets	829	179	(13)	(72)	816	107
Other liabilities	37	30	(310)	(10)	(273)	20
Total recognised deferred tax assets/(liabilities)	**1,067**	**417**	**(610)**	**(409)**	**457**	**8**
Recognised deferred tax					**457**	**8**

The rate of tax applicable for deferred taxes equals tax rates applicable in countries in which subsidiaries operate, as disclosed in Note 15.

Movement in temporary differences during the year ended 31 December 2020

The Group	**2020 ’000 EUR**	**2019 ’000 EUR**
Balance at 1 January – deferred tax liability	(99)	(46)
Balance at 1 January – deferred tax asset	107	173
Charge to profit for the year	500	(237)
Acquisition of subsidiary	-	85
Currency revaluation	(51)	33
Balance at 31 December	**457**	**8**
Deferred tax asset	**583**	**107**
Deferred tax liability	**(126)**	**(99)**

Deferred tax asset and liability are shown net on individual subsidiaries level, but are not netted on the Group level.

33 Share capital and reserves

(a) Issued capital and share premium

The largest shareholders of the Bank as of 31 December 2020 are as follows:

	2020 '000 EUR	%
A category registered shares		
Companies non-residents		
Boswell (International) Consulting Limited	47,111	33.11%
Companies residents		
SIA "Esterkin Family Investments"	47,125	33.12%
SIA "Suharenko Family Investments"	24,665	17.34%
Other	1,579	1.10%
Private persons		
	21,807	15.33%
A category registered shares, total	**142,287**	**100%**
B category registered shares		
Companies	13,864	
Private persons	12,765	
B category registered shares, total	**26,629**	
Issued capital	**168,916**	
Share premium	**52,543**	

The holders of A category registered shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank and to residual assets.

B category registered shares are non-voting shares, but its holders also are entitled to receive dividends as declared from time to time.

33 Share capital and reserves, continued

The largest shareholders of the Bank as of 31 December 2019:

	2019 '000 EUR	**%**
A category registered shares		
Companies non-residents		
Boswell (International) Consulting Limited	47,111	33.11%
Companies residents		
SIA "Esterkin Family Investments"	47,125	33.12%
SIA "Suharenko Family Investments"	24,665	17.34%
Other	1,579	1.10%
Private persons		
	21,807	15.33%
A category registered shares, total	**142,287**	**100%**
B category registered shares		
Companies	13,616	
Private persons	13,013	
B category registered shares, total	**26,629**	
Issued capital	**168,916**	
Share premium	**52,543**	

Preference shares are shares which have preference over ordinary shares for payment of dividend. The dividend is defined as percentage of issuance price and if not paid, it is accumulated. It is upon Bank's discretion to delay the dividend payments indefinitely. Preference share shareholders do have voting rights if dividends are not received or are partly received for two consecutive years.

In June 2019, the Bank's Shareholders decided to terminate non-voting preference shares and replace them with B category dematerialized registered non-voting shares and to approve the Bank's Statutes in a new wording.

(b) Dividends

Dividends are proportionately divided between ordinary and preference shares, or A category and B category shares.

	2020 '000 EUR Group	**2020 '000 EUR Bank**	**2019 '000 EUR Group**	**2019 '000 EUR Bank**
Change from financing cash flows				
Dividend paid	-	-	173,995	173,995
Dividends paid to non-controlling interest shareholders	1,470	-	1,713	-
Total changes from financing cash flows	**1,470**	**-**	**175,708**	**173,995**

Dividend per share in year 2019 amounted to 1.4421 EUR.

(c) Other reserves

Out of all Other reserves those amounting to EUR 23 thousand at the Bank (2019: EUR 23 thousand) represent contributions made by shareholders in previous years.

33 Share capital and reserves, continued

(d) Fair value reserve

The fair value reserve represents the changes in fair value of financial assets at fair value through other comprehensive income.

Movements in fair value reserve

Movements in the fair value reserve net of tax for the year ended 31 December 2020 and 2019 are as follows:

	2020 '000 EUR Group	2020 '000 EUR Bank	2019 '000 EUR Group	2019 '000 EUR Bank
Balance at 1 January	3,578	3,578	(2,246)	(2,246)
Revaluation during the period	(1,257)	(1,257)	5,329	5,329
Change in expected credit losses during the period	(624)	(624)	495	495
Balance at 31 December	**1,697**	**1,697**	**3,578**	**3,578**

(e) Revaluation reserve

A revaluation reserve represents the increase in the fair value of real estate properties classified under Property and equipment.

	2020 '000 EUR Group	2020 '000 EUR Bank	2019 '000 EUR Group	2019 '000 EUR Bank
Revaluation reserve as at 1 January	1,890	-	1,914	-
Transfer to retained earnings	(24)	-	(27)	-
Revaluation of property and equipment	3	-	3	-
Revaluation reserve as at 31 December	**1,869**	**-**	**1,890**	**-**

34 Cash and cash equivalents

Cash and cash equivalents consist of the following:

	31 Dec 2020 ’000 EUR Group	31 Dec 2020 ’000 EUR Bank	31 Dec 2019 ’000 EUR Group	31 Dec 2019 ’000 EUR Bank
Cash	851	829	1,519	1,502
Balances due from the Bank of Latvia	260,511	260,511	501,570	501,570
	261,362	**261,340**	**503,089**	**503,072**
Demand loans and receivables from banks	77,240	76,818	81,493	80,911
Demand deposits and balances due to banks	(4,482)	(4,465)	(2,920)	(2,920)
Total	**334,120**	**333,693**	**581,662**	**581,063**

35 Commitments and guarantees

In line with the lending activity the Bank enters into commitments to issue loans. These commitments take the form of approved but not yet issued loans, credit card limits and overdrafts.

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

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

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

	31 Dec 2020 ’000 EUR Group	31 Dec 2020 ’000 EUR Bank	31 Dec 2019 ’000 EUR Group	31 Dec 2019 ’000 EUR Bank
Contracted amount				
Loan commitments	95,495	150,762	95,736	137,942
Financial guarantees	7,758	7,758	13,833	13,833
Other commitments	143	143	107	107
Total commitments and guarantees	**103,396**	**158,663**	**109,676**	**151,882**
Provisions	(191)	(225)	(105)	(154)
Net exposure	**103,205**	**158,438**	**109,571**	**151,728**

35 Commitments and guarantees, continued

Movements in the provisions for commitments and guarantees, 31 Dec 2020:

The Group, EUR’000

	Opening balance 1 Jan 2020	Origination and acquisition	Repayments and disposals	Changes in credit risk, net	Closing balance 31 Dec 2020
Stage 1	105	152	(82)	16	191
Stage 2	-	1	-	(1)	-
Stage 3	-	-	(1)	1	-
Total	**105**	**153**	**(83)**	**16**	**191**

The Bank, EUR’000

	Opening balance 1 Jan 2020	Origination and acquisition	Repayments and disposals	Changes in credit risk, net	Other adjustments	Closing balance 31 Dec 2020
Stage 1	122	157	(89)	37	(1)	226
Stage 2	32	1	-	(33)	-	-
Stage 3	-	-	(1)	1	-	(1)
Total	**154**	**158**	**(90)**	**5**	**(1)**	**225**

Movements in the provisions for commitments and guarantees, 31 Dec 2019:

The Group, EUR’000

	Opening balance 1 Jan 2019	Origination and acquisition	Repayments and disposals	Changes in credit risk, net	Other adjustments	Closing balance 31 Dec 2019
Stage 1	75	190	(49)	(109)	(2)	105
Stage 2	1	-	-	(1)	-	-
Stage 3	-	-	(2)	2	-	-
Total	**76**	**190**	**(51)**	**(108)**	**(2)**	**105**

The Bank, EUR’000

	Opening balance 1 Jan 2019	Origination and acquisition	Repayments and disposals	Changes in credit risk, net	Closing balance 31 Dec 2019
Stage 1	127	192	(54)	(143)	122
Stage 2	11	5	(6)	22	32
Stage 3	-	-	(2)	2	-
Total	**138**	**197**	**(62)**	**(119)**	**154**

36 Provisions

	31 Dec 2020 '000 EUR Group	31 Dec 2020 '000 EUR Bank	31 Dec 2019 '000 EUR Group	31 Dec 2019 '000 EUR Bank
Provisions for possible obligations – Litigations (Note 37 (b))	34,000	34,000	34,000	34,000
Provisions for commitments and guarantees (Note 35)	191	225	105	154
Total	**34,191**	**34,225**	**34,105**	**34,154**

Movements in the provisions:

EUR'000	2020 '000 EUR Group	2020 '000 EUR Bank	2019 '000 EUR Group	2019 '000 EUR Bank
Balance at 1 January	**34,105**	**34,154**	**34,076**	**34,138**
Increase/(decrease) of provisions for commitments and guarantees (Note 35)	86	71	29	16
Balance at 31 December	**34,191**	**34,225**	**34,105**	**34,154**

37 Litigations

(a) Ordinary legal proceedings

In the ordinary course of business, the Bank and the Group are involved in a number of judicial proceedings brought against the Bank and the Group by its customers, in respect of matters such as ownership and property rights, cancellation or challenge of the transactions or contracts and monetary claims. As at 31 December 2020, there were 15 open legal proceedings against the Bank and the Group with a total amount under dispute of EUR 615 thousand (31 December 2019: EUR 401 thousand). The ultimate outcome of any such litigation is uncertain and any position taken by the Management Board involves significant judgement and inherent estimation uncertainty. In respect of the above litigation proceedings, no liability (provision) has been recognized as in the Management Board's view, supported by the result of the analysis by the Bank's external legal advisers, the likelihood of any loss (outflow of economic resources) arising therefrom is possible rather than probable.

(b) Litigation in France

The Bank is defendant in a court case for alleged involvement in tax evasion and aggravated money laundering. Criminal investigation in France started in July 2011 (further to enquiries from that country's tax authorities in respect of another (unrelated) entity - France Off Shore) focusing on alleged tax evasion offences committed by that entity. Within that investigation the Bank, and former head of its representative office in Paris were placed under investigation for suspicion of aggravated money laundering on 12 December 2012.

On 6 July 2017, the 32nd section of the Paris Criminal Court ruled in its first instance judgment that the Bank was guilty of aggravated money laundering by providing assistance, as a bank, to placement, concealment or conversion operations of the proceed of an offence. The Court ordered the Bank to pay a criminal fine of EUR 80 million and damages, jointly and severally with the other defendants, of EUR 10 million to the French State and EUR100 thousand court expenses. In addition, the Bank was ordered to stop any banking activities in France for 5 years. The Bank lodged its appeal against the first instance judgement on 12 July 2017, followed by an appeal by the Public Prosecutor, to leave the upper limit of the amount of any penalties above that included in the first instance court's sentence. The date for the appeal court hearing has been planned to take place late September 2019 but was suspended to May

37 Litigations, continued

2020. The date for the appeal court hearing has been planned to take place in the middle of May 2020. Due to the Covid-19 situation, the case will be considered in February 2021.The Management Board intends to cooperate with all relevant authorities in the proceeding. However, although there can be no assurance as to the ultimate outcome of the case, the Bank believes to have a meritorious defence, and so it intends to vigorously defend its position. Among other things, the amounts the Bank was sentenced to pay appear inflated and ungrounded based on the understanding of the French criminal law by the Bank and its legal advisers.

As at 31 December 2017, the Bank recognized a provision amounting to EUR 20 million and as at 31 December 2018 EUR 14 million (total EUR 34 million) which it believes to be the best estimate of the expenditure to be ultimately required to settle the obligation, including fines, damages, procedural expenditure and expected legal expenses.

Accordingly, due to the inherent uncertainty associated with the proceedings of such nature as exacerbated by the above factors, while the Bank and the Group believe the amount of the provision recognized in these separate and consolidated financial statements to represent their best estimate of the expenditure to be ultimately required to settle the obligation, the actual expenditure required to settle the said claim may be substantially in excess of these amounts reserved.

38 Trust and custody activities

(a) Trust activities

Funds under trust management represent securities and other assets managed and held by the Bank and the Group on behalf of customers. The Bank and the Group earn commission income for holding such assets. The Bank and the Group are not subject to interest, credit, liquidity, price and currency risk with respect of these securities in accordance with the agreements concluded with the customers. As at 31 December 2020 the total assets held by the Group and the Bank on behalf of customers and assets under management were EUR 227,345 thousand (2019: EUR 212,889 thousand).

39 Related party transactions

Related parties are defined as shareholders who have significant influence over the Bank, companies in which they have a controlling interest, members of the Council and Board of Directors, key management personnel, their close relatives and companies in which they have a controlling interest, as well as subsidiaries and associated companies.

'000 EUR	31 Dec 2020			31 Dec 2019		
	Subsidiaries and associates	Key management	Other related parties	Subsidiaries and associates	Key management	Other related parties
Loans and receivables due from customers	126,574	57	29,361	143,082	87	28,331
Expected credit losses	(2,699)	(2)	(89)	(18,488)	(1)	(78)
Current accounts and deposits due to customers	12,457	25,904	75,696	15,531	35,723	100,408
Equity instruments	-	-	-	-	-	-
Commitments and Contingencies	55,484	447	4,625	42,442	462	5 217
Provisions	(34)	(21)	(7)	(48)	(5)	(1)
Interest income	6,693	3	1,092	7,348	5	947
Interest expense	-	(892)	(743)	-	877	477
Fee and commission income	8	29	54	26	5	75
Fee and commission expense	-	-	-	-	-	67
Lease payments	1,846	-	-	2,120	-	-

All transactions have been conducted on an arm's length basis.

Total remuneration included in General administrative expenses (Note 14):

	31 Dec 2020 '000 EUR Group	31 Dec 2020 '000 EUR Bank	31 Dec 2019 '000 EUR Group	31 Dec 2019 '000 EUR Bank
Members of the Council	499	479	499	477
Members of the Board of Directors	1,148	655	1,833	1,347
Total	**1,647**	**1,134**	**2,332**	**1,824**

During the year 2020, the Bank received dividends from its subsidiary SIA "InCREDIT GROUP" in the amount of EUR 1,530 thousand (2019: EUR 1,783 thousand); from Rietumu Lizing OOO in the amount of EUR 984 thousand (2019: EUR 1,008 thousand) and from AS "Rietumu Asset Management" IPS in the amount of EUR 378 thousand (2019: EUR 326 thousand).

40 Fair value of financial assets

(a) Financial assets measured at fair value

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

The Group

31 Dec 2020	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Financial assets at fair value through other comprehensive income	317,045	27,291	160	**344,496**
Financial assets at fair value through profit or loss	14,997	697	556	**16,250**
Financial liabilities				
Financial assets at fair value through profit or loss	-	54	-	**54**

31 Dec 2019	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Financial assets at fair value through other comprehensive income	270,738	19,691	61	**290,490**
Financial assets at fair value through profit or loss	9,025	538	592	**10,155**
Financial liabilities				
Financial assets at fair value through profit or loss	-	94	-	**94**

The Bank

31 Dec 2020	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Financial assets at fair value through other comprehensive income	317,045	27,291	160	**344,496**
Financial assets at fair value through profit or loss	14,997	697	447	**16,141**
Financial liabilities				
Financial assets at fair value through profit or loss	-	54	-	**54**

31 Dec 2019	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Financial assets at fair value through other comprehensive income	270,738	19,691	61	**290,490**
Financial assets at fair value through profit or loss	9,025	538	486	**10,049**
Financial liabilities				
Financial assets at fair value through profit or loss	-	94	-	**94**

40 Fair value of financial assets, continued

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

Type	Valuation technique
Financial assets and liabilities at fair value through profit or loss	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.
Financial assets at fair value through other comprehensive income	Equity instruments - the fair values are based on spread size, market capitalization, position size in relation to daily trading volume. Bonds – size of spread, size of emission, credit quality, the presence of an active market, the weighted average market price based on quotations in the Bloomberg terminal.

Financial assets not measured at fair value

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

The Group

31 December 2020	Level 1 ’000 EUR	Level 2 ’000 EUR	Level 3 ’000 EUR	Total fair values ’000 EUR	Total carrying amount ‘000 EUR
Financial assets					
Deposits and balances due from banks	-	-	261,362	261,362	261,362
Loans and receivables due from customers	-	-	77,240	77,240	77,240
Debt securities at amortised cost	60,422	-	-	60,422	64,291
Other financial assets	-	-	8,280	8,280	8,280
Financial liabilities					
Deposits and balances due to banks	-	-	4,482	4,482	4,482
Deposits and balances due to customers	-	-	1,072,456	1,072,456	1,072,456
Issued debt securities	-	-	613	613	613
Other financial liabilities	-	-	12,514	12,514	12,514

31 December 2019	Level 1 ’000 EUR	Level 2 ’000 EUR	Level 3 ’000 EUR	Total fair values ’000 EUR	Total carrying amount ‘000 EUR
Financial assets					
Deposits and balances due from banks	-	-	81,493	81,493	81,493
Loans and receivables due from customers	-	-	585,291	585,291	585,291
Debt securities at amortised cost	60,400	-	-	60,400	60,536
Other financial assets	-	-	27,286	27,286	27,286
Financial liabilities					
Deposits and balances due to banks	-	-	2,920	2,920	2,920
Deposits and balances due to customers	-	-	1,319,833	1,319,833	1,319,833
Issued debt securities	-	-	712	712	712
Other financial liabilities	-	-	7,500	7,500	7,500

40 Fair value of financial assets, continued

The Bank

31 December 2020	**Level 1 ’000 EUR**	**Level 2 ’000 EUR**	**Level 3 ’000 EUR**	**Total fair values ’000 EUR**	**Total carrying amount ‘000 EUR**
Financial assets					
Deposits and balances due from banks	-	-	76,818	76,818	76,818
Loans and receivables due from customers	-	-	606,346	606,346	606,346
Debt securities at amortised cost	-	-	-	-	64,291
Other financial assets	-	-	6,471	6,471	6,471
Financial liabilities					
Deposits and balances due to banks	-	-	4,465	4,465	4,465
Deposits and balances due to customers	-	-	1,082,424	1,082,424	1,082,424
Other financial liabilities	-	-	28,507	28,507	28,507

31 December 2019	**Level 1 ’000 EUR**	**Level 2 ’000 EUR**	**Level 3 ’000 EUR**	**Total fair values ’000 EUR**	**Total carrying amount ‘000 EUR**
Financial assets					
Deposits and balances due from banks	-	-	80,911	80,911	80,911
Loans and receivables due from customers	-	-	638,523	638,523	638,523
Debt securities at amortised cost	60,400	-	-	60,400	60,536
Other financial assets	-	-	27,219	27,219	27,219
Financial liabilities					
Deposits and balances due to banks	-	-	2,920	2,920	2,920
Deposits and balances due to customers	-	-	1,332,529	1,332,529	1,332,529
Other financial liabilities	-	-	35,634	35,634	35,634

The fair value of financial assets and liabilities measured at amortized cost, except for debt securities measured at amortised cost, is measured using discounted cash flows. Discounting rate is derived from market interest rate adjusted for risk related to individual instruments. Fair value of debt securities at amortized cost is measured based on individual market price.

41 Currency analysis

The following table shows the currency structure of financial assets and liabilities of the Group as at 31 December 2020:

The Group

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances with Bank of Latvia	260,974	288	100	**261,362**
Financial assets at fair value through profit or loss	1,239	14,919	92	**16,250**
Deposits and balances due from banks	10,385	52,757	14,098	**77,240**
Loans and receivables due from customers	484, 232	74,920	934	**560,086**
Financial assets at fair value through other comprehensive income	224,014	120,351	131	**344,496**
Debt securities at amortised cost	61,113	3,178	-	**64,291**
Other financial assets	4,288	2,376	1,616	**8,280**
Total financial assets	**1,046,245**	**268,789**	**16,971**	**1,332,005**
Financial liabilities				
Financial instruments at fair value through profit or loss	54	-	-	**54**
Deposits and balances due to banks	1,267	3,008	207	**4,482**
Current accounts and deposits due to customers	875,203	173,912	23,341	**1,072,456**
Issued debt securities	-	613	-	**613**
Other financial liabilities	11,954	-	560	**12,514**
Total financial liabilities	**888,478**	**177,533**	**24,108**	**1,090,119**
Net position as of 31 December 2020	**157,767**	**91,256**	**(7,137)**	
Net off balance sheet position as of 31 December 2020	**55,070**	**(63,550)**	**8,480**	
Net total positions as of 31 December 2020	**212,837**	**27,706**	**1,343**	
Net total positions as of 31 December 2019	**222,603**	**5,995**	**(1,317)**	

41 Currency analysis, continued

The following table shows the currency structure of financial assets and liabilities of the Group as at 31 December 2019:

The Group

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances with Bank of Latvia	502,569	180	340	**503,089**
Financial assets at fair value through profit or loss	1,048	8,948	159	**10,155**
Deposits and balances due from banks	2,504	58,529	20,460	**81,493**
Loans and receivables due from customers	485,906	98,164	1,221	**585,291**
Financial assets at fair value through other comprehensive income	218,690	71,800	-	**290,490**
Debt securities at amortised cost	60,536	-	-	**60,536**
Other financial assets	2,256	20,482	4,548	**27,286**
Total financial assets	**1,273,509**	**258,103**	**26,728**	**1,558,340**
Financial liabilities				
Financial instruments at fair value through profit or loss	94	-	-	94
Deposits and balances due to banks	1,120	1,574	226	**2,920**
Current accounts and deposits due to customers	1,097,940	186,984	34,909	**1,319,833**
Issued debt securities	-	-	712	**712**
Other financial liabilities	6,822	-	678	**7,500**
Total financial liabilities	**1,105,976**	**188,558**	**36,525**	**1,331,059**
Net position as of 31 December 2019	**167,533**	**69,545**	**(9,797)**	
Net off balance sheet position as of 31 December 2019	**55,070**	**(63,550)**	**8,480**	
Net total positions as of 31 December 2019	**222,603**	**5,995**	**(1,317)**	
Net total positions as of 31 December 2018	**300,823**	**30,142**	**30,463**	

41 Currency analysis, continued

The following table shows the currency structure of financial assets and liabilities of the Bank as at 31 December 2020:

The Bank

	EUR ’000 EUR	USD ’000 EUR	Other currencies ’000 EUR	Total ’000 EUR
Financial assets				
Cash and balances with Bank of Latvia	260,952	288	100	**261,340**
Financial assets at fair value through profit or loss	1,131	14,918	92	**16,141**
Deposits and balances due from banks	9,980	52,750	14,088	**76,818**
Loans and receivables due from customers	534,062	70,815	1,469	**606,346**
Financial assets at fair value through other comprehensive income	224,014	120,351	131	**344,496**
Debt securities at amortised cost	61,113	3,178	-	**64,291**
Other financial assets	2,479	2,376	1,616	**6,471**
Total financial assets	**1,093,731**	**264,676**	**17,496**	**1,375,903**
Financial liabilities				
Financial instruments at fair value through profit or loss	54	-	-	**54**
Deposits and balances due to banks	1,267	3,008	190	**4,465**
Current accounts and deposits due to customers	882,670	176,404	23,350	**1,082,424**
Other financial liabilities	28,108	-	399	**28,507**
Total financial liabilities	**912,099**	**179,412**	**23,939**	**1,115,450**
Net position as of 31 December 2020	**181,632**	**85,264**	**(6,443)**	
Net off balance sheet position as of 31 December 2020	**72,560**	**(77,823)**	**5,888**	
Net total positions as of 31 December 2020	**254,192**	**7,441**	**(555)**	
Net total positions as of 31 December 2019	**238,932**	**815**	**(124)**	

41 Currency analysis, continued

The following table shows the currency structure of financial assets and liabilities of the Bank as at 31 December 2019:

The Bank

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances with Bank of Latvia	502,552	180	340	**503,072**
Financial assets at fair value through profit or loss	942	8,948	159	**10,049**
Deposits and balances due from banks	2,121	58,517	20,273	**80,911**
Loans and receivables due from customers	540,856	95,750	1,917	**638,523**
Financial assets at fair value through other comprehensive income	218,690	71,800	-	**290,490**
Debt securities at amortised cost	60,536	-	-	**60,536**
Other financial assets	2,197	20,474	4,548	**27,219**
Total financial assets	**1,327,894**	**255,669**	**27,237**	**1,610,800**
Financial liabilities				
Financial instruments at fair value through profit or loss	94	-	-	**94**
Deposits and balances due to banks	1,120	1,574	226	**2,920**
Current accounts and deposits due to customers	1,107,862	189,730	34,937	**1,332,529**
Other financial liabilities	34,956	-	678	**35,634**
Total financial liabilities	**1,144,032**	**191,304**	**35,841**	**1,371,177**
Net position as of 31 December 2019	**183,862**	**64,365**	**(8,604)**	
Net off balance sheet position as of 31 December 2019	**55,070**	**(63,550)**	**8,480**	
Net total positions as of 31 December 2019	**238,932**	**815**	**(124)**	
Net total positions as of 31 December 2018	**392,805**	**37,625**	**(6,089)**	

42 Interest rate risk analysis

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as at 31 December 2020, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years '000 EUR	Non-interest bearing '000 EUR	Total '000 EUR
Financial assets							
Cash and balances with Bank of Latvia	260,511	-	-	-	-	851	**261,362**
Financial assets at fair value through profit or loss	-	-	-	-	-	16,250	**16,250**
Deposits and balances due from banks	43,859	-	-	-	-	33,381	**77,240**
Loans and receivables due from customers	100,990	175,145	36,542	144,237	37,516	65,656	**560,086**
Financial assets at fair value through other comprehensive income	9,189	35,452	56,273	241,192	2,260	130	**344,496**
Debt securities at amortised cost	3,562	40,207	8,153	12,369	-	-	**64,291**
Total financial assets	**418,111**	**250,804**	**100,968**	**397,798**	**39,776**	**116,268**	**1,323,725**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	54	**54**
Deposits and balances due to banks	-	-	-	-	-	4,482	**4,482**
Current accounts and deposits due to customers	325,273	43,775	214,340	243,798	9,546	235,724	**1,072,456**
Issued debt securities	-	-	613	-	-	-	**613**
Total financial liabilities	**325,273**	**43,775**	**214,953**	**243,798**	**9,546**	**240,260**	**1,077,605**
Net position as at 31 December 2020	**92,838**	**207,029**	**(113,985)**	**154,000**	**30,230**	**(123,992)**	
Net position as at 31 December 2019	**554,634**	**125,935**	**(172,591)**	**(148,412)**	**(2,622)**	**(149,449)**	

42 Interest rate risk analysis, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as at 31 December 2019, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years '000 EUR	Non-interest bearing '000 EUR	Total '000 EUR
Financial assets							
Cash and balances with Bank of Latvia	501,570	-	-	-	-	1,519	**503,089**
Financial assets at fair value through profit or loss	-	-	-	-	-	10,155	**10,155**
Deposits and balances due from banks	429	-	-	-	-	81,064	**81,493**
Loans and receivables due from customers	105,427	149,984	22,935	236,795	8,953	61,197	**585,291**
Financial assets at fair value through other comprehensive income	290,490	-	-	-	-	-	**290,490**
Debt securities at amortised cost	706	38,276	7,845	13,709	-	-	**60,536**
Total financial assets	**898,622**	**188,260**	**30,780**	**250,504**	**8,953**	**153,935**	**1,531,054**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	94	**94**
Deposits and balances due to banks	-	-	-	-	-	2,920	**2,920**
Current accounts and deposits due to customers	343,988	62,325	203,371	398,204	11,575	300,370	**1,319,833**
Issued debt securities	-	-	-	712	-	-	**712**
Total financial liabilities	**343,988**	**62,325**	**203,371**	**398,916**	**11,575**	**303,384**	**1,323,559**
Net position as at 31 December 2019	**554,634**	**125,935**	**(172,591)**	**(148,412)**	**(2,622)**	**(149,449)**	
Net position as at 31 December 2018	**68,824**	**169,254**	**(77,436)**	**(127,904)**	**(1,215)**	**329,905**	

42 Interest rate risk analysis, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as at 31 December 2020, based on the earlier of contractual interest rate repricing or maturity:

Financial assets	Less than 1 month ’000 EUR	1 to 3 months ’000 EUR	3 months to 1 year ’000 EUR	1 to 5 years ’000 EUR	More than 5 years ’000 EUR	Non-interest bearing ’000 EUR	Total ’000 EUR
Cash and balances with Bank of Latvia	260,511	-	-	-	-	829	**261,340**
Financial assets at fair value through profit or loss	-	-	-	-	-	16,141	**16,141**
Deposits and balances due from banks	43,859	-	-	-	-	32,959	**76,818**
Loans and receivables due from customers	104,834	245,661	25,181	132,341	25,587	72,742	**606,346**
Financial assets at fair value through other comprehensive income	9,189	35,452	56,273	241,192	2,260	130	**344,496**
Debt securities at amortised cost	3,562	40,207	8,153	12,369	-	-	**64,291**
Total financial assets	**421,955**	**321,320**	**89,607**	**385,902**	**27,847**	**122,801**	**1,369,432**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	54	**54**
Deposits and balances due to banks	-	-	-	-	-	4,465	**4,465**
Current accounts and deposits due to customers	329,399	44,320	212,895	249,732	9,546	236,532	**1,082,424**
Total financial liabilities	**329,399**	**44,320**	**212,895**	**249,732**	**9,546**	**241,051**	**1,086,943**
Net position as at 31 December 2020	**92,556**	**277,000**	**(123,288)**	**136,170**	**18,301**	**(118,250)**	
Net position as at 31 December 2019	**560,620**	**194,407**	**(176,278)**	**(174,254)**	**(11,575)**	**(144,882)**	

42 Interest rate risk analysis, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as at 31 December 2019, based on the earlier of contractual interest rate repricing or maturity:

Financial assets	**Less than 1 month ’000 EUR**	**1 to 3 months ’000 EUR**	**3 months to 1 year ’000 EUR**	**1 to 5 years ’000 EUR**	**More than 5 years ’000 EUR**	**Non-interest bearing ’000 EUR**	**Total ’000 EUR**
Cash and balances with Bank of Latvia	501,570	-	-	-	-	1,502	**503,072**
Financial assets at fair value through profit or loss	-	-	-	-	-	10,049	**10,049**
Deposits and balances due from banks	429	-	-	-	-	80,482	**80,911**
Loans and receivables due from customers	116,758	219,501	20,686	214,368	-	67,210	**638,523**
Financial assets at fair value through other comprehensive income	290,490	-	-	-	-	-	**290,490**
Debt securities at amortised cost	706	38,276	7,845	13,709	-	-	**60,536**
Total financial assets	**909,953**	**257,777**	**28,531**	**228,077**	**-**	**159,243**	**1,583,581**
Financial liabilities							
Financial instruments at fair value through profit or loss	-	-	-	-	-	94	**94**
Deposits and balances due to banks	-	-	-	-	-	2,920	**2,920**
Current accounts and deposits due to customers	349,333	63,370	204,809	402,331	11,575	301,111	**1,332,529**
Total financial liabilities	**349,333**	**63,370**	**204,809**	**402,331**	**11,575**	**304,125**	**1,335,543**
Net position as at 31 December 2019	**560,620**	**194,407**	**(176,278)**	**(174,254)**	**(11,575)**	**(144,882)**	
Net position as at 31 December 2018	**68,994**	**240,520**	**(67,662)**	**(130,556)**	**(6,730)**	**319,775**	

43 Interest in other entities

Non-controlling interest in subsidiaries

The following table summarises the information relating to the Group`s subsidiaries that have material non-controlling interests (NCI), before any intra-group elimination:

`000 EUR	SIA “InCREDIT GROUP” 31 Dec 2020	Other subsidiaries 31 Dec 2020	SIA “InCREDIT GROUP” 31 Dec 2019	Other subsidiaries 31 Dec 2019
Percentage of Non-controlling interest	**49%**		**49%**	
Loans and advances due from customers	50,861		53,109	
Deposits and balances due from banks	353		155	
Other assets	836		651	
Deposits and balances due to financial institutions	(37,371)		(39,084)	
Current accounts and deposits due to customers	(2,300)		(2,300)	
Other liabilities	(4,768)		(4,680)	
Net assets	**7,611**		**7,851**	
Carrying amount of Non-controlling interest	**3,729**	**-**	**3,847**	**291**
Revenue	10,724		12,769	
Profit after tax	2,758		3,731	
Total comprehensive income	**2,758**		**3,731**	
Profit/(loss) allocated to Non-controlling interest	**1,351**	**8**	**1,828**	**47**

44 Disposal of subsidiaries

The disposal of the subsidiaries in 2020 had the following effect on the Group`s assets and liabilities at the date of disposal:

`000 EUR	**SIA "U-10"**
Disposed shares %	**67%**
Assets	
Deposits and balances due from banks	69
Investment property	9,215
Other assets	9
Liabilities	
Deposits and balances due to financial institutions	(7,857)
Current accounts and deposits due to customers	(400)
Other liabilities	(133)
Net identifiable assets and liabilities	**903**
Attributable to equity holders of the Bank	**605**
Consideration received	**-**

In November 2020 the Group has lost control over investee SIA "U-10". Starting from November 2020 the Group has no power over the investee and has no ability to use its power over the investee to affect the amount of the investor's returns as the Group is not involved in the operation and financial decision making process of investee.

44 Disposal of subsidiaries, continued

The disposal of the subsidiaries in 2019 had the following effect on the Group`s assets and liabilities at the date of disposal:

`000 EUR	SIA "FRB Elektro"	SIA "KINI LAND"	SIA "Berzaunes 13"	Total
Disposed shares %	**85%**	**100%**	**100%**	
Assets				
Cash and due from central banks	24	-	-	**24**
Deposits and balances due from banks	47	23	8	**78**
Investment property	-	1,567	550	**2,117**
Property and equipment	1,695	-	2	**1,697**
Intangible assets	340	-	-	**340**
Other assets	158	2	-	**160**
Current tax asset	33	4	-	**37**
Liabilities				
Deposits and balances due to financial institutions	(3,205)	-	(426)	**(3,631)**
Current accounts and deposits due to customers	(139)	-	-	**(139)**
Other liabilities	(360)	(2)	(6)	**(368)**
Net identifiable assets and liabilities	**(1,407)**	**1,594**	**128**	**315**
Attributable to equity holders of the Bank	**(1,196)**	**1,594**	**128**	**526**
Consideration received	**3**	**2,941**	**117**	**3,061**

45 Acquisition of subsidiaries

In 2020 the Group acquired the following subsidiaries:

	SIA "COCHERA DEVELOPMENT GROUP"
Date of acquisition	01.10.2020
Acquired shares %	100%

45 Acquisition of subsidiaries, continued

The acquisition of the subsidiaries had the following effect on the Group`s assets and liabilities at the date acquisition:

‘000 EUR	**SIA “COCHERA DEVELOPMENT GROUP”**
Assets	
Deposits and balances due from banks	2
Investment property	58
Other assets	1
Current accounts and deposits due to customers	(45)
Other liabilities	(2)
Net identifiable assets and liabilities	**14**
Net identifiable assets and liabilities attributable to equity holders of the bank	**14**
Consideration paid	**14**

In 2019 the Group acquired the following subsidiaries:

	SIA “PH Serviss”
Date of acquisition	31.01.2019
Acquired shares %	100%

The acquisition of the subsidiaries had the following effect on the Group`s assets and liabilities at the date acquisition:

‘000 EUR	**SIA “PH Serviss”**
Assets	
Deposits and balances due from banks	98
Investment property	1,321
Other assets	5
Deferred tax asset	85
Current accounts and deposits due to customers	(1,340)
Other liabilities	(13)
Net identifiable assets and liabilities	**156**
Net identifiable assets and liabilities attributable to equity holders of the bank	**156**
Negative goodwill	**156**
Consideration paid	**-**