AS Citadele banka

ANNUAL REPORT

For the year ended
31 December 2021

Key figures and events of the Group

Strong financial performance with net profit reaching EUR 55.0 million in 2021 and 14.8% return on equity. Net profit in Q4 2021 was EUR 10.3 million.

The number of active customers continued to grow and reached an all-time high of 361 thousand clients as of 31 December 2021, 11% growth y-o-y.

In 2021 EUR 1.1 billion in new financing was issued to private, SME, corporate and leasing customers, 2.3 times higher than 2020. New financing in Q4 reached EUR 293 million, 9% growth q-o-q.

Baltic deposits continued to increase by EUR 363 million in 2021, or 11% growth vs. year-end 2020.

The Bank continues to operate on the back of prudent capital and liquidity ratios. Group's CAR (including period's result) was 18.8% and LCR of 207% as of 31 December 2021.

Citadele has completed the issuance of EUR 200 million of senior unsecured preferred bonds in November 2021, rated Baa3 by Moody's. The purpose of the issuance is to meet Minimum Requirement for own funds and Eligible Liabilities (MREL).

EUR 40 million bonds were issued under the Fourth Unsecured Subordinated Bonds Programme and listed on the Baltic Bond List of Nasdaq Riga in December 2021.

Citadele Banka's credit rating upgraded to Baa2 with stable outlook by Moody's.

Citadele has entered into a binding agreement with Trusted Novus Bank Limited regarding the sale of its Swiss subsidiary - Kaleido Privatbank AG. The closing of the acquisition is expected by year end 2022, subject to regulatory approvals.

EUR millions	**2021**	**2020**	**2019**
Net interest income	108.1	67.5	84.6
Net fee and commission income	36.5	30.2	30.9
Net financial and other income	9.2	(3.1)	8.4
Operating income	**153.7**	**94.7**	**123.9**
Operating expense	(95.0)	(80.0)	(82.8)
Net credit losses and impairments	(1.8)	(10.5)	(3.7)
Net profit	**55.0**	**3.6**	**36.5**
Return on average assets (ROA)	1.14%	0.09%	1.07%
Return on average equity (ROE)	14.8%	1.05%	11.5%
Cost to income ratio (CIR)	61.8%	84.5%	66.8%
Cost of risk ratio (COR)	0.1%	0.6%	0.2%
*Adjusted for one-time items *:*			
Operating income	153.7	106.0	123.9
Net profit	55.0	14.9	36.5
Return on average assets (ROA)	1.14%	0.36%	1.07%
Return on average equity (ROE)	14.8%	4.4%	11.5%
Cost to income ratio (CIR)	61.8%	75.5%	66.8%

EUR millions	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2019**
Total assets	5,055	4,597	3,743
Loans to public	2,702	1,541	1,568
Deposits from customers	3,814	3,671	3,290
Shareholders' equity	397	344	341
Loan-to-deposit ratio	71%	42%	48%
Total capital adequacy ratio (CAR), transitional (including period's result)	18.8%	26.0%	22.2%
Common equity Tier 1 (CET1) capital ratio, transitional (including period's result)	16.3%	22.1%	18.8%
Full time employees	1,335	1,230	1,369

** 2020 is adjusted for one-time losses related to the tail risk defensive measures in the amount of EUR (28.8) million, included in "Net financial and other income" and one-time gain of EUR 17.5 million from leaseback sale of headquarters building in Latvia and sale of building in Lithuania.*

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Rounding and Percentages

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

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

The geo-political situation today has dramatically changed since we ended 2021 and today our thoughts are with the citizens of Ukraine. In the Baltic's we feel an emotional impact and we are closely following the developments and are taking action to the best of our abilities to care for our employees and our customers. Our 2021 results are important, and we are proud to deliver on many dimensions but in the light of the recent events we are humble.

Johan Åkerblom
CEO and Chairman of the Management Board

Russia's invasion into Ukraine significantly changes world's political and economic situation

Economic recovery in the Baltics in 2021 has been faster than anticipated and less than two years after beginning start of the Covid-19 pandemic, GDP in the Baltic countries has already exceeded pre-pandemic levels. Growth in the global economy also remains strong, but inflation in the Baltics has risen sharply in 2021 and is the highest in the EU. Rising prices will impact consumption, but situation in labour market is good, wages continue to increase, and unemployment is declining. Inflation is notable challenge in the global economy, Covid-19 pandemic is not yet over, and high energy costs are risk to economic growth in the Baltic region.

Russia's invasion into Ukraine has significantly changed the political and economic situation in the world, and it will certainly affect the economies of the Baltic States. Sanctions and trade restrictions against Russia, as well as Belarus, will affect Baltic exporters, while higher energy prices will reduce the purchasing power of the households. Consumer and investor sentiment could also become more cautious, while rising prices for metals, food and other natural resources is also a risk to the global economy. However, exact impact of the Russian invasion of Ukraine on the Baltic economies is currently difficult to assess, as the situation is changing and will depend on the further development of the conflict.

Innovations and development

On the back of the digital strategy of Citadele, the Covid-19 situation pushed us to accelerate digital solutions to secure our clients access to remote financial services. We managed to launch digital on-boarding for SMEs in Latvia, Citadele Business Portal, convenient and easy to use e-commers solutions, incl. Klix Pay later, Citadele Phone POS, Citadele Robo-Assistant, broad Mobile App functionality and wide range of contactless payments, incl. Google Pay, Fitbit Pay and Garmin Pay. All these solutions were welcomed by our customers and helped them to get more proficient financial services remotely and to adjust their businesses to the new environment.

Bank with one of the best customer service in the Baltics

Our commitment of providing the best customer service enabled Citadele to maintain the top position among banks in the Baltics, according to the annual mystery shopper survey conducted by international customer service evaluation company DIVE. Citadele was announced as the bank with the best customer service in Latvia for the seventh time and having the third best result in Lithuania and Estonia.

Growing client base

We are proud for steadily growing number of active customers – reaching 361 thousand clients as of 31 December 2021, 11% growth year over year. The number of active Mobile App users reached 207 thousand, a 41% increase y-o-y.

EUR 1.1 billion issued in new financing to Baltic private, SME, corporate and leasing customers

We have continued to support the business community with financing for growth and expansion.

New financing to our customers reached a record high of EUR 1.1 billion in 12 months 2021, 2.3 times higher than in 2020. EUR 293 million were issued in Q4 2021, 9% growth q-o-q.

As part of our business focus, we have been supporting a number of larger deals such as EUR 21 million to Domina Shopping and EUR 11 million to VMG Group, and serving local transactions, for example in Latvia – Ape Motors, Eften Domina, Daugavpils Autobusu parks, Samariešu biedrība, Pharmidea, Agrocredit, Mārupes siltumnīcas and in Lithuania – Viciunai Group, VPH, Elmoris, Modus Asset Management, and Estonia – Lumi Retail Property..

Sharing the view that climate change is becoming a key priority for a wide range of industries, including financial institutions, the Bank has started a solar panels consumer lending pilot in Lithuania in 2021, helping the society to access sustainable assets for a more attractive price. Citadele will continue to develop new offers supporting the green transition and is committed to issue significant support to green projects during coming years.

The total loan book as of 31 December 2021 was EUR 2,702 million, 75% higher vs. year-end 2020. Portfolio growth was impacted by acquisition of the SIA UniCredit Leasing (rebranded to SIA Citadele Leasing) at the beginning of 2021.

Overall, the financial standing of our clients is reassuring, and portfolio quality continued to improve and the NPL ratio stood at 3.3% as of 31 December 2021, vs. 3.5% at the end of 2020.

Strong financial results

Strong financial performance with net profit reaching EUR 55.0 million in 2021, which translated into 14.8%

return on equity. Net profit in Q4 was EUR 10.3 million.

Citadele continues to operate with adequate capital and liquidity ratios: CAR (including period's result) of 18.8% and LCR of 207% as of 31 December 2021.

Customer deposits reached EUR 3,814 million as of 31 December 2021, increase of 4% compared to the end of 2020.

Loan-to-deposit ratio was 71% as of 31 December 2021, compared to 42% as of year-end 2020.

Citadele's credit rating upgraded to Baa2 by Moody's

In September 2021, the international credit rating agency Moody's upgraded Citadele's credit rating to Baa2 with stable outlook. Upon upgrade of the credit rating, Moody's has taken into consideration the continued improvement in Citadele's solvency position, with the bank significantly reducing the proportion of non-performing loans, supported by strengthened capital generation, following the acquisition of SIA UniCredit Leasing (rebranded to SIA Citadele Leasing), and an improvement in the bank's operating environment.

Citadele raises funds in the international and local financial markets

At the end of November 2021 Citadele completed issuance of EUR 200 million of senior unsecured preferred bonds, rated Baa3 by Moody's. The purpose of the issuance is to meet Minimum Requirement for own funds and Eligible Liabilities (MREL).

In December Citadele completed an oversubscribed issuance of EUR 40 million bonds under the Fourth Unsecured Subordinated Bonds Programme. The bonds were issued with 10Y maturity, with issuer's optional redemption date after five years and with fixed interest rate of 5% per annum. The bonds are listed on the Baltic Bond List of Nasdaq Riga.

These deals are a testimony of our improved business quality which facilitates placement capabilities both in and outside the Baltic market.

European Central Bank direct supervision

The European Central Bank announced it has classified Citadele as a significant credit institution, commencing its direct supervision as of 1 January 2021. The Financial and Capital Market Commission continues to participate in the supervision of the Bank and cooperate with the ECB within Joint Supervision Team. The Asset Quality Review is scheduled to take place in the period from May 2022 to January 2023.

Post reporting period events

Citadele has agreed to sell its Swiss subsidiary

AS Citadele banka has entered into a binding agreement with Trusted Novus Bank Limited regarding the sale of its Swiss subsidiary - Kaleido Privatbank AG. Trusted Novus Bank Limited will acquire 100% of Kaleido Privatbank AG. The closing of the acquisition is expected by year end 2022, subject to regulatory approvals. The sale of Kaleido is a further step focusing on Citadele's core activities in the Baltics to support the local economies.

Recent events in Ukraine and Russian sanctions

Management is closely monitoring fast-changing and uncertain situation in Ukraine. A crisis group has been set up within Citadele. All new laws, policies and sanctions, including sanctions imposed on Russia, are diligently implemented. Consistently with long standing Citadele's objective to become the leading financial services provider in the Baltics, internal risk exposure limits with Russia, other CIS countries and Ukraine are limited. Therefore, as of signing these financial statements, the Bank and the Group has not experienced any material impact from the recent events in Ukraine or from Russian sanctions. The indirect impact from these events is monitored, as Citadele's clients and global markets adjust to the new economic realities.

Financial review of the Group

Results and profitability in 2021

Net interest income reached EUR 108.1 million in 2021, a 60% increase as compared to the respective period last year, primarily driven by higher interest income from SIA Citadele Leasing book and lower interest expenses resulting from optimised cash balances. Net interest income in Q4 2021 reached EUR 27.2 million, a 2% decrease q-o-q.

The Group’s **net fee and commission income** in 2021 reached EUR 36.5 million, which translates into a 21% increase vs. year 2020, mainly due to recovered customer confidence and interest in savings products. Net fee and commission income in Q4 2021 was EUR 9.6 million (-3% q-o-q).

Operating income in 2021 reached EUR 153.7 million, of which EUR 37.0 million relates to the fourth quarter (-7% q-o-q).

Operating expenses in 2021 increased to EUR 95.0 million, or 19% increase compared to 2020 reflecting the SIA UniCredit Leasing acquisition. Staff costs increased by 20% to EUR 61.1 million. The number of full-time employees was 1,335 vs. 1,230 as of 31 December 2020. Other costs were EUR 25.2 million (19% increase y-o-y). Depreciation and amortization expenses stood at EUR 8.8 million.

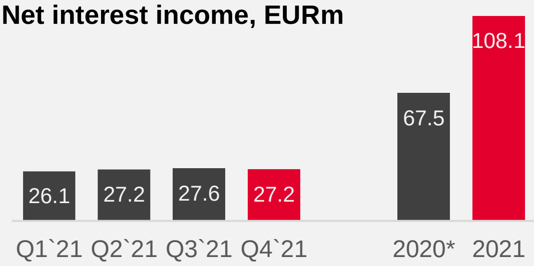
Citadele’s **cost to income ratio** in 12 months 2021 improved to 61.8% versus 75.5% in 2020.

The overall **credit quality** of the loan book continued to improve, with no major individual impairments during the period with **net credit losses** of EUR (1.8) million in 12 months 2021.

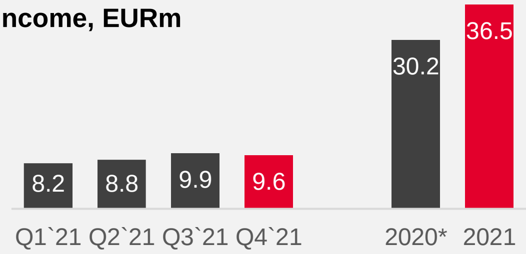
Stage 3 loans to public, gross ratio has decreased to 3.3% as of 31 December 2021, compared to 3.5% at the end of 2020, benefiting from improvement of asset quality within the leasing portfolio, allocation of gains arising from asset purchase accounting and recoveries from several legacy cases.

The Group’s securities portfolio had stable performance over 2021. The main factor driving returns of the portfolio remained the low yield environment in EUR currency that limits the overall profitability of securities investments. While rising yields in major currencies have had negative impact on the portfolio revaluation in 2021, majority of impact was mitigated by the low average duration of the portfolio and amortized cost treatment being applied to 86% of bond holdings.

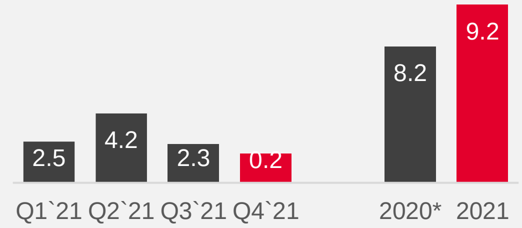
Net interest income, EURm



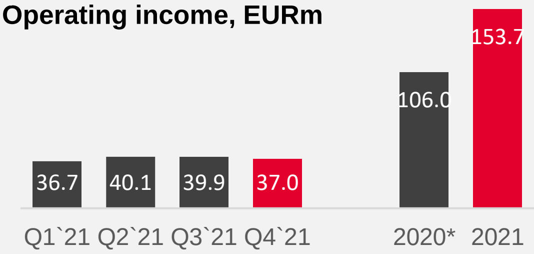
Net fee and commission income, EURm



Net Financial & other income, EURm

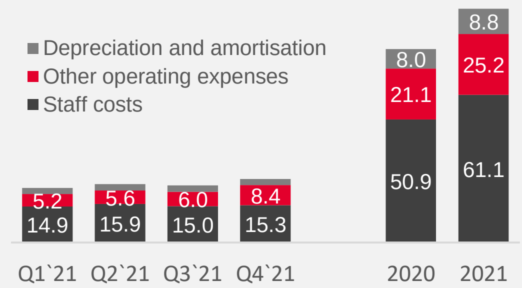


Operating income, EURm



**adjusted for one-time losses related to the tail risk defensive measures in the amount of EUR (28.6) million and one-time gain of EUR 17.5 million from leaseback sale of headquarters buildings in Latvia and Lithuania.*

Operating expense, EURm



Balance sheet overview

The **Group's assets** stood at EUR 5,055 million as of 31 December 2021 representing a 10% increase from year end 2020 (EUR 4,597 million).

The **net loan portfolio** was EUR 2,702 million as of 31 December 2021, increasing by EUR 1,160 million (75%) from year end 2020, mainly impacted by SIA UniCredit Leasing portfolio acquired at the beginning of year.

Strong growth also seen in **new financing** in 2021 reaching EUR 1.1 billion million, 2.3 times higher than in the same period in 2020. EUR 312 million were issued to retail customers, EUR 382 million to corporate customers and EUR 421 million to SIA Citadele Leasing clients. New financing in Q4 reached EUR 293 million, 9% growth q-o-q.

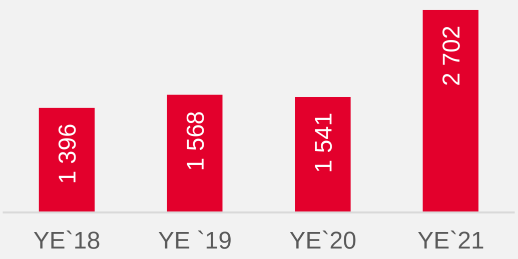
In terms of loan **portfolio's geographical profile**, Latvia accounted for 48% of the portfolio, with EUR 1,299 million (vs. 57% as of year-end 2020), followed by Lithuania at 37% with EUR 1,001 million (vs. 32% as of year-end 2020) and Estonia at 14% with EUR 380 million (vs. 10% as of year-end 2020). EUR 21 million (1% of the portfolio) was issued to other EU and other countries.

Loans to Households represented 45% of the portfolio (vs. 46% as of year-end 2020). Mortgages have increased by 45% since year end 2020, mainly due to ABLV portfolio acquisition. Consumer lending has increased by 6%. Card lending has slightly decreased by 4% since year end 2020 impacted by increased savings by customers. Finance leases have increased seven times after the UniCredit Leasing loan book acquisition. Overall, the main industry concentrations were Real estate purchase and management (17% of gross loans), Transport and Communications (14%), Manufacturing (15%) and Trade (13%).

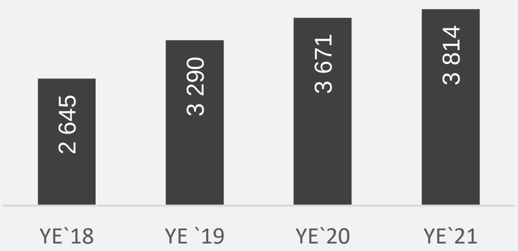
The Bank optimised cash balances post UniCredit Leasing transaction that allowed it to minimize amount of negative interest charged by the Central Bank and to keep the securities portfolio at a relatively stable level throughout the year. Portfolio size increased by 2% over 2021 that reflects the overall balance sheet growth.

The main source of funding, **customer deposits, grew** by 4% v.s. year-end 2020. Baltic domestic customer deposits increased by EUR 363 million (+11%). As of 31 December 2021, total Group customer deposits were EUR 3,814 million.

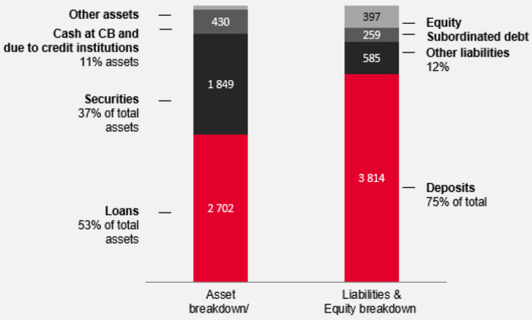
Loans, EURm



Deposits, EURm



Balance sheet structure, EURm



Ratings

International credit rating agency Moody's Investors Service has assigned Baa2 rating with stable outlook (13 September 2021).

The main credit strengths are:

- Sound funding and liquidity, underpinned by a deposit-based funding model with lower reliance on non-resident funding
- Strong capitalization and improving asset quality

Moody's	
Long term deposit	Baa2
Counterparty risk rating	Baa1/P-2
Short term deposit	P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Outlook:	Stable

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

Segment highlights

Retail segment

Private individuals and SMEs showed flexibility during Covid-19 lockdown and activity rapidly recovered as soon as measures were relieved, despite Covid-19 second wave and following lockdown measures. Increased activity was observed in most of the customer segments and products throughout the second half of the year, strengthened by launch of digital onboarding for SMEs, Merchant portal, Phone POS, onboarding of ABLV mortgage customers, insurance solution offer launch for Lithuania mortgage customers and several modern payment solutions in Baltics: Garmin Pay, Fitbit Pay, Google Pay.

To capture maximum benefit for the customers from Bank's innovative solutions and providing capital management services, private affluent segment has been integrated in Retail sector, keeping strong focus on Baltic customers. To fulfil customers' needs in growing deposits environment, Team for Retail customers have been established to consult on Savings, Investments & Insurance areas.

The number of active Retail customers reached a new all-time high level for Citadele, and primary customers continued to grow reaching 179 thousand clients as of 31 December 2021, a 21% increase y-o-y.

Citadele once again has been named as the bank with one of the best customer service in the Baltics. The Bank was ranked in the first position in Latvia for the seventh time, and the third best in Lithuania and Estonia in Dive's 2021 annual customer service evaluation survey.

New lending to Retail customers reached EUR 312 million in 2021, of which EUR 90 million were issued in Q4 2021, a 24% growth q-o-q. Private individuals were major contributors in Retail segment, with an issued amount of EUR 64 million in Q4 2021 and EUR 215 million YTD. Total loans to private individuals and SME customers reached EUR 1,097 million, a 21% increase since year end 2020 with good loan quality.

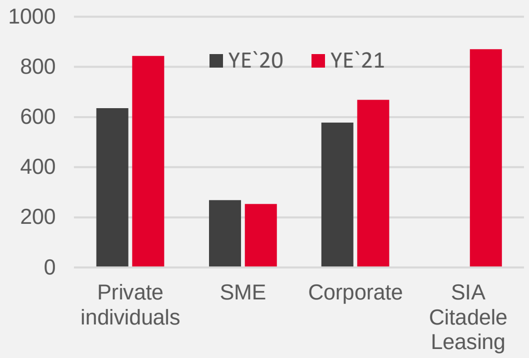
Deposits from private individuals and SMEs reached EUR 2,095 million, an 18% increase since year end 2020.

Corporate segment

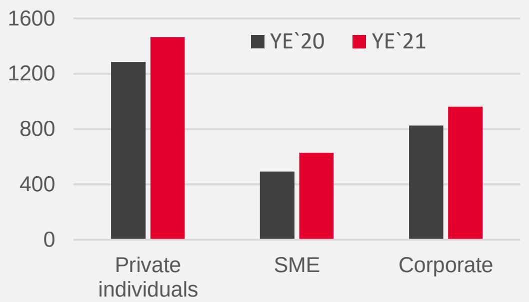
Corporate lending in 2021 was at a record high level - EUR 382 million disbursed to corporate banking clients and EUR 421 million issued to leasing clients. EUR 43 million invested in domestic market corporate bonds. Most active clients were in the real estate business, trade, manufacture and transportation. The total corporate loan portfolio grew by 16% compared to year end 2020. Credit portfolio quality stayed stable.

The deposit portfolio grew 16% vs. year-end 2020 and reached EUR 963 million as of 31 December 2021.

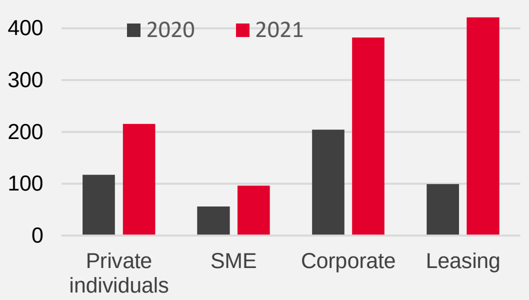
Loans, EURm



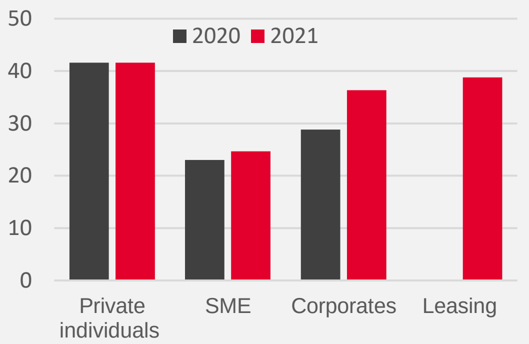
Deposits, EURm



New lending, EURm



Operating income, EURm



Business Environment

Growth in the global economy remains strong

Business sentiment in the world's leading economies is strong, world trade and new industrial orders are growing, and unemployment in the US and Europe is approaching pre-crisis levels. However, inflation has picked up faster than anticipated and the risks to the global economy have increased. Inflation, energy crisis in Europe, growth slowdown in China, geopolitical tensions and the rapid spread of the Covid-19 omicron version, are all significant risks for global economy and the Baltics.

These risks are also increasingly reflected in the lower economic growth forecasts. For example, the International Monetary Fund has cut its global economic growth forecast for 2022 from 4.9% to 4.4%.

Baltic region in 2021 grew faster than expected

Less than two years after the start of the pandemic, all three Baltic States have exceeded previous GDP levels. According to preliminary data in 2021 GDP grew by 4.7% in Latvia and by 5.1% in Lithuanian while in Estonia in the first three quarters of 2021 GDP increased by 8.3%. In fact, economic growth of the Baltic States in 2021 will be even faster than forecasted in September 2020, before the second and third waves of the pandemic, although economic recovery remains uneven.

Global demand for goods remains strong, IT, professional and business services continue to grow, and EU's economic recovery funds will start to flow into construction in 2022, and there is considerable potential for recovery in various service sectors, which are still affected by Covid-19 restrictions. These factors should continue to support economic growth in 2022.

Inflation in the Baltics at the highest level since 2008

Inflation in the Baltics has risen sharply in 2021 and is now the highest in the European Union. In Lithuania and Estonia, the rise in consumer prices has exceeded 10%, while in Latvia inflation reached 7.9% in December 2021. More than half of inflation in the Baltics is caused by rising fuel, electricity, natural gas and heat prices.

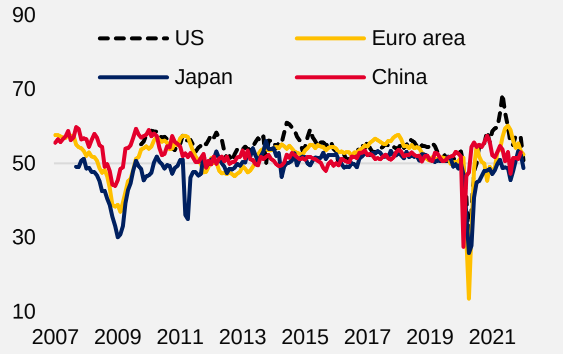
In recent month inflation has become broader and producer price inflation in the Baltics has exceeded 20%. The rise in energy prices has not yet been fully reflected in final consumer prices, and entrepreneurs have to reckon with a rapidly rising wages.

Energy crisis is a risk to economic growth

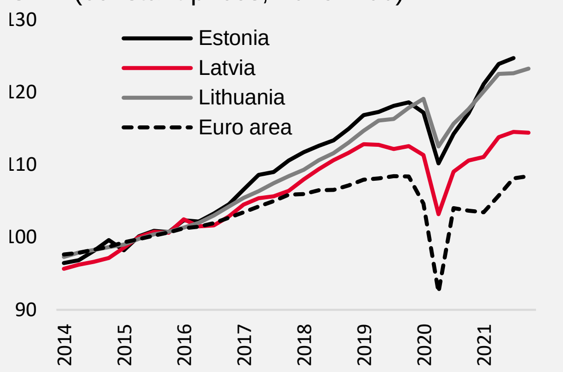
The uneven and rapid economic recovery, the strong support measures for the economy and various political as well weather factors since the summer of 2021 have led to a very sharp rise in energy prices in Europe as electricity market prices in Europe have increased 3-5 times compared to previous years.

High energy prices are significant risks to economic growth in 2022, however so far increase in electricity prices has not had a significant impact on manufacturing. Electricity consumption in the Baltics continues to grow and in 2021 manufacturing in the Baltics has grown significantly faster than the economy as a whole.

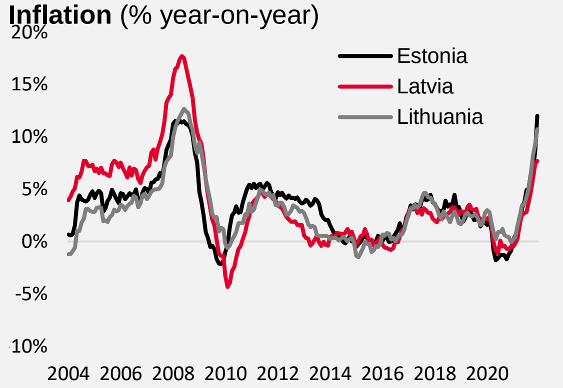
IHS Markit Composite PMI
(Values above 50 indicate expansion)



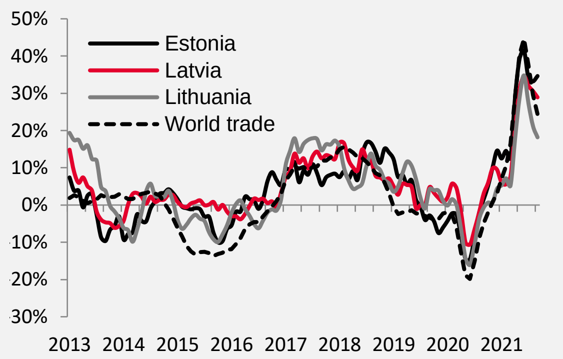
GDP (constant prices, 2015=100)



Inflation (% year-on-year)



Export of goods (% year-on-year)



OTHER REGULATORY INFORMATION

Name	AS Citadele banka
Address	Republikas laukums 2A, Riga, LV-1010, Latvia
Web page	www.citadele.lv www.cblgroup.com
Phone	(371) 67010 000
LEI code	2138009Y59EAR7H1UO97
Registration number	40103303559
Licence number	06.01.05.405/280
Licence issue date	30/06/2010
Branches	AS Citadele banka has 19 branches and client service centres in Latvia, 1 branch in Estonia and 1 branch in Lithuania as of the period end. The Lithuanian branch has 6 customer service units in Lithuania. AS Citadele banka has 4 client consultation centres in Latvia. Information about branches, client service centres and ATMs of Citadele is available in the Citadele web page's section "Branches and ATMs".
Dividends	Refer to Note 26 (*Share Capital*) of the annual report. As at issuance of the annual report the Management proposes to transfer the Bank's earnings for 2021 to the retained earnings account to strengthen the capital position.
Future development	Citadele aims to become the primary bank of choice for aspiring retail and small business customers across the Baltics and will continue to relentlessly improve products and services. Citadele will continue to provide high quality financial services to clients and their businesses with an objective to foster further growth across the whole Baltic region. A complete portfolio of banking, leasing, financial and wealth management services is to be offered for both private individuals and companies. The core market of Citadele remains unchanged: Latvia, Lithuania and Estonia.
Risk management	The main risks to which the Group is exposed are credit risk, market risk, interest rate risk, liquidity risk, currency risk and operational risk. For each of these risks the Group has approved risk management policies and other internal regulations defining key risk management principles and processes, functions and responsibilities of units, risk concentration limits, as well as control and reporting system. The Group's risk management policies for each of the above-mentioned risks and certain other risks are briefly summarised in the Note 33 (*Risk Management*) of these financial statements.
Domicile of entity	Latvia
Country of incorporation	Latvia
Legal form	Stock company (in Latvian "Akciju sabiedrība")

CORPORATE GOVERNANCE

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

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

Audit Committee's report to the shareholders

In 2021 Audit Committee of AS Citadele banka (hereinafter – the Committee) acted in the role of audit committee as required by the Financial Instruments Market Law.

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

- *Supervised the preparation of the annual report for the year ended 31 December 2021;*
- *Supervised the process of audit of the annual report for the year ended 31 December 2021;*
- *Supervised the effectiveness of internal controls, risk management and internal audit systems as applicable to the process of the preparation of financial statements;*
- *Supervised the approval of the external auditor for audit of the annual report for the year ended 31 December 2021;*
- *Supervised the compliance of the auditor of the annual report for the year ended 31 December 2021 with independence and objectivity requirements set forth in the Law of the Provision of Audit Services;*
- *Communicated to the Supervisory Board the conclusions made by the auditor of the annual report for the year ended 31 December 2021.*

In 2021 the Committee was not hindered in any way, and full access to any information required by the Committee was ensured. The Committee throughout the year kept the Management Board and the Supervisory Board informed about the conclusions and recommendations made by it. In the course of discharging its duties as related to the preparation of the annual report for the year ended 31 December 2021 the Committee did not encounter any evidence that would suggest that these financial statements would not be true and fair.

A detailed report on the activities of the Committee in 2021 has been submitted to the Supervisory Board of the Bank.

Supervisory Board of the Bank as of 31/12/2021:

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

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

Timothy Collins, Chairman of the Supervisory Board. Mr. Collins is the Chief Executive Officer of Ripplewood. Mr. Collins has led the Ripplewood team in investing around the globe, including in the U.S., Europe, the Middle East and Asia. Mr. Collins and Ripplewood have delivered outsized returns, deploying over USD 6 billion in equity, representing over USD 40 billion of total enterprise value, and played an instrumental role in transforming and strengthening two prominent institutions, Commercial International Bank of Egypt and Shinsei Bank of Japan. Before founding Ripplewood in 1995, Mr. Collins worked for Cummins Engine Company, Booz, Allen & Hamilton, Lazard Frères & Company and Onex Corporation. Mr. Collins is involved in several not-for-profit and public sector activities, including the Trilateral Commission, the Council on Foreign Relations, Neom Advisory Board and Yale Divinity School Advisory Board, is the Chairman of the Advisory Board for Yale School of Management and is a member of the Investment Advisory Committee to the New York State Common Retirement Fund. Mr. Collins has served on a number of public company boards, including Asbury Automotive, Shinsei Bank of Japan, Advanced Auto, Rental Services Corp., Commercial International Bank of Egypt, Gogo and Citigroup (after it accepted public funds). Mr. Collins also served as an independent director at Weather Holdings, a large private emerging markets telecom operator. Mr. Collins currently represents Ripplewood on the Boards of Banque Saudi Fransi (KSA), Citadele (Latvia), EFG Hermes (Egypt) and SODIC (Egypt). Mr. Collins has a BA in Philosophy from DePauw University and a MBA in Public and Private Management from Yale University's School of Management. Mr. Collins received an honorary Doctorate of Humane Letters from DePauw University in 2004 and has been an Adjunct Professor and Visiting Fellow at New York University. He serves as a Visiting Lecturer at the Yale Law School and the Senior Becton Fellow at the Yale School of Management.

Elizabeth Critchley, Deputy Chairperson of the Supervisory Board. Ms. Critchley is the Managing Partner of Ripplewood Advisors I LLP. Ms. Critchley has been leading Ripplewood's investment efforts, including most recently into Eastern Europe and the Middle East. Ms. Critchley serves as a Director on the Boards of Citadele (Latvia), Saudi Fransi Capital (Saudi Arabia), EFG Hermes (Egypt) and SODIC (Egypt). Before joining Ripplewood, Ms. Critchley was a Founding Partner of Resolution Operations, which raised GBP 660 million through a listed vehicle at the end of 2008, and went on to make three acquisitions in financial services (Friends Provident plc for USD 2.7 billion, most of Axa's UK life businesses for USD 4 billion and Bupa for USD 0.3 billion). This consolidation strategy was financed through a combination of debt and equity raisings, as well as structured vendor financing. Until forming Resolution Operations, Ms. Critchley was a Managing Director at Goldman Sachs International where she ran the European FIG Financing business. Ms. Critchley has structured, advised, or invested in transactions with more than fifty global financials and corporates. Ms. Critchley holds a First Class Honours Degree in Mathematics from University College London.

James L. Balsillie, member of the Supervisory Board. Mr. Balsillie's career is unique in Canadian business. He is the retired Chairman and co-CEO of Research In Motion (BlackBerry), a technology company, he scaled from an idea to USD 20 billion in sales globally. Mr. Balsillie's private investment office includes global and domestic technology investments such as cybersecurity leader Magnet Forensics and space technology leader MDA. He is the co-founder of the Institute for New Economic Thinking in New York, the Council of Canadian Innovators based in Toronto, and CIO Strategy Council, as well as founder of the Centre for International Governance Innovation in Waterloo, the Centre for Digital Rights, the Balsillie School of International Affairs, and the Arctic Research Foundation. He currently chairs the boards of CCI, CIGI, Innovation Asset Collective (Canada's IP Collective) and co-Chairs CIOSC. He is also a member of the Board of the Carnegie Endowment for International Peace and the Advisory Board of the Stockholm Resilience Centre; an Honorary Captain (Navy) of the Royal Canadian Navy and an Advisor to Canada School of Public Service. Mr. Balsillie was the only Canadian ever appointed to US Business Council and was the private sector representative on the UN Secretary General's High Panel for Sustainability. His awards include: several honorary degrees, Mobile World Congress Lifetime Achievement Award, India's Priyadarshni Academy Global Award, Canadian Business Hall of Fame, Time Magazine's World's 100 Most Influential People and three times Barron's list of "World's Top CEOs". Mr. Balsillie holds a Bachelor of Commerce from the University of Toronto, an MBA from Harvard Business School, and is a Fellow of the Institute of Chartered Accountants Ontario.

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

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

Klāvs Vasks, member of the Supervisory Board. Mr. Vasks served as Chairman of Citadele Supervisory Board from 2010 until 2015 and now continues to be member of the Supervisory Board. He is currently serving as Chairman of the Supervisory Board at TET, the largest telecommunication company in Latvia. He has 20 years of experience in the banking sector. Previously he was vice president of the SEB Bank Latvia, also working as the director of the Restructuring Department and Large Company Services Department. From 2010 to 2015, he chaired the Latvian Guarantee Agency. Mr. Vasks holds a bachelor's degree from the Banking University College and an MBA degree from the Rīga School of Business of the Rīga Technical University.

Nicholas Haag, Member of the Supervisory Board. Mr. Haag until June 2021 was senior independent non-executive director (INED) and chairman of the audit committee of TBC Bank Group PLC, the largest Georgian bank and the premium listed FTSE 250 company. He is an INED and chairs the audit, risk and compliance committee of Bayport Management Ltd., the holding company for a leading African and Latin American financial solutions provider. Prior to that, he was a Member of the Supervisory Board of Credit Bank of Moscow PJSC. Mr. Haag has a 30 year banking career, half at Managing Director level, with various financial institutions including Barclays, Banque Paribas, ABN AMRO and Royal Bank of Scotland, specialising in technology finance and equity capital markets. Mr. Haag holds a First Class Honours Degree from the University of Oxford.

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

Sylvia Gansser-Potts, Member of the Supervisory Board. Sylvia Gansser-Potts is a Director of Obviam AG, a Swiss impact asset manager. She is a Director and member of the audit and risk committees of the European Fund for Southeast Europe (EFSE) which provides development finance to micro and small enterprises and private households via selected financial institutions. Until 2017, Sylvia was a Managing Director at the EBRD with the overall responsibility for EBRD's investments and operations in Central and Southeastern Europe. Over her 25 year career at the EBRD, Sylvia run a succession of banking teams including the financial institutions operations in Central Europe, in MENA/Turkey as well as the property and tourism team. Sylvia started her career at Swiss Bank Corporation (which later merged to become UBS) in Switzerland and Japan. She holds a master's in business from the Université Paris Dauphine -PSL, a bachelor's degree in Japanese language from the University of Paris and an MBA from INSEAD.

Management Board of the Bank as of 31/12/2021:

Name	Current position	Responsibility
Johan Åkerblom	Chairman of the Management Board	Chief Executive Officer
Valters Ābele	Member of the Management Board	Chief Financial Officer
Vladislavs Mironovs	Member of the Management Board	Chief Strategy Officer
Uldis Upenieks	Member of the Management Board	Chief Compliance Officer
Slavomir Mizak	Member of the Management Board	Chief Technology and Operations Officer
Vaidas Žagūnis	Member of the Management Board	Chief Corporate Commercial Officer
Rūta Ežerskienė	Member of the Management Board	Chief Retail Commercial Officer
Jūlija Lebedinska-Ļitvinova	Member of the Management Board	Chief Risk Officer

On 1 January 2021 Vladislavs Mironovs refocused on Strategy execution, Digital evolution and Business development, Valters Ābele took Chief Financial Officer role and Slavomir Mizak started running the merged IT and Operations organization. Former Chief Operations Officer Kaspars Jansons resigned on 1 January 2021. Effective from 1 February 2021 Rūta Ežerskienė joined the Management Board as Chief Retail Commercial Officer. Effective from 16 June 2021 Jūlija Lebedinska-Ļitvinova joined the Management Board and commenced duties of Chief Risk Officer of Citadele banka.

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

Mr. Akerblom is responsible for day-to-day management of Citadele operations. Before joining Citadele, he worked for SEB group as Chief Financial Officer for its Baltic business division in 2016 and 2017 and prior to that Johan Akerblom was Chief Financial Officer and member of the Management Board of SEB AG, SEB group's German subsidiary. He has more than 10 years of banking experience and started his career as a management consultant with McKinsey & Co where he spent 4 years. Johan Åkerblom holds a Master's Degree in Industrial Management and engineering from the Lund Institution of Technology. Member of the Management Board since 1 February 2018, Chairman of the Management Board, CEO from 2 March 2020.

Valters Ābele, Chief Financial Officer.

Mr. Ābele holds an MBA from the University of Latvia where he studied between 1993 and 1999. He spent part of his studies at Western Michigan University on a US Government- sponsored scholarship programme. He has extensive audit experience, he became an ACCA member and Latvian Certified Auditor in 2004 and worked at both Ernst & Young (2002-2008) and Arthur Andersen (1998- 2002) before moving into the banking sector. He now has thirteen years of experience in the banking industry, having joined Parex in 2008. Mr Ābele is a Financial Director at Citadele and his responsibilities include day-to-day management of Group's Finance and Treasury functions. He was appointed to the management board of Parex in 2008 and joined Citadele's Management Board in 2010.

Vladislavs Mironovs, Chief Strategy Officer.

Mr. Mironovs is responsible for the Group's business strategy implementation, development of Citadele's products and services and its digital evolution. He joined Citadele in July 2015 as Head of Strategic projects. His former experience includes various positions in GE Money Bank. The last two years before joining Citadele, he worked as Strategic Initiatives Leader in GE Capital HQ in USA, leading the projects and assisting in developing global strategy around trade finance and multinational clients. Mr. Mironovs held a position of Business Development Manager in GE Capital, UK (2012-2013) and Sales and Marketing Director in GE Money Bank Latvia (2010-2012). Mr. Mironovs holds Executive MBA from Riga Business School.

Uldis Upenieks, Chief Compliance Officer.

Mr. Upenieks is responsible for the Compliance area in the Group. He has 25 years' experience in the financial sector, of which last 20 years he has worked in the banking sector. Since November 2012 Mr. Upenieks was a Chairman of the Board at "CBL Asset Management". Before that he worked in PrivatBank – as a Board member and as a head of internal audit. Prior to that Mr. Upenieks was responsible for client oversight function (2002-2009), and a vice president and the deputy director of the Risk and Compliance Sector (2009-2011) at Citadele. Mr. Upenieks holds a master's degree in business administration and a bachelor's degree in economics from the Riga Technical University and he has studied at Riga Graduate School of Law.

Slavomir Mizak, Chief Technology and Operations Officer.

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

Vaidas Žagūnis, Chief Corporate Commercial Officer.

Mr. Žagūnis is responsible for the development and management of the corporate business in the Baltics. Before joining Citadele, he worked for SEB Lithuania as Head of Retail banking, Member of the Management Board, Executive Vice President. Prior to that, Vaidas Žagūnis held different managerial positions mainly in SME business area. He has almost 18 years of banking experience. Vaidas Žagūnis holds a Master's Degree in Business Administration from Kaunas University of Technology and also has educated in Massachusetts Institute of Technology (MIT) in United States. Member of the Management Board since 1 March 2020.

Rūta Ežerskienė, Chief Retail Commercial Officer.

Rūta Ežerskienė is responsible for services to retail clients, as well as organisation and supervision of the operations of Citadele's branches, client service centers and settlement groups. She joined AS „Citadele banka" in January 2021. Rūta most recently was Head of Baltic Retail for AON insurance broker since 2018. Before that she held different management positions in SEB group, both on Baltic level and in Lithuania, including Head of Sales Department and Business transformation (years 2017-2018), deputy CEO, Board member in SEB Life Insurance (years 2015-2017). She has almost 20 years of banking experience. Rūta Ežerskienė holds Master of Business Management degree from Kaunas University of Technology. She has graduated Board Member Education in Baltic Institute of Corporate Governance. Member of the Management Board since 1 February 2021.

Jūlija Lebedinska-Ļitvinova, Chief Risk Officer.

Jūlija Lebedinska-Ļitvinova is Risk Director at Citadele and is responsible for the Group's risk management area as of June 2021. Jūlija Lebedinska-Ļitvinova has an extensive experience of more than 15 years in risk management area in financial sector. Jūlija comes from a position as Group Chief Risk Officer for Mogo Finance since 2019. Before that she held Chief Risk Officer's position in 4Finance Group (2015-2019), Head of Antifraud and Risk processes position in Home Credit and Finance Bank, Russia (2013-2015) and Chief Risk Officer's position in Home Credit Bank, Belarus (2011-2013). Jūlija Lebedinska-Ļitvinova has a PhD degree in natural sciences from the University of Latvia. Member of the Management Board since 21 June 2021.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

The financial statements set out on pages 16 to 75 are prepared in accordance with the source documents and present the financial position of the Bank and the Group as of 31 December 2021 and 31 December 2020 and the results of their operations, changes in shareholders' equity and cash flows for the years then ended. The management report set out on pages 4 to 14 presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

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

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

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

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

STATEMENT OF INCOME

	Note	2021 Group	2020 Group	2021 Bank	2020 Bank
		EUR thousands			
Interest income	5	123,974	90,124	93,458	81,144
Interest expense	5	(15,890)	(22,584)	(14,994)	(22,484)
Net interest income		**108,084**	**67,540**	**78,464**	**58,660**
Fee and commission income	6	60,655	51,761	49,720	43,445
Fee and commission expense	6	(24,198)	(21,580)	(23,397)	(20,745)
Net fee and commission income		**36,457**	**30,181**	**26,323**	**22,700**
Net financial income	7	7,319	(17,463)	6,682	(17,591)
Net other income / (expense)	8	1,843	14,409	1,782	(163)
Operating income		**153,703**	**94,667**	**113,251**	**63,606**
Staff costs	9	(61,111)	(50,888)	(45,900)	(44,141)
Other operating expenses	10	(25,153)	(21,057)	(18,760)	(17,540)
Depreciation and amortisation	20	(8,773)	(8,044)	(7,616)	(7,688)
Operating expense		**(95,037)**	**(79,989)**	**(72,276)**	**(69,369)**
Profit before impairment		**58,666**	**14,678**	**40,975**	**(5,763)**
Net credit losses	11	(1,613)	(9,351)	(11,742)	(10,379)
Other impairment losses and other provisions	12	(198)	(1,106)	941	11,805
Operating profit / (loss) before non-current assets held for sale		**56,855**	**4,221**	**30,174**	**(4,337)**
Result from non-current assets held for sale		(213)	(307)	(213)	(307)
Operating profit / (loss)		**56,642**	**3,914**	**29,961**	**(4,644)**
Income tax	13	(1,597)	(306)	(318)	(117)
Net profit / (loss)		**55,045**	**3,608**	**29,643**	**(4,761)**
Basic earnings per share in EUR	26	0.35	0.02	0.19	(0.03)
Diluted earnings per share in EUR	26	0.35	0.02	0.19	(0.03)

The notes on pages 21 to 75 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	EUR thousands			
	2021 Group	2020 Group	2021 Bank	2020 Bank
Net profit / (loss)	**55,045**	**3,608**	**29,643**	**(4,761)**
Other comprehensive income items that are or may be reclassified to profit or loss:				
Fair value revaluation reserve				
Fair value revaluation reserve charged to statement of income (Note 7)	(542)	(1,123)	(428)	(1,023)
Change in fair value of debt securities and similar	(3,717)	(809)	(2,349)	(609)
Deferred income tax charged / (credited) directly to equity	212	88	-	-
Other reserves				
Foreign exchange retranslation	667	144	-	-
Other comprehensive income items that may not be reclassified to profit or loss:				
Fair value revaluation reserve				
Change in fair value of equity and similar instruments	(42)	8	(42)	8
Transfer to retained earnings at disposal	50	927	49	927
Other comprehensive income / (loss)	**(3,372)**	**(765)**	**(2,770)**	**(697)**
Total comprehensive income / (loss)	**51,673**	**2,843**	**26,873**	**(5,458)**

The notes on pages 21 to 75 are an integral part of these financial statements.

BALANCE SHEET

	Note	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
		EUR thousands			
Assets					
Cash and cash balances at central banks	14	371,025	1,146,606	361,626	1,131,008
Loans to credit institutions		58,742	51,287	35,693	40,289
Debt securities	15	1,801,720	1,760,190	1,652,308	1,563,675
Loans to public	16	2,701,509	1,541,223	2,609,713	1,518,313
Equity instruments	18	1,279	4,764	1,279	4,764
Other financial instruments	18	42,032	43,343	7,400	13,834
Derivatives	27	4,303	1,474	4,303	1,474
Investments in related entities	19	279	274	77,087	46,756
Tangible assets	20	20,444	12,930	11,496	14,143
Intangible assets	20	8,562	5,981	6,083	5,832
Current income tax assets	13	1,927	885	871	878
Deferred income tax assets	13	2,676	2,387	2,179	2,179
Non-current assets held for sale		946	946	946	946
Other assets	21	39,117	25,028	28,912	16,355
Total assets		**5,054,561**	**4,597,318**	**4,799,896**	**4,360,446**
Liabilities					
Deposits from credit institutions and central banks	22	479,235	449,991	499,628	470,959
Deposits and borrowings from customers	23	3,813,863	3,671,390	3,665,524	3,478,096
Debt securities issued	24	258,895	60,080	258,895	60,080
Derivatives	27	739	4,461	739	4,461
Provisions	11	3,934	2,211	3,882	2,133
Current income tax liabilities	13	197	213	189	115
Deferred income tax liabilities	13	376	464	-	-
Other liabilities	25	100,247	64,198	25,476	27,003
Total liabilities		**4,657,486**	**4,253,008**	**4,454,333**	**4,042,847**
Equity					
Share capital	26	156,888	156,556	156,888	156,556
Reserves and other capital components		7,320	10,265	2,127	4,469
Retained earnings		232,867	177,489	186,548	156,574
Total equity		**397,075**	**344,310**	**345,563**	**317,599**
Total liabilities and equity		**5,054,561**	**4,597,318**	**4,799,896**	**4,360,446**
Off-balance sheet items					
Guarantees and letters of credit	27	34,265	23,903	38,863	23,246
Financial commitments	27	387,943	261,050	431,065	276,089

The notes on pages 21 to 75 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Group, EUR thousands						
	Issued Share capital	Share premium	Securities fair value revaluation reserve (*Note 15*)	Foreign currency retrans-lation	Share based payments	Retained earnings	Total equity
Balance as of 31/12/2019	**156,556**	**-**	**6,083**	**3,994**	**1,199**	**172,893**	**340,725**
Share based payments to employees (*Note 9* and *Note 26*)	-	-	-	-	681	61	742
Total comprehensive income	***-***	***-***	***(1,836)***	***144***	***-***	***4,535***	***2,843***
Net (loss) for the period	-	-	-	-	-	3,608	3,608
Other comprehensive income / (loss) for the period	-	-	(1,836)	144	-	927	(765)
Balance as of 31/12/2020	**156,556**	**-**	**4,247**	**4,138**	**1,880**	**177,489**	**344,310**
Share based payments to employees (*Note 9* and *Note 26*)	332	239	-	-	238	283	1,092
Total comprehensive income	***-***	***-***	***(4,089)***	***667***	***-***	***55,095***	***51,673***
Net profit for the period	-	-	-	-	-	55,045	55,045
Other comprehensive income / (loss) for the period	-	-	(4,089)	667	-	50	(3,372)
Balance as of 31/12/2021	**156,888**	**239**	**158**	**4,805**	**2,118**	**232,867**	**397,075**

	Bank, EUR thousands					
	Issued Share capital	Share premium	Securities fair value revaluation reserve (*Note 15*)	Share based payments	Retained earnings	Total equity
Balance as of 31/12/2019	**156,556**	**-**	**4,213**	**1,199**	**160,346**	**322,314**
Share based payments to employees (*Note 9* and *Note 26*)	-	-	-	681	62	743
Total comprehensive income	***-***	***-***	***(1,624)***	***-***	***(3,834)***	***(5,458)***
Net (loss) for the period	-	-	-	-	(4,761)	(4,761)
Other comprehensive income / (loss) for the period	-	-	(1,624)	-	927	(697)
Balance as of 31/12/2020	**156,556**	**-**	**2,589**	**1,880**	**156,574**	**317,599**
Share based payments to employees (*Note 9* and *Note 26*)	332	239	-	238	282	1,091
Total comprehensive income	***-***	***-***	***(2,819)***	***-***	***29,692***	***26,873***
Net profit for the period	-	-	-	-	29,643	29,643
Other comprehensive income / (loss) for the period	-	-	(2,819)	-	49	(2,770)
Balance as of 31/12/2021	**156,888**	**239**	**(230)**	**2,118**	**186,548**	**345,563**

The notes on pages 21 to 75 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Note	2021 Group	2020 Group	2021 Bank	2020 Bank
		EUR thousands			
Operating activities					
Operating profit before tax		56,642	3,914	29,961	(4,644)
Interest income	5	(123,974)	(90,124)	(93,458)	(81,144)
Interest expense	5	15,890	22,584	14,994	22,484
Dividends income		(37)	(42)	(37)	(42)
Depreciation and amortisation		8,773	8,044	7,616	7,688
Impairment allowances and provisions		1,811	10,457	10,801	(1,426)
Sale of tangible assets		(29)	(17,491)	(29)	(813)
Currency translation and other non-cash items		12,977	11,233	2,281	15,396
Cash flows from the income statement		**(27,947)**	**(51,425)**	**(27,871)**	**(42,501)**
(Increase) / decrease in loans to public		(368,860)	15,767	(1,107,707)	58,927
Increase / (decrease) in deposits and borrowings from customers		144,966	380,542	189,996	486,119
(Increase) / decrease in loans to credit institutions		(1,526)	8,335	(1,509)	7,435
Increase / (decrease) in deposits from central banks and credit institutions		29,922	447,744	22,763	433,077
(Increase) / decrease in other items at fair value through profit or loss		(6,551)	3,419	(6,551)	3,418
(Increase) / decrease in other assets		352	6,846	(9,189)	8,366
Increase / (decrease) in other liabilities		19,138	15,033	833	(1,599)
Cash flows from operating activities before interest and corporate income tax		**(210,506)**	**826,261**	**(939,235)**	**953,242**
Interest received		119,940	90,682	90,094	81,725
Interest paid		(14,437)	(16,459)	(13,521)	(16,342)
Corporate income tax paid		(787)	(811)	(237)	(173)
Cash flows from operating activities		**(105,790)**	**899,673**	**(862,899)**	**1,018,452**
Investing activities					
Acquisition of tangible and intangible assets		(22,616)	(5,222)	(4,676)	(5,168)
Disposal of tangible and intangible assets		1,391	58,075	403	2,893
Investments in debt securities and other financial instruments		(387,513)	(1,427,884)	(367,520)	(1,268,422)
Proceeds from debt securities and other financial instruments		349,587	858,433	288,074	653,020
Dividends received		37	42	37	42
Decrease in cash and cash equivalents as a result of acquisition of SIA UniCredit Leasing	19	(798,550)	-	-	-
Sale or investments in subsidiaries		-	-	(29,203)	649
Cash flows from investing activities		**(857,664)**	**(516,556)**	**(112,885)**	**(616,986)**
Financing activities					
Proceeds from issue of debt securities		238,251	-	238,251	-
Repayment of debt securities		(40,000)	-	(40,000)	-
Interest paid on debt securities issued		(3,670)	(3,636)	(3,670)	(3,636)
Repayment of lease liabilities		(3,334)	(1,989)	(3,328)	(4,003)
Cash flows from financing activities		**191,247**	**(5,625)**	**191,253**	**(7,639)**
Cash flows for the period		**(772,207)**	**377,492**	**(784,531)**	**393,827**
Cash and cash equivalents at the beginning of the period		**1,176,550**	**799,058**	**1,148,197**	**754,370**
Cash and cash equivalents at the end of the period	30	**404,343**	**1,176,550**	**363,666**	**1,148,197**

The notes on pages 21 to 75 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

If not mentioned otherwise, referral to the Group's policies and procedures should be also considered as referral to the respective Bank's policies and procedures. Figures in parenthesis represent amounts as of 31 December 2020 or for the year ended 31 December 2020.

NOTE 1. AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements have been authorised for issuance by the Management Board and comprise the financial information of AS Citadele banka (hereinafter – the Bank or Citadele) and its subsidiaries (together – the Group).

NOTE 2. GENERAL INFORMATION

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

As of 31 December 2021, the Group had 1,335 (2020: 1,230) and the Bank had 1,100 (2020: 1,152) full time equivalent active employees. Increase in the Group's full time equivalent active employees is a result of the acquisition of SIA Citadele Leasing (previously SIA UniCredit Leasing) in the beginning of 2021.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) *New standards and amendments*

New standards, interpretations and amendments which were not applicable to the previous annual financial statements have been issued. Some of the standards become effective in 2021, others become effective for later reporting periods. In this section those relevant for the Group are summarised. Where the implementation impact was or is expected to be reasonably material it is disclosed.

New requirements effective for 2021 which did not have a significant effect to the Group

Amendments to IFRS 16 – COVID-19-Related Rent Concessions
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2

Upcoming requirements not in force from 1 January 2021

Certain new standards, amendments to standards and interpretations have been endorsed by EU for the accounting periods beginning after 1 January 2021 or are not yet effective in the EU. These standards have not been applied in preparing these financial statements. The Group does not plan to adopt any of these standards early. The Group is in the process of evaluating the potential effect if any of changes arise from these new standards and interpretations.

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

The Group had set up an internal IFRS 17 implementation working group. Within the scope of the project, the Group reworks models, IT systems, processes and documentation which will be followed by final testing and validation. External expertise is to be attracted where and when deemed necessary. As much as possible the Group leverages existing processes, systems, models and data, although in certain areas new models and revisions to the existing models are needed to be developed. The Group is in the process of quantifying the expected impact, as of now having re-assessed part of the agreements. Total insurance liabilities recognised under the current standards are presented in Note 25 (*Other Liabilities*) and amount to EUR 41.7 million.

Amendments to IAS 1 – Classification of liabilities as current or non-current
Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policy
Amendments to IAS 8 – Definition of Accounting Estimate
Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 37 – Onerous contracts – Cost of Fulfilling a Contract
Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IFRS 3 – Reference to Conceptual Framework
Amendments to IAS 1 – Classification of Liabilities as Current or Non-current
Amendments to IAS 12 – Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

b) *Basis of preparation*

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

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

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

c) Functional and Presentation Currency

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

d) Basis of consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financials of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The investments in the subsidiaries are presented in the Bank's financial statements at cost. More detailed information on the Group's subsidiaries is presented in Note 19 (*Investments in Related Entities*).

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

e) Income and expense recognition

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

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

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

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

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

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

f) Foreign currency translation

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

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

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

g) Staff costs and related contributions

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

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

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

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

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

h) Customer loyalty programmes

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

i) Corporate income tax

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

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

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

j) Financial instruments classification and measurement

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

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

Financial assets and liabilities measured at amortised cost

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

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

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

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

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

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

Financial assets measured at fair value through other comprehensive income

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

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

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

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

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

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

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

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

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

Derivative Financial Instruments

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

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

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

k) Sale and repurchase agreements

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

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

l) De-recognition of financial assets and liabilities

Financial assets

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

- the contractual rights to receive cash flows from the financial asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial liabilities

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

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

Debt securities issued and other borrowed funds

The Group recognises financial liabilities on its balance on drawdown.

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

m) Fair values of financial assets and liabilities

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

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

n) Leases

Finance leases – Group as lessor

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

Operating leases – Group as lessor

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

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

Group as lessee

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

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

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

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

o) Renegotiated loans and debt forbearances

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

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

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

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

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

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

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

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

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments, persistent and major covenant noncompliance;
- granting to the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, a material concession that the lender would not otherwise consider;

- the borrower entering bankruptcy or other financial reorganisation becomes highly probable;
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- a combination of several other events that cause a loan to become credit-impaired.

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

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

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

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

Fully impaired loans to public, recovery of which may become economically unviable, may be written-off and charged against impairment allowance. They are not written-off until the necessary legal procedures have been completed and the amount of the loss is determined. When a loan or receivable is written-off, the claim against the borrower normally is not forgiven. Subsequent recoveries of amounts previously written-off are reported in the statement of income as recovered written-off assets within net credit losses on financial instruments. For certain products of the retail loan book the write-off decision is automated trigger based. For corporate loan book an individual analysis is the basis for write-off decision of unrecoverable credit impaired exposures.

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

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

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

r) Tangible assets

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

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

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

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

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

s) *Intangible assets*

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

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

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

t) *Inventories*

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

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

u) *Non-current assets held for sale*

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

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

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

v) *Investment properties*

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

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

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

w) *Impairment of non-financial assets*

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

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

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

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

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

x) Insurance business

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

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

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

y) Off-balance sheet financial commitments and contingent liabilities

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

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

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

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

z) Provisions

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

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

aa) Asset management

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

bb) Cash and cash equivalents

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

cc) Offsetting of assets and liabilities

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

dd) Events after the reporting date

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

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

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

Impairment of loans to public

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

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

Changes in net present value of estimated future cash flows by +/-5% for loans to public for which expected credit losses are individually assessed would result in EUR +/-0.23 million change in impairment allowance for the Bank (2020: EUR +/-0.05 million) and EUR +/-0.79 million for the Group (2020: EUR +/-0.05 million). Change in estimated value of collateral by +/-5% for loans to public for which expected credit losses are individually assessed would result in EUR +/-0.92 million change in impairment allowance for the Bank (2020: EUR +/-0.44 million) and EUR +/-1.30 million for the Group (2020: EUR +/-0.44 million).

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

In 2021 the management continued to recognize a significant uncertainty regarding duration and severity of Covid-19 situation and associated possible disruptions to the Baltic economies and customers of the Group. Consequently, a prudent impairment overlay for Stage 1 customer loan exposures was kept in ECL framework. The impairment overlay represents an additional loss reserve over the modelled ECL amounts to account for other economic uncertainties. It addresses increased uncertainty regarding the forward-looking economic conditions in the current Covid-19 situation. Such future uncertainties which point in time ECL models calibrated on historical data, despite being adjusted with forward looking information, might not be fully capturing in the current unusual environment. As of 31 December 2021, impairment overlay of EUR 1.4 million for the Bank and EUR 5.2 million for the Group has been recognised to address these modelling uncertainties (2020: EUR 3.2 million for the Bank and EUR 4.1 million for the Group).

Changes in all applied LGD rates by 500 basis points would result in change in collectively estimated impairment allowance and provisions by EUR +4.4/-4.6 million for the Bank and EUR +7.3/-7.6 million for the Group (2020: EUR +3.1/-3.1 million for the Bank and EUR +3.6/-3.6 million for the Group). Changes in the PD rates for not overdue category by 100 basis points would result in change in collectively estimated impairment allowance by EUR +4.6/-4.6 million for the Bank and EUR +6.4/-6.4 million for the Group (2020: EUR +3.5/-3.4 million for the Bank and EUR +3.9/-3.5 million for the Group) and provisions for off-balance sheet commitments and guarantees by EUR +0.6/-0.6 million for the Bank and EUR +0.7/-0.7 million for the Group (2020: EUR +0.3/-0.3 million for the Bank and EUR +0.3/-0.3 million for the Group).

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

	Base case scenario		Adverse scenario	
	2022	**2023**	**2022**	**2023**
Latvia				
GDP (annual change)	4.0%	3.4%	0.9%	3.4%
Unemployment rate	6.8%	6.2%	8.4%	7.8%
Inflation (annual change)	5.3%	2.3%	5.9%	2.7%
Average gross wage (annual change)	4.9%	5.4%	2.1%	4.2%
Real estate prices (annual change)	6.5%	5.6%	1.6%	4.1%

	Base case scenario		Adverse scenario	
	2022	2023	2022	2023
Lithuania				
GDP (annual change)	4.0%	3.4%	0.5%	3.4%
Unemployment rate	7.0%	6.8%	8.6%	8.4%
Inflation (annual change)	5.9%	2.3%	6.5%	2.6%
Average gross wage (annual change)	5.3%	4.5%	2.8%	3.3%
Real estate prices (annual change)	5.7%	4.5%	1.7%	3.8%
Estonia				
GDP (annual change)	4.3%	3.8%	0.8%	3.8%
Unemployment rate	5.8%	5.1%	7.4%	6.7%
Inflation (annual change)	5.9%	2.3%	6.5%	2.7%
Average gross wage (annual change)	4.1%	4.3%	1.9%	3.2%
Real estate prices (annual change)	4.6%	3.8%	0.4%	2.9%

The current implementation, based on an expert judgement, weights base case scenario with 60% likelihood and the adverse scenario at 40% likelihood (2020: 55% vs. 45%). The 60% vs. 40% weighted augmented scenario is used for forward-looking adjustment. If the weighting of the adverse scenario was to increase to 45%, the expected credit loss allowance of the Bank would increase by EUR 1.2 million and for the Group by EUR 1.8 million as of 31 December 2021. If the weighting of the base case scenario was to increase to 100%, the expected credit loss allowance of the Bank would decrease by EUR 9.1 million and for the Group by EUR 13.7 million as of 31 December 2021. As of 31 December 2020, the weighting of base case and adverse scenarios was 55% vs. 45%. If the weighting of the adverse scenario was to increase to 50%, the expected credit loss allowance of the Bank would increase by EUR 0.6 million and for the Group by EUR 0.6 million as of 31 December 2020. If the weighting of the base case scenario was to increase to 100%, the expected credit loss allowance of the Bank would decrease by EUR 5.4 million and for the Group by EUR 5.9 million as of 31 December 2020. Sensitivities as of 31 December 2020 do not include impact from EUR 0.9 billion loan portfolio of SIA UniCredit Leasing (now SIA Citadele Leasing) acquired in 2021.

Impairment of other assets

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

Consolidation group

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

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

Deferred tax assets and liabilities

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

Date when control over UniCredit leasing was obtained

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

Presentation of Kaleido Privatbank AG as discontinued operations held for sale

Subsequent to the period end Citadele has agreed to sell its Swiss subsidiary Kaleido Privatbank AG. The specific set of conditions which indicates that the investment will be recovered principally through a sale transaction rather than through continuing use was not present as of the period end. Consequently, operations of Kaleido Privatbank AG are not presented as discontinued operations as of period end, based on no strong commitment for sales of these operations either from Management Board or from Supervisory Board in 2021. Refer to Note 34 (*Events after the Reporting Date*) for more details on the sale.

NOTE 4. OPERATING SEGMENTS

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

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

The comparative information as of 31 December 2020 and for the year ended 31 December 2020 have been restated for comparability by applying the most recent segmentation methodology. Changes mostly relate to redistribution of previously separately reported exposures originated by SIA Citadele Factoring, UAB Citadele Factoring and OU Citadele Factoring into Private customers, SME, Corporate and Wealth segments.

Main business segments of the Group are:

Private customers

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

SME

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

Corporate

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

Wealth management

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

Swiss

This segment comprises operations of Kaleido Privatbank AG. On 1 April 2021 the legal name of the Swiss registered banking subsidiary AP Anlage & Privatbank AG was changed to Kaleido Privatbank AG. Subsequent to the period end, Citadele has agreed to sell its Swiss subsidiary. Refer to Note 34 (*Events after the Reporting Date*).

Leasing

Leasing services provided to private individuals and companies in Latvia, Lithuania and Estonia by SIA Citadele Leasing.

Other

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

Segments of the Group

	Group 2021, EUR thousands							
	Reportable segments							
	Private customers	SME	Corporate	Wealth	Swiss	Leasing	Other	Total
Interest income	36,655	14,569	27,902	1,813	1,336	36,850	4,849	123,974
Interest expense	(1,089)	(19)	(293)	(983)	(232)	(712)	(12,562)	(15,890)
Net interest income	**35,566**	**14,550**	**27,609**	**830**	**1,104**	**36,138**	**(7,713)**	**108,084**
Fee and commission income	17,955	12,190	11,766	13,314	2,671	946	1,813	60,655
Fee and commission expense	(11,279)	(4,346)	(6,131)	(1,640)	(357)	(29)	(416)	(24,198)
Net fee and commission income	**6,676**	**7,844**	**5,635**	**11,674**	**2,314**	**917**	**1,397**	**36,457**
Net financial income	810	2,213	1,530	1,191	532	2	1,041	7,319
Net other income	(1,458)	54	1,580	873	17	168	609	1,843
Operating income	**41,594**	**24,661**	**36,354**	**14,568**	**3,967**	**37,225**	**(4,666)**	**153,703**
Net funding allocation	(787)	(193)	(979)	517	50	(2,145)	3,537	-
FTP adjusted operating income	**40,807**	**24,468**	**35,375**	**15,085**	**4,017**	**35,080**	**(1,129)**	**153,703**
Net credit losses	(7,010)	(743)	(3,232)	(18)	(195)	7,924	1,661	(1,613)
Net result before operating expense	**33,797**	**23,725**	**32,143**	**15,067**	**3,822**	**43,004**	**532**	**152,090**
Not allocated income and expense, net								(97,045)
Net profit / (loss)								**55,045**

	Group 2020, EUR thousands (Reclassified for comparability)							
	Reportable segments							
	Private customers	SME	Corporate	Wealth	Swiss	Leasing	Other	Total
Interest income	38,762	15,690	25,591	2,372	2,716	-	4,993	90,124
Interest expense	(2,003)	(51)	(625)	(2,961)	(482)	-	(16,462)	(22,584)
Net interest income	**36,759**	**15,639**	**24,966**	**(589)**	**2,234**	**-**	**(11,469)**	**67,540**
Fee and commission income	14,004	10,277	8,880	12,648	3,153	-	2,799	51,761
Fee and commission expense	(8,412)	(3,796)	(5,056)	(1,583)	(429)	-	(2,304)	(21,580)
Net fee and commission income	**5,592**	**6,481**	**3,824**	**11,065**	**2,724**	**-**	**495**	**30,181**
Net financial income	674	1,267	494	1,710	(379)	-	(21,229)	(17,463)
Net other income	(1,437)	(385)	(459)	(450)	(529)	-	17,669	14,409
Operating income	**41,588**	**23,002**	**28,825**	**11,736**	**4,050**	**-**	**(14,534)**	**94,667**
Net funding allocation	(1,764)	(635)	(2,783)	318	392	-	4,472	-
FTP adjusted operating income	**39,824**	**22,367**	**26,042**	**12,054**	**4,442**	**-**	**(10,062)**	**94,667**
Net credit losses	(282)	(782)	(400)	(5,070)	40	-	(2,857)	(9,351)
Net result before operating expense	**39,542**	**21,585**	**25,642**	**6,984**	**4,482**	**-**	**(12,919)**	**85,316**
Not allocated income and expense, net								(81,708)
Net profit / (loss)								**3,608**

	Group as of 31/12/2021, EUR thousands							
	Reportable segments							
	Private customers	SME	Corporate	Wealth	Swiss	Leasing	Other	Total
Assets								
Cash, balances at central banks	-	-	-	-	9,399	-	361,626	371,025
Loans to credit institutions	-	-	-	3,201	19,427	421	35,693	58,742
Debt securities	-	-	49,547	48,445	100,968	-	1,602,760	1,801,720
Loans to public	843,916	253,413	668,653	41,607	6,500	870,373	17,047	2,701,509
Equity instruments	-	-	-	-	-	-	1,279	1,279
Other financial instruments	-	-	-	34,632	-	-	7,400	42,032
All other assets	-	-	1,953	6,799	2,410	14,282	52,810	78,254
Total segmented assets	**843,916**	**253,413**	**720,153**	**134,684**	**138,704**	**885,076**	**2,078,615**	**5,054,561**
Liabilities								
Deposits from banks	-	-	-	-	-	-	479,235	479,235
Deposits from customers	1,466,577	628,860	962,744	598,214	139,598	-	17,870	3,813,863
Debt securities issued	-	-	-	-	-	-	258,895	258,895
All other liabilities	-	-	125	44,969	3,992	24,830	31,577	105,493
Total segmented liabilities	**1,466,577**	**628,860**	**962,869**	**643,183**	**143,590**	**24,830**	**787,577**	**4,657,486**

	Group as of 31/12/2020, EUR thousands (Reclassified for comparability)							
	Reportable segments							
	Private customers	SME	Corporate	Wealth	Swiss	Leasing	Other	Total
Assets								
Cash, balances at central banks	-	-	-	-	15,598	-	1,131,008	1,146,606
Loans to credit institutions	-	-	-	2,702	8,296	-	40,289	51,287
Debt securities	-	-	10,415	38,766	157,749	-	1,553,260	1,760,190
Loans to public	635,448	268,344	578,021	39,431	6,711	-	13,268	1,541,223
Equity instruments	-	-	-	-	-	-	4,764	4,764
Other financial instruments	-	-	-	29,509	-	-	13,834	43,343
All other assets	-	-	7	5,090	544	-	44,264	49,905
Total segmented assets	**635,448**	**268,344**	**588,443**	**115,498**	**188,898**	**-**	**2,800,687**	**4,597,318**
Liabilities								
Deposits from banks	-	-	-	-	-	-	449,991	449,991
Deposits from customers	1,285,217	492,840	826,638	705,140	184,951	-	176,604	3,671,390
Debt securities issued	-	-	-	-	-	-	60,080	60,080
All other liabilities		13	121	36,633	2,398	-	32,382	71,547
Total segmented liabilities	**1,285,217**	**492,853**	**826,759**	**741,773**	**187,349**	**-**	**719,057**	**4,253,008**

NOTE 5. INTEREST INCOME AND EXPENSE

	EUR thousands			
	2021 Group	2020 Group	2021 Bank	2020 Bank
Interest income calculated using the effective interest method:				
Financial instruments at amortised cost:				
Loans to public	69,282	71,985	86,064	75,582
Debt securities	3,243	2,977	2,996	2,586
Cash balances at and lending to/from central banks and credit institutions (including TLTRO-III)	3,081	1,462	3,090	1,464
Deposits from public at negative interest rates	861	242	466	242
Debt securities at fair value through other comprehensive income	1,555	3,264	842	1,270
Interest income on finance leases (part of loans to public)	45,952	10,194	-	-
Total interest income	**123,974**	**90,124**	**93,458**	**81,144**
Interest expense on:				
Financial instruments at amortised cost:				
Deposits and borrowing from public	(8,978)	(13,259)	(8,130)	(12,889)
Debt securities issued	(3,952)	(3,637)	(3,952)	(3,637)
Deposits from credit institutions and central banks	(104)	(242)	(276)	(675)
Deposits to central banks and other assets at negative interest rates	(923)	(3,749)	(862)	(3,661)
Financial liabilities at fair value through profit or loss				
Deposits and borrowing from public	(145)	(129)	-	-
Lease liabilities	(64)	(41)	(50)	(94)
Other interest expense	(1,724)	(1,527)	(1,724)	(1,528)
Total interest expense	**(15,890)**	**(22,584)**	**(14,994)**	**(22,484)**
Net interest income	**108,084**	**67,540**	**78,464**	**58,660**

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

	EUR thousands			
	2021 Group	2020 Group	2021 Bank	2020 Bank
Interest income recognised on credit impaired assets	3,747	1,153	1,458	1,105

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

NOTE 6. FEE AND COMMISSION INCOME AND EXPENSE

	EUR thousands			
	12m 2021 Group	12m 2020 Group	12m 2021 Bank	12m 2020 Bank
Fee and commission income:				
Cards	32,681	27,284	32,638	27,224
Payments and transactions	12,393	12,079	10,757	10,169
Asset management and custody	9,612	7,391	1,797	1,615
Securities brokerage	970	1,518	577	955
Other fees	1,837	1,474	1,610	1,441
Total fee and commission income from contracts with customers	**57,493**	**49,746**	**47,379**	**41,404**
Guarantees, letters of credit and loans	3,162	2,015	2,341	2,041
Total fee and commission income	**60,655**	**51,761**	**49,720**	**43,445**
Fee and commission expense on:				
Cards	(19,260)	(16,897)	(19,254)	(16,897)
Asset management, custody and securities brokerage	(1,164)	(1,046)	(918)	(759)
Payments, transactions and other fees	(3,774)	(3,637)	(3,225)	(3,089)
Total fee and commission expense	**(24,198)**	**(21,580)**	**(23,397)**	**(20,745)**
Net fee and commission income	**36,457**	**30,181**	**26,323**	**22,700**

NOTE 7. NET FINANCIAL INCOME

	EUR thousands			
	12m 2021 Group	12m 2020 Group	12m 2021 Bank	12m 2020 Bank
Foreign exchange trading, revaluation and related derivatives	7,266	6,076	6,805	6,587
Non-trading assets and liabilities at fair value through profit or loss	443	3,803	381	3,264
Assets at fair value through other comprehensive income	542	1,123	428	1,023
Assets at amortised cost	-	211	-	211
Other derivatives	-	(28,836)	-	(28,836)
Modifications in cash flows which do not result in derecognition	(932)	160	(932)	160
Total net financial income	**7,319**	**(17,463)**	**6,682**	**(17,591)**

In April 2020, as a response to a fast-developing Covid-19 situation, Citadele acquired option contracts. Among the acquired option contracts were derivative instruments linked to stock market and high yield bond indexes with exercise dates in July 2020 and September 2020. The objective of the acquired option contracts was to implement a tail risk defensive measures to protect the Group and to mitigate the downside risk of a sharp and severe recession with a slow recovery. According to an internal risk assessment the chosen option instruments provided for an insurance in a tail risk in a negative macro-economic development scenario. The acquired option contracts did not qualify for hedge accounting. EUR 28.8 million loss on other derivatives (options) reflects the loss incurred on negative revaluation on the acquired option contracts over the year ended 31 December 2020. With recovery in 2020 proving stronger than anticipated and consequently market indexes fluctuating in ranges above option exercise prices, the acquired options stayed out-of-money, market value of the option contracts declined significantly, but so did the likelihood of a sharp and severe recession. As of 31 December 2020 and 31 December 2021, Citadele had no derivative option contracts outstanding as by that time all options had expired or were closed out.

NOTE 8. NET OTHER INCOME

	EUR thousands			
	2021 Group	2020 Group	2021 Bank	2020 Bank
Fulfilment of the TLTRO-III required government obligations	2,744	-	2,744	-
Operating lease income	2,088	-	-	-
Net insurance result	1,694	71	-	-
Dividend income	37	42	37	42
Sale of tangible assets	29	17,491	29	813
Share of the profit or loss of investments accounted for using the equity method	5	-	5	-
Rental income from investment properties	-	1,041	-	-
Other income	1,051	548	2,043	2,817
Total other income	**7,648**	**19,193**	**4,858**	**3,672**
Supervisory fees	(1,759)	(1,912)	(1,605)	(1,806)
Depreciation of assets under operating lease (*Note 20*)	(1,578)	-	-	-
Other expenses	(2,468)	(2,872)	(1,471)	(2,029)
Total other expense	**(5,805)**	**(4,784)**	**(3,076)**	**(3,835)**
Total net other income	**1,843**	**14,409**	**1,782**	**(163)**

Other income includes net result from disposal of repossessed collaterals and other miscellaneous items which may not be considered interest or fee and commission income. Supervisory fees include annual and quarterly fees payable to Financial and Capital Market Commission, European Central Bank, Single Resolution Board and similar. These are directly dependent on the size of the banking business (mostly total assets).

NOTE 9. STAFF COSTS

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

	EUR thousands			
	2021 Group	2020 Group	2021 Bank	2020 Bank
Remuneration:				
- management	4,978	4,248	1,948	1,766
- other personnel	45,840	37,829	36,036	34,528
Total remuneration for work	**50,818**	**42,077**	**37,984**	**36,294**
Social security and solidarity tax contributions:				
- management	967	766	447	404
- other personnel	8,438	7,230	6,738	6,691
Total social security and solidarity tax contributions	**9,405**	**7,996**	**7,185**	**7,095**
Other personnel expense	**888**	**815**	**731**	**752**
Total personnel expense	**61,111**	**50,888**	**45,900**	**44,141**
Number of full-time equivalent employees at the period end	1,335	1,230	1,100	1,152

Non-share-based remuneration with deferred pay-out

Part of the remuneration for work is deferred up to a one-year period and subsequent pay-outs may be conditional. As at 31 December 2021 the Group and the Bank has a compulsory non-share-based deferred remuneration commitment (including related social security and solidarity tax contributions) to its employees in the amount of EUR 407 thousand and EUR 294 thousand which will become payable in 2022 if certain conditions are met (2020: EUR 659 thousand and EUR 393 thousand payable in 2021, respectively).

Share-based long-term incentive plans

Citadele has opened several share-based long-term incentive plans for its employees starting from 2018. Under the equity-based long-term incentive plans active agreements as of the period end comprise 2,365 thousand of share options (2020: 1,952) with value for accounting purposes of EUR 5.0 million (2020: EUR 3.5 million). From total active agreements EUR 3.9 million are granted to the management (2020: EUR 3.0 million). The expense for share-based incentive plans is recognised on a straight-line basis over the period of the remuneration program as intention is to receive services from employees over the whole period.

In the reporting period 914 thousand options were awarded and 12 thousand options were forfeited. None of the options outstanding are exercisable as of 31 December 2021. In the reporting period 332,588 share options, previously awarded to the employees of the Bank, vested. Refer to Note 26 (*Share Capital*) for additional details.

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

NOTE 10. OTHER OPERATING EXPENSES

	EUR thousands			
	12m 2021 Group	12m 2020 Group	12m 2021 Bank	12m 2020 Bank
Information technologies and communications	(7,409)	(5,670)	(5,002)	(4,280)
Consulting and other services	(8,625)	(6,316)	(6,182)	(5,992)
Rent, premises and real estate	(2,826)	(2,770)	(2,313)	(1,648)
Advertising and marketing	(2,863)	(1,872)	(2,468)	(1,732)
Non-refundable value added tax	(2,151)	(2,779)	(1,842)	(2,563)
Other	(1,279)	(1,650)	(953)	(1,325)
Total other expenses	**(25,153)**	**(21,057)**	**(18,760)**	**(17,540)**

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

	EUR thousands			
	2021 Group	2020 Group	2021 Bank	2020 Bank
Annual and interim audit fees	557	367	187	130
Other audit and similar fees	72	24	69	20
Tax advisory fees	-	-	-	-
Other advisory, training, and similar fees	1	7	1	7

NOTE 11. NET CREDIT LOSSES

Total net impairment allowance charged to the income statement

	EUR thousands			
	12m 2021 Group	12m 2020 Group	12m 2021 Bank	12m 2020 Bank
Loans to credit institutions	21	(16)	12	(16)
Debt securities	(822)	(609)	(799)	(644)
Loans to public	(3,057)	(16,371)	(12,895)	(17,008)
Including impairment overlay (Note 3, section ff)	*(1,050)*	*(4,130)*	*1,802*	*(3,233)*
Loan commitments, guarantees and letters of credit	(1,721)	2,037	(1,747)	2,073
Recovered written-off assets	3,966	5,608	3,687	5,216
Total net losses on financial instruments	**(1,613)**	**(9,351)**	**(11,742)**	**(10,379)**

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

In 2020 the Group and the Bank recognised an impairment overlay for Stage 1 classified loans to public exposures. The impairment overlay addressed increased uncertainty regarding the forward-looking economic conditions in the unusual environment where duration and severity of Covid-19 situation and associated possible disruptions to the Baltic economies and customers of the Group was uncertain. The impairment overlay accounts for economic risks which point in time ECL models calibrated on historical data, despite being adjusted with forward-looking information, might not be fully capturing. The impairment overlay as of 31 December 2021 was reassessed by aligning overlay calculations more to the actual performance of Group's loan portfolio during 2020 instead vs. previous inputs based in performance during 2008-2009 financial crisis. The impairment overlay concept is maintained as the uncertainty continues to persist.

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

Classification of impairment stages

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

Changes in the allowances for credit losses and provisions

	Group, EUR thousands				
	Opening balance 01/01/2021	**Charged to statement of income**	**Write-offs of allowances**	**Acquisition and other adjustments**	**Closing balance 31/12/2021**
Stage 1					
Loans to credit institutions	104	(21)	-	10	93
Debt securities	1,191	822	-	2	2,015
Loans to public	19,662	8,196	-	7,346	35,204
Including impairment overlay	*4,130*	*(1,834)*	-	*2,884*	*5,180*
Loan commitments, guarantees and letters of credit	1,903	1,473	-	2	3,378
Total stage 1 credit losses and provisions	**22,860**	**10,470**	**-**	**7,360**	**40,690**
Stage 2					
Loans to public	4,058	(167)	-	6,811	10,702
Loan commitments, guarantees and letters of credit	41	317	-	-	358
Total stage 2 credit losses and provisions	**4,099**	**150**	**-**	**6,811**	**11,060**
Stage 3					
Loans to public	35,720	(4,971)	(9,346)	14,306	35,709
Loan commitments, guarantees and letters of credit	167	(69)	-	-	98
Total stage 3 credit losses and provisions	**35,887**	**(5,040)**	**(9,346)**	**14,306**	**35,807**
Total allowances for credit losses and provisions	**62,846**	**5,580**	**(9,346)**	**28,477**	**87,557**
Including for debt securities classified at fair value through other comprehensive income	*135*				*136*
Including for loans of SIA Citadele Leasing	-				*15,286*

In the year ended 31 December 2021, the increase of EUR 15.3 million in the Group's consolidated period end balance of allowances for credit losses is a result of the recent acquisition of SIA UniCredit Leasing (renamed to SIA Citadele Leasing), while the increase of EUR 1.1 million in the Bank's standalone stock of allowances for credit losses and provisions relates to credit lines extended to the recently acquired subsidiary. EUR 26.8 million from the total "Acquisition and other adjustments" relate to SIA UniCredit Leasing acquisition.

In case of purchased or originated credit impaired (POCI) loans originated before acquisition date by the recently acquired subsidiary, the initial recognition date for these POCI loans in the Group's consolidated accounts is the acquisition date of the subsidiary. For POCI loans only the cumulative changes in lifetime expected credit losses since initial recognition are recognised as a loss allowance. Favourable changes in lifetime expected credit losses are recognised as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

Total Group's provisions of EUR 3,934 thousand (2020: EUR 2,211 thousand) as of the period end comprise of ECL allowances for loan commitments, guarantees and letters of credit of EUR 3,834 thousand (2020: EUR 2,111 thousand) and other Non-ECL provisions of EUR 100 thousand (2020: EUR 100 thousand) disclosed in Note 12 (*Other Impairment Losses and Other Provisions*). Total Bank's provisions of EUR 3,882 thousand (2020: EUR 2,133 thousand) as of the period end comprise EUR 3,781 thousand (2020: EUR 2,033 thousand) for loan commitments, guarantees and letters of credit and EUR 100 thousand (2020: EUR 100 thousand) for other Non-ECL provisions.

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

	Bank, EUR thousands				
	Opening balance 01/01/2021	**Charged to statement of income**	**Write-offs of allowances**	**Other adjustments**	**Closing balance 31/12/2021**
Stage 1					
Loans to credit institutions	104	(12)	-	1	93
Debt securities	1,127	799	-	1	1,927
Loans to public	17,384	5,818	-	(18)	23,184
Including impairment overlay (Note 3, section ff)	*3,233*	*(1,802)*	-	-	*1,431*
Loan commitments, guarantees and letters of credit	1,825	1,499	-	1	3,325
Total stage 1 credit losses and provisions	**20,440**	**8,104**	**-**	**(15)**	**28,529**
Stage 2					
Loans to public	3,901	4,972	-	-	8,873
Loan commitments, guarantees and letters of credit	41	317	-	-	358
Total stage 2 credit losses and provisions	**3,942**	**5,289**	**-**	**-**	**9,231**
Stage 3					
Loans to public	34,475	2,105	(5,754)	1,718	32,544
Loan commitments, guarantees and letters of credit	167	(69)	-	-	98
Total stage 3 credit losses and provisions	**34,642**	**2,036**	**(5,754)**	**1,718**	**32,642**
Total allowances for credit losses and provisions	**59,024**	**15,429**	**(5,754)**	**1,703**	**70,402**
Including for debt securities classified at fair value through other comprehensive income	*81*				*97*

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

NOTE 12. OTHER IMPAIRMENT LOSSES AND OTHER PROVISIONS

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

	Group, EUR thousands			
	Opening balance 01/01/2021	Charged to statement of income	Write-offs and other adjustments	Closing balance 31/12/2021
Other impairment allowances and other provisions				
Tangible and intangible assets (*Note 20*)	353	-	-	353
Other assets	1,433	198	(89)	1,542
Non-ECL provisions	100	-	-	100
Total other impairment allowance and other provisions	**1,886**	**198**	**(89)**	**1,995**

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

	Bank, EUR thousands			
	Opening balance 01/01/2021	Charged to statement of income	Write-offs and other adjustments	Closing balance 31/12/2021
Other impairment allowances and other provisions				
Tangible and intangible assets (*Note 20*)	342	-	-	342
Investments in related entities	24,177	(1,140)	(114)	22,923
Other assets	1,350	199	(82)	1,467
Non-ECL provisions	100	-	-	100
Total other impairment allowance and other provisions	**25,969**	**(941)**	**(196)**	**24,832**

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

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

NOTE 13. TAXATION

Corporate income tax expense

	EUR thousands			
	2021 Group	2020 Group	2021 Bank	2020 Bank
Current corporate income tax	971	388	318	117
Deferred income tax	626	(82)	-	-
Total corporate income tax expense	**1,597**	**306**	**318**	**117**

In Latvia and Estonia corporate income tax (CIT) is payable when the profits are distributed, not when the profits are earned. Correspondingly, the deferred tax is calculated at a tax rate which applies to undistributed earnings, which is 0%. The effective tax rate in the reporting period for the Group and the Bank in Latvia and Estonia was close to 0%. In Latvia, incremental CIT expense does not arise on dividend distribution from retained earnings generated under the previous tax regime (EUR 81.8 million for the Bank), and there is no expiry date for this distribution right. In Latvia, for dividend distributions from profits earned under the current tax regime, a 20% CIT rate applies and is calculated as 0.2/0.8 from net distributed dividend. In other jurisdictions where the Group operates, earnings are taxable when earned. The effective tax rate for Lithuanian operations was less than 10%, primarily due to a positive impact from revised estimates of recognisable unutilized tax loss. Overall, almost all of the Group's and the Bank's corporate income tax expense for the reporting period relates to Lithuania operations. As at period end, a part of the Group's and Bank's unutilised tax loss is not recognised for deferred tax asset purposes as there is uncertainty about availability of sufficient future taxable profits with which to offset accumulated tax loss at the level of the particular entity. The recognised deferred tax asset mostly represents unutilised tax loss in Lithuania.

Income tax assets and liabilities

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Deferred income tax assets	2,676	2,387	2,179	2,179
Current income tax assets	1,927	885	871	878
Tax assets	**4,603**	**3,272**	**3,050**	**3,057**
Deferred income tax liabilities	(376)	(464)	-	-
Current income tax liabilities	(197)	(213)	(189)	(115)
Tax liabilities	**(573)**	**(677)**	**(189)**	**(115)**

The Group has recognised a deferred tax liability of EUR 0.4 million as in Estonia it anticipates paying out dividends to Latvia. These dividends would become taxable at distribution.

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

	EUR thousands			
	2021 Group	2020 Group	2021 Bank	2020 Bank
As at the beginning of the period	1,923	1,753	2,179	2,179
Integration of SIA UniCredit Leasing	914	-	-	-
Charge to statement of income	(626)	82	-	-
Charge to statement of comprehensive income	89	88	-	-
Net deferred income tax asset at the period end	**2,300**	**1,923**	**2,179**	**2,179**

	Group, EUR thousands				
	Opening balance 31/12/2020	Integration of SIA UniCredit Leasing	Recognised in statement of OCI	Recognised in statement of income	Closing balance 31/12/2021
Deferred income and accrued expense	405	117	-	(79)	443
Recognised unutilised tax loss carry-forward	1,978	-	-	(192)	1,786
Fair value adjustment on the acquired loan portfolio	-	797	-	(349)	448
Expected distribution of retained earnings	(375)	-	-	-	(375)
Other items, net	(85)	-	89	(6)	(2)
Deferred income tax assets, net	**1,923**	**914**	**89**	**(626)**	**2,300**

	Bank, EUR thousands			
	Opening balance 31/12/2020	Recognised in statement of income	Recognised in statement of OCI	Closing balance 31/12/2021
Deferred income and accrued expense	332	61	-	393
Recognised unutilised tax loss carry-forward	1,847	(61)	-	1,786
Deferred income tax assets, net	**2,179**	**-**	**-**	**2,179**

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

	EUR thousands			
	2021 Group	2020 Group	2021 Bank	2020 Bank
Profit before corporate income tax	56,642	3,914	29,961	(4,644)
Corporate income tax (at 20%)	**11,328**	**783**	**5,992**	**(929)**
Undistributed earnings taxable on distribution	(9,216)	4	(4,939)	1,517
Effect of tax rates in foreign jurisdictions	(900)	(518)	(255)	(147)
Non-taxable income	(2,384)	(707)	(295)	(247)
Non-deductible expense	1,715	930	286	112
Expected distribution of retained earnings	-	-	-	-
Other tax differences, net (incl. changes in unrecognised deferred tax asset)	1,054	(186)	(471)	(189)
Total effective corporate income tax	**1,597**	**306**	**318**	**117**

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

NOTE 14. CASH AND CASH BALANCES AT CENTRAL BANKS

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Cash	39,942	37,810	39,942	37,810
Balances with the Bank of Latvia	234,860	1,016,446	234,860	1,016,446
Balances with other central banks	96,223	92,350	86,824	76,752
Total cash and balances with central banks	**371,025**	**1,146,606**	**361,626**	**1,131,008**

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

NOTE 15. DEBT SECURITIES

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

	Group, EUR thousands					
	31/12/2021			31/12/2020		
	At fair value through other comprehensive income	At amortised cost	Total	At fair value through other comprehensive income	At amortised cost	Total
Investment grade:						
AAA/Aaa	60,706	98,933	159,639	67,640	108,929	176,569
AA/Aa	37,904	268,521	306,425	78,451	251,826	330,277
A	225,476	1,024,958	1,250,434	204,857	988,657	1,193,514
BBB/Baa	16,118	19,059	35,177	25,763	23,389	49,152
Lower ratings or unrated	497	49,548	50,045	263	10,415	10,678
Total debt securities	**340,701**	**1,461,019**	**1,801,720**	**376,974**	**1,383,216**	**1,760,190**
Including general government	*217,119*	*1,096,043*	*1,313,162*	*197,816*	*1,036,342*	*1,234,158*
Including credit institutions	*35,606*	*163,270*	*198,876*	*79,665*	*176,665*	*256,330*
Including classified in stage 1	*340,701*	*1,461,019*	*1,801,720*	*376,974*	*1,383,216*	*1,760,190*

	Bank, EUR thousands					
	31/12/2021			31/12/2020		
	At fair value through other comprehensive income	At amortised cost	Total	At fair value through other comprehensive income	At amortised cost	Total
Investment grade:						
AAA/Aaa	32,727	84,967	117,694	27,671	93,808	121,479
AA/Aa	14,703	256,295	270,998	33,067	238,556	271,623
A	184,238	1,011,665	1,195,903	162,938	974,237	1,137,175
BBB/Baa	1,498	16,668	18,166	1,034	21,949	22,983
Lower ratings or unrated	-	49,547	49,547	-	10,415	10,415
Total debt securities	**233,166**	**1,419,142**	**1,652,308**	**224,710**	**1,338,965**	**1,563,675**
Including general government	*185,496*	*1,083,706*	*1,269,202*	*158,559*	*1,016,650*	*1,175,209*
Including credit institutions	*5,219*	*151,193*	*156,412*	*27,505*	*167,613*	*195,118*
Including classified in stage 1	*233,166*	*1,419,142*	*1,652,308*	*224,710*	*1,338,965*	*1,563,675*

Unrated debt securities or debt securities with lower ratings than BBB are mainly with corporates and are acquired or in some cases structured by the Bank as an alternative to ordinary lending transactions. Among considerations for originating such lending products is longer-term indirect benefits from development in local corporate debt markets and higher potential liquidity for lending products structured as debt securities.

Debt securities by country of issuer

	Group, EUR thousands					
	31/12/2021			31/12/2020		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Lithuania	590,023	45,847	635,870	594,762	6,951	601,713
Latvia	478,272	3,500	481,772	417,450	3,526	420,976
Estonia	75,608	21,374	96,982	48,027	20,480	68,507
Germany	12,710	72,922	85,632	16,011	60,846	76,857
Poland	70,246	6,060	76,306	71,716	5,574	77,290
United States	12,718	34,527	47,245	11,680	50,395	62,075
Netherlands	10,651	33,504	44,155	14,641	81,459	96,100
Sweden	3,083	40,842	43,925	3,107	42,602	45,709
Canada	-	41,933	41,933	5,192	43,718	48,910
Finland	5,000	30,910	35,910	4,998	32,819	37,817
Multilateral development banks	-	49,532	49,532	-	49,650	49,650
Other countries and funds	54,851	107,607	162,458	46,574	128,012	174,586
Total debt securities	**1,313,162**	**488,558**	**1,801,720**	**1,234,158**	**526,032**	**1,760,190**

	Bank, EUR thousands					
	31/12/2021			31/12/2020		
	Government bonds	Other securities	Total	Government bonds	Other securities	Total
Lithuania	582,026	44,111	626,137	586,259	5,411	591,670
Latvia	468,861	2,185	471,046	408,536	2,067	410,603
Estonia	75,608	19,230	94,838	48,027	18,823	66,850
Germany	10,000	59,468	69,468	9,999	46,280	56,279
Poland	66,246	3,075	69,321	68,507	3,092	71,599
United States	12,718	34,527	47,245	9,999	29,813	39,812
Netherlands	10,651	33,504	44,155	10,870	64,664	75,534
Canada	-	41,933	41,933	-	35,181	35,181
Sweden	-	39,516	39,516	-	39,177	39,177
Finland	5,000	30,910	35,910	4,998	31,163	36,161
Multilateral development banks	-	49,532	49,532	-	37,262	37,262
Other countries and funds	38,092	25,115	63,207	28,014	75,533	103,547
Total debt securities	**1,269,202**	**383,106**	**1,652,308**	**1,175,209**	**388,466**	**1,563,675**

No payments on the debt securities are past due. Total exposure to any single country within “Other countries” group as of period end is smaller than 10% of the regulatory capital.

NOTE 16. LOANS TO PUBLIC

Loans by customer profile, industry profile and product type

	EUR thousands			
	31/12/2021 Group	**31/12/2020 Group**	**31/12/2021 Bank**	**31/12/2020 Bank**
Financial and non-financial corporations				
Real estate purchase and management	261,626	215,831	248,158	212,639
Manufacturing	232,824	146,386	121,038	117,009
Transport and communications	219,457	100,920	33,327	38,161
Trade	191,534	109,635	78,804	86,307
Agriculture and forestry	148,497	79,927	73,439	56,156
Construction	136,358	40,760	58,533	29,761
Electricity, gas and water supply	78,990	46,059	49,744	43,727
Hotels, restaurants	45,003	43,108	39,334	41,321
Financial intermediation	26,266	22,470	990,811	219,877
Other industries	178,615	44,023	35,068	24,401
Total financial and non-financial corporations	**1,519,170**	**849,119**	**1,728,256**	**869,359**
Households				
Mortgage loans	782,995	541,636	782,995	541,636
Credit for consumption	71,544	68,721	71,544	68,721
Card lending	55,794	58,411	55,794	58,411
Finance leases	307,597	42,848	-	-
Other lending	24,959	20,204	18,983	16,515
Total households	**1,242,889**	**731,820**	**929,316**	**685,283**
General government	**21,065**	**19,724**	**16,742**	**19,431**
Total gross loans to public	**2,783,124**	**1,600,663**	**2,674,314**	**1,574,073**
Impairment allowance and provisions	(81,615)	(59,440)	(64,601)	(55,760)
Total net loans to public	**2,701,509**	**1,541,223**	**2,609,713**	**1,518,313**

Loans by overdue days and impairment stage

	Group, EUR thousands									
	31/12/2021					**31/12/2020**				
	Gross amount					**Gross amount**				
	Stage 1	**Stage 2**	**Stage 3 and POCI**	**Expected credit loss allowance**	**Net carrying amount**	**Stage 1**	**Stage 2**	**Stage 3 and POCI**	**Expected credit loss allowance**	**Net carrying amount**
Loans to public										
Not past due	2,412,494	216,166	44,911	(44,319)	2,629,252	1,429,589	84,151	13,780	(25,946)	1,501,574
Past due <=30 days	38,085	10,287	993	(5,983)	43,382	22,496	4,736	1,095	(1,321)	27,006
Past due >30 and ≤90 days	-	15,100	7,635	(2,587)	20,148	-	4,043	1,873	(1,701)	4,215
Past due >90 days	-	-	37,453	(28,726)	8,727	-	-	38,900	(30,472)	8,428
Total loans to public	**2,450,579**	**241,553**	**90,992**	**(81,615)**	**2,701,509**	**1,452,085**	**92,930**	**55,648**	**(59,440)**	**1,541,223**
Guarantees and letters of credit	29,002	100	161	(222)	29,041	22,418	-	51	(142)	22,327
Financial commitments	378,107	9,217	275	(3,605)	383,994	258,432	1,814	408	(1,969)	258,685
Total credit exposure to public	**2,857,688**	**250,870**	**91,428**	**(85,442)**	**3,114,544**	**1,732,935**	**94,744**	**56,107**	**(61,551)**	**1,822,235**

As of 31 December 2021, the gross amount of Group's POCI loans to public is EUR 26.1 million (2020: EUR 0 million). The recognised expected credit loss allowance on POCI loans to public is EUR 0.2 million (2020: EUR 0 million). Off-balance sheet credit exposure comprises various committed financing facilities to the borrowers. For details refer to Note 27 (*Off-balance Sheet Items*).

	Bank, EUR thousands									
	31/12/2021					31/12/2020				
	Gross amount			Expected credit loss allowance	Net carrying amount	Gross amount			Expected credit loss allowance	Net carrying amount
	Stage 1	Stage 2	Stage 3			Stage 1	Stage 2	Stage 3		
Loans to public										
Not past due	2,435,524	141,440	27,492	(29,803)	2,574,653	1,425,915	81,574	11,803	(23,180)	1,496,112
Past due <=30 days	22,051	9,185	826	(5,738)	26,324	7,870	2,969	902	(1,105)	10,636
Past due >30 and ≤90 days	-	3,237	1,375	(1,220)	3,392	-	3,155	1,674	(1,554)	3,275
Past due >90 days	-	-	33,184	(27,840)	5,344	-	-	38,211	(29,921)	8,290
Total loans to public	**2,457,575**	**153,862**	**62,877**	**(64,601)**	**2,609,713**	**1,433,785**	**87,698**	**52,590**	**(55,760)**	**1,518,313**
Guarantees and letters of credit	33,601	100	161	(222)	33,640	21,761	-	51	(142)	21,670
Financial commitments	421,574	9,217	275	(3,552)	427,514	273,867	1,814	408	(1,891)	274,198
Total credit exposure to public	**2,912,750**	**163,179**	**63,313**	**(68,375)**	**3,070,867**	**1,729,413**	**89,512**	**53,049**	**(57,793)**	**1,814,181**

Stage 3 loans to public ratio

	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Stage 3 loans to public ratio, gross	**3.3%**	**3.5%**	**2.4%**	**3.3%**
Stage 3 loans to public ratio, net	**2.0%**	**1.3%**	**1.2%**	**1.2%**
Stage 3 impairment ratio	**39.2%**	**64%**	**52%**	**66%**

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

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

NOTE 17. LEASES

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

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Transport vehicles	719,261	156,895	-	-
Manufacturing equipment	129,037	30,051	-	-
Industrial, office and other equipment	151,445	11,219	-	-
Total present value of finance lease payments, excluding impairment	**999,743**	**198,165**	**-**	**-**
Impairment allowance	(16,747)	(3,527)	-	-
Net present value of finance lease payments	**982,996**	**194,638**	**-**	**-**

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

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Gross investment in finance leases receivable:				
within one year	314,036	77,812	-	-
in year two	268,991	57,115	-	-
in year three	221,304	42,568	-	-
in year four	147,375	24,057	-	-
In year five	97,397	12,642	-	-
later than in five years	15,041	311	-	
Total gross investment in finance leases	**1,064,144**	**214,505**	**-**	**-**
Unearned finance income receivable:				
within one year	(27,366)	(6,557)	-	-
in year two	(18,228)	(4,902)	-	-
in year three	(11,011)	(3,050)	-	-
in year four	(5,609)	(1,394)	-	-
In year five	(1,767)	(432)	-	-
later than in five years	(420)	(5)	-	-
Total	**(64,401)**	**(16,340)**	**-**	**-**
Present value of minimum lease payments receivable:				
within one year	286,670	71,255	-	-
in year two	250,763	52,213	-	-
in year three	210,293	39,518	-	-
in year four	141,766	22,663	-	-
In year five	95,630	12,210	-	-
later than in five years	14,621	306	-	-
Total	**999,743**	**198,165**	**-**	**-**

NOTE 18. EQUITY AND OTHER FINANCIAL INSTRUMENTS

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

	Group, EUR thousands							
	31/12/2021				31/12/2020			
	Mutual investment funds	Foreign equities	Latvian equities	Total	Mutual investment funds	Foreign equities	Latvian equities	Total
Non-trading financial assets at fair value through profit or loss	42,032	1,076	-	43,108	43,343	4,497	-	47,840
Financial assets at fair value through other comprehensive income	-	79	124	203	-	143	124	267
Total non-fixed income securities, net	**42,032**	**1,155**	**124**	**43,311**	**43,343**	**4,640**	**124**	**48,107**
Including unit-linked insurance plan assets	*25,476*	*-*	*-*	*25,476*	*21,026*	*-*	*-*	*21,026*

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

As of 31 December 2021, the Bank and the Group has investments in mutual investment funds with carrying amounts of EUR 7.4 million (2020: EUR 13.8 million) and EUR 25.8 million (2020: EUR 27.2 million) which are managed by IPAS CBL Asset Management. Further, EUR 15.2 million (2020: EUR 10.8 million) of these Group's investments relate to unit-linked contracts, where the risk associated with the investments made is fully attributable to the counterparty entering the insurance agreement and not the underwriter. These exposures have been acquired only with investment intentions. The Bank has no exposure to investments related to unit-linked contracts.

	Bank, EUR thousands							
	31/12/2021				31/12/2020			
	Mutual investment funds	Foreign equities	Latvian equities	Total	Mutual investment funds	Foreign equities	Latvian equities	Total
Non-trading financial assets at fair value through profit or loss	7,400	1,076	-	8,476	13,834	4,497	-	18,331
Financial assets at fair value through other comprehensive income	-	79	124	203	-	143	124	267
Total non-fixed income securities, net	**7,400**	**1,155**	**124**	**8,679**	**13,834**	**4,640**	**124**	**18,598**

NOTE 19. INVESTMENTS IN RELATED ENTITIES

Changes in investments in related entities of the Bank

	EUR thousands	
	12m 2021	12m 2020
Balance at the beginning of the period, net	**46,756**	**34,161**
Equity investments and acquisitions	29,203	-
Investments in associates accounted for using the equity method	5	274
Liquidation of subsidiary	(8)	(649)
Change in impairment allowance	1,131	12,970
Balance at the end of the period, net	**77,087**	**46,756**
Including associates accounted for using the equity method	*279*	*274*
Including gross investment in subsidiaries	*99,731*	*70,660*

Acquisition of UniCredit leasing operations in the Baltics

In 2019 AS Citadele banka entered into a binding agreement with UniCredit S.p.A. to acquire UniCredit's Baltic leasing operations through the acquisition of 100% of the shares in SIA UniCredit Leasing. Citadele obtained full control from the beginning of January 2021. After completion of the acquisition transaction in 2021, the acquired entity was renamed to SIA Citadele Leasing. The acquisition includes Estonian and Lithuanian branches of the leasing entity and a subsidiary SIA CL Insurance Broker (former legal name SIA UniCredit Insurance Broker). After the acquisition, Citadele refinanced existing borrowings of the acquired entity and committed lending of up to EUR 880 million in total. Over the two-year period leading up to the acquisition date a total of EUR 0.7 million acquisition costs were incurred. All acquisition-related costs have been recognised as other operating expense.

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

As of period end, the sales-purchase price has been finalised. The final settlement and the acquisition accounting for the business combination has been completed. Based on the fair value assessments of the business (modelling present value of future expected free equity distributable to the shareholders, after required equity allocation for capital adequacy compliance), assets, liabilities, potential intangibles and onerous agreements acquired, the major fair value adjustment was allocated to the loan portfolio, which was the main asset of the acquired entity. Key assumptions in the fair value estimation were impairment levels and expected yields of the acquired loan portfolio. The fair value adjustment in relation to the Lithuanian branch of the acquired business triggered recognition of a deferred tax asset in the amount of EUR 0.8 million. The fair value assessment of the loan portfolio was derived by discounting expected future loan cash flows with up-to-date required lending yields and by estimating recoverability of the acquired loan contracts. The undiscounted gross contractual amounts receivable from the acquired loan portfolio were EUR 908 million with EUR 37 million recognised as an impairment loss on the contractual cash flows not expected to be collected. Besides allowances for impairment loss, on average higher required rate of return versus actual effective interest rates of the acquired loan portfolio contributed to a lower fair value than the portfolio's acquisition date carrying value.

Major agreements, customer-related intangibles and assumed commitments were analysed in detail, in particular client loyalty, acquiree's client portfolio overlap with existing Citadele's clients, sales channel structure and arrangements. Acquiree's existing borrowing from credit institutions were refinanced on the acquisition date at the amount outstanding which was fair value of these liabilities. Acquiree's existing trademarks were not part of the sales-purchase transaction and after a short transition period, usage of these was ceased.

Identifiable assets acquired and liabilities assumed as of the acquisition date of UniCredit leasing operations in the Baltics

Citadele obtained full control of the acquiree from the beginning of January 2021 which is the date of the transaction. No gain from bargain purchase or goodwill was recognised on the transaction as the fair value of the identifiable net assets acquired approximated the total consideration paid in cash to the previous owner. The overall day-one cash outflow for the Group as a result of the acquisition was EUR 799 million, as besides consideration paid and cash and cash equivalent obtained, AS Citadele Banka at an arm's length transaction refinanced acquiree's existing borrowing from credit institutions.

	EUR thousands
Cash and credit institution balances	23,709
Loans to public	792,341
Tangible and intangible assets	11,843
Deferred tax assets	915
Other assets	10,948
Borrowing from credit institutions	(793,056)
Other liabilities	(16,547)
Provisions	(950)
Total fair value of identifiable net assets acquired	**29,203**
Total consideration, paid in cash	(29,203)
Gain from bargain purchase / (Goodwill)	**-**

Changes in investments in and valuation of other subsidiaries

SIA Hortus Land was liquidated on 27 September 2021 as the entity had no ongoing operations. Similarly, Calenia Investments Limited was liquidated in December 2021.

In the reporting period valuation of SIA Citadele Factoring, SIA Citadeles moduļi and SIA Hortus Residential was reassessed. In total EUR 1.1 million net release of impairment in the investments in these subsidiaries was recognised as a result of an improved expectations of future free cash flows distributable to shareholders of SIA Citadele Factoring and an improved profitability of SIA Hortus Residential while for SIA Citadeles moduļi future expenditure was reassessed resulting in decrease in valuation.

Carrying value of the investment in SIA Citadele Factoring is derived from present value of expected free equity distributable to the shareholders, after required equity allocation for capital adequacy compliance. The target capital adequacy ratio is set at 12% and includes allocated charges for all banking risks inherent in the business model of the leasing plus full set of regulatory buffers as applicable for the Group consolidated and on top of that a managements buffer. Other key inputs of the model are 12.0% (2020: 12.0%) discount rate and future profitability of the operations of the entity. Sensitivity scenarios: if discount rate was +/-100 basis points than the carrying value would change by EUR -0.8/+0.9 million (2020: EUR +/-0.2 million), if net result was +/-10% than the carrying value would change by EUR +/-1.3 million (2020: EUR +/-0.04 million).

Carrying value of the investment in SIA Citadeles moduļi is estimated as a residual interest in the assets of the entity (mostly cash) after deducting all of its liabilities, adjusted for future cash flows. Previously the major asset of the entity was the Group's Latvian headquarters building. After the sale of the property in 2020 the major asset of the company is cash. As of 31 December 2021 and 31 December 2020 the valuation of the company is not sensitive to any significant key inputs.

Consolidation Group subsidiaries and associated entities for accounting purposes

Company	Registration number	Registration address and country	Company type*	Basis for inclusion in the Group**	The Group's share (%)	% of total voting rights	Carrying value EUR thousands 31/12/2021	Carrying value EUR thousands 31/12/2020
AS Citadele banka	40103303559	Latvia, Riga, Republikas laukums 2A	BNK	MT	-	-	-	-
SIA Citadele Leasing	40003423085	Latvia, Riga, Republikas laukums 2A	LIZ	MS	100	100	29,203	-
SIA Citadeles moduļi	40003397543	Latvia, Riga, Republikas laukums 2A	PLS	MS	100	100	15,752	15,932
Kaleido Privatbank AG	130.0.007.738-0	Switzerland, Bellerivestrasse 17, 8008, Zürich	BNK	MS	100	100	13,805	13,805
SIA Citadele Factoring	50003760921	Latvia, Riga, Republikas laukums 2A	LIZ	MS	100	100	8,043	6,921
IPAS CBL Asset Management	40003577500	Latvia, Riga, Republikas laukums 2A	IPS	MS	100	100	5,906	5,906
UAB Citadele Factoring	126233315	Lithuania, Upės g. 21, Vilnius, LT-0812	LIZ	MS	100	100	2,149	2,149
SIA Hortus Residential	40103460622	Latvia, Riga, Republikas laukums 2A	PLS	MS	100	100	859	670
AS CBL Atklātais Pensiju Fonds	40003397312	Latvia, Riga, Republikas laukums 2A	PFO	MS	100	100	646	646
OU Citadele Factoring	10925733	Estonia, Tallinn 10152, Narva mnt. 63/1	LIZ	MS	100	100	445	445
SIA Mobilly (Investments in associates accounted for using the equity method)	40003654405	Latvia, Dzirnavu iela 91 k-3 - 20, Rīga, LV-1011	ENI	CT	12.5	12.5	279	274
SIA Hortus Land (liquidated)	40103460961	Latvia	PLS	MS	100	100	-	8
SIA CL Insurance Broker	40003983430	Latvia, Riga, Republikas laukums 2A	PLS	MMS	100	100	-	-
AAS CBL Life	40003786859	Latvia, Riga, Republikas laukums 2A	APS	MMS	100	100	-	-
Total net investments in subsidiaries and associated entities							**77,087**	**46,756**

On 1 April 2021 the legal name of the Swiss registered banking subsidiary AP Anlage & Privatbank AG was changed to Kaleido Privatbank AG. Similarly, in the reporting period SIA Citadele Līzings un Faktorings was renamed to SIA Citadele Factoring, UAB Citadele faktoringas ir lizingas was renamed to UAB Citadele Factoring and OU Citadele Leasing & Factoring was renamed to OU Citadele Factoring.

Consolidation Group subsidiaries in liquidation process in foreign jurisdictions

Company	Registration number	Registration address and country	Company type*	Basis for inclusion in the Group**	The Group's share (%)	% of total voting rights	Carrying value EUR thousands 31/12/2021	Carrying value EUR thousands 31/12/2020
OOO Mizush Asset Management Ukraina (in liquidation)	32984601	Ukraine	IBS	MMS	100	100	-	-

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

OOO Mizush Asset Management Ukraina is in liquidation as this Group subsidiaries had no ongoing business operations. For OOO Mizush Asset Management Ukraina a liquidator (AA PricewaterhouseCoopers Legal) has been appointed. The final tax audit has been completed. The final report is being prepared and will be submitted as per statutory requirement; in due time a formal liquidation decision from the statutory register is expected.

NOTE 20. TANGIBLE AND INTANGIBLE ASSETS

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Transport vehicles	7,653	144	58	98
Right-of-use assets	6,774	7,360	6,522	8,881
IT and other equipment	4,409	3,368	3,308	3,329
Leasehold improvements	1,318	1,194	1,318	1,194
Land and buildings	290	864	290	641
Total tangible assets	**20,444**	**12,930**	**11,496**	**14,143**
Software	7,088	5,042	4,995	4,923
Other intangible assets	163	127	107	127
Prepayments for intangible assets	1,311	812	981	782
Total intangible assets	**8,562**	**5,981**	**6,083**	**5,832**
Total tangible and intangible assets	**29,006**	**18,911**	**17,579**	**19,975**

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

Changes in tangible and intangible assets of the Group

	Leasehold improve-ments	Land and buildings	Trans-port vehicles	Right-of-use assets	Invest-ment proper-ties	IT and other equipment	Software	Other intangible assets	Total excluding prepayments
Historical cost									
As at 31 December 2019	**1,168**	**53,086**	**762**	**3,087**	**18,273**	**23,244**	**24,754**	**351**	**124,725**
Additions	813	4	9	8,901	-	1,149	2,522	3	13,401
Disposals and write-offs	(62)	(51,424)	(228)	(4,628)	(18,273)	(9,245)	-	(50)	(83,910)
As at 31 December 2020	**1,919**	**1,666**	**543**	**7,360**	**-**	**15,148**	**27,276**	**304**	**54,216**
Additions	634	13	11,371	5,703	-	3,828	6,146	124	27,819
Disposals and write-offs	(275)	(650)	(1,592)	(6,289)	-	(2,501)	(128)	(71)	(11,506)
As at 31 December 2021	**2,278**	**1,029**	**10,322**	**6,774**	**-**	**16,475**	**33,294**	**357**	**70,529**
Accumulated depreciation									
As at 31 December 2019	**505**	**21,778**	**519**	**-**	**7,751**	**19,118**	**20,142**	**202**	**70,015**
Charge for the year	277	1,982	87	1,989	124	1,469	2,092	24	8,044
Disposals	(57)	(23,300)	(207)	(1,989)	(7,875)	(8,818)	-	(49)	(42,295)
As at 31 December 2020	**725**	**460**	**399**	**-**	**-**	**11,769**	**22,234**	**177**	**35,764**
Charge for the year	426	29	1,634	3,334	-	1,569	3,284	75	10,351
Incl. assets under operating lease (Note 8)	-	-	*1,578*	-	-	-	-	-	*1,578*
Acquisition	32		1,209	-		1,109	763	14	3,127
Disposals	(223)	(92)	(573)	(3,334)	-	(2,392)	(75)	(72)	(6,761)
As at 31 December 2021	**960**	**397**	**2,669**	**-**	**-**	**12,055**	**26,206**	**194**	**42,481**
Impairment allowance									
As at 31 December 2019	**-**	**-**	**-**	**-**	**-**	**-**	**(113)**	**-**	**(113)**
Net reversal and write-offs	-	(342)	-	-	-	(11)	113	-	(240)
As at 31 December 2020	**-**	**(342)**	**-**	**-**	**-**	**(11)**	**-**	**-**	**(353)**
Net reversal and write-offs	-	-	-	-	-	-	-	-	-
As at 31 December 2021	**-**	**(342)**	**-**	**-**	**-**	**(11)**	**-**	**-**	**(353)**
Net carrying amount									
As at 31 December 2019	**663**	**31,308**	**243**	**3,087**	**10,522**	**4,126**	**4,499**	**149**	**54,597**
As at 31 December 2020	**1,194**	**864**	**144**	**7,360**	**-**	**3,368**	**5,042**	**127**	**18,099**
As at 31 December 2020	**1,318**	**290**	**7,653**	**6,774**	**-**	**4,409**	**7,088**	**163**	**27,695**

Changes in tangible and intangible assets of the Bank

	Leasehold improve-ments	Land and buildings	Trans-port vehicles	Right-of-use assets	Invest-ment proper-ties	IT and other equipment	Software	Other intangible assets	Total excluding prepayments
Historical cost									
As at 31 December 2019	**1,040**	**4,006**	**553**	**10,811**	**-**	**15,237**	**23,939**	**286**	**55,872**
Additions	813	-	9	8,901	-	1,077	2,525	3	13,328
Disposals and write-offs	(62)	(2,578)	(195)	(10,831)	-	(1,448)	-	(49)	(15,163)
As at 31 December 2020	**1,791**	**1,428**	**367**	**8,881**	**-**	**14,866**	**26,464**	**240**	**54,037**
Additions	539	13	-	1,368	-	1,293	2,632	-	5,845
Disposals and write-offs	(52)	(412)	(123)	(3,727)	-	(1,919)	(52)	-	(6,285)
As at 31 December 2021	**2,278**	**1,029**	**244**	**6,522**	**-**	**14,240**	**29,044**	**240**	**53,597**
Accumulated depreciation									
As at 31 December 2019	**397**	**1,051**	**392**	**-**	**-**	**11,576**	**19,555**	**140**	**33,111**
Charge for the year	257	35	57	4,003	-	1,329	1,986	21	7,688
Disposals	(57)	(641)	(180)	(4,003)	-	(1,368)	-	(48)	(6,297)
As at 31 December 2020	**597**	**445**	**269**	**-**	**-**	**11,537**	**21,541**	**113**	**34,502**
Charge for the year	412	28	32	3,328	-	1,288	2,508	20	7,616
Disposals	(49)	(76)	(115)	(3,328)	-	(1,893)	-	-	(5,461)
As at 31 December 2021	**960**	**397**	**186**	**-**	**-**	**10,932**	**24,049**	**133**	**36,657**
Impairment allowance									
As at 31 December 2019	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net reversal and write-offs	-	(342)	-	-	-	-	-	-	(342)
As at 31 December 2020	**-**	**(342)**	**-**	**-**	**-**	**-**	**-**	**-**	**(342)**
Net reversal and write-offs	-	-	-	-	-	-	-	-	-
As at 31 December 2021	**-**	**(342)**	**-**	**-**	**-**	**-**	**-**	**-**	**(342)**
Net carrying amount									
As at 31 December 2019	**643**	**2,955**	**161**	**10,811**	**-**	**3,661**	**4,384**	**146**	**22,761**
As at 31 December 2020	**1,194**	**641**	**98**	**8,881**	**-**	**3,329**	**4,923**	**127**	**19,193**
As at 31 December 2020	**1,318**	**290**	**58**	**6,522**	**-**	**3,308**	**4,995**	**107**	**16,598**

NOTE 21. OTHER ASSETS

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Money in transit	19,474	10,383	19,424	10,383
Repossessed assets	2,118	3,945	-	-
Deferred expenses and accrued income (maturing in less than 12 months from the period end)	10,629	6,719	6,062	2,719
Other assets	8,438	5,414	4,893	4,603
Total gross other assets	**40,659**	**26,461**	**30,379**	**17,705**
Impairment allowance	(1,542)	(1,433)	(1,467)	(1,350)
Total net other assets	**39,117**	**25,028**	**28,912**	**16,355**

As at 31 December 2021 and 2020 most of the impairment allowance for other assets relate to fully impaired overdue debt collection expenditure compensation receivable; net carrying amount of these assets is nil. As at 31 December 2021, the Group had no unimpaired delayed other assets (2020: EUR nil).

From time to time the Group repossesses from its customers certain assets serving as collateral, when the customers cannot otherwise meet their payment obligations and other loan work-out measures have been unsuccessful. Collateral obtained is recognised within other assets and are held for sale in near future. Real estate constitutes EUR 2.1 million of the repossessed assets as of 31 December 2021 (2020: EUR 3.8 million). Total net carrying value of the collateral obtained during the reporting period and still held at the end of the reporting period is EUR 0.2 million (2020: EUR 0.5 million). Other repossessed collaterals held at the end of the reporting period are from earlier periods.

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

NOTE 22. DEPOSITS FROM CREDIT INSTITUTIONS AND CENTRAL BANKS

Bank deposits and borrowings by type

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
ECB's targeted longer-term refinancing operations	475,810	438,833	475,810	438,833
Deposits from Citadele Group banks	-	-	20,393	20,968
Other credit institution deposits and collateral accounts	3,419	11,153	3,419	11,153
Other central bank deposits and accounts	6	5	6	5
Total deposits from credit institutions and central banks	**479,235**	**449,991**	**499,628**	**470,959**

On 24 June 2020, Citadele participated in the ECB's latest targeted longer-term refinancing operations (TLTRO-III) borrowing EUR 440 million. The maturity date of the facility is 28 June 2023 with an early repayment option starting on 29 September 2021. In June 2021 TLTRO-III borrowing was increased by EUR 40 million. From 24 June 2020 a basic interest rate on TLTRO-III borrowing has been -0.5%. The interest rate is linked to a reference rate which may change in the future. For banks meeting the ECB's specified lending criteria, which Citadele has met for the reference periods up to 31 December 2021, the interest rate can be as low as -1.0% and is applicable retrospectively. Based on an internal assessment, part of the inflow of economic benefits from TLTRO-III borrowing with negative effective interest rate, which may be justified as market rate, is recognised within interest income. The remainder is a benefit of the below-market rate of interest and is recognised within other income as a support or compensation for the fulfilment of the required obligations and supporting customer needs.

Due to Citadele meeting specified lending criteria and thus qualifying for -1.0% interest rate, instead of -0.5%, in the reporting period EUR 0.7 million was recognised as an additional interest income and EUR 2.7 million as a support for the fulfilment of the required government obligations.

NOTE 23. DEPOSITS AND BORROWINGS FROM CUSTOMERS

Deposits and borrowings by profile of the customer

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Households	2,048,986	2,095,185	2,001,336	1,992,892
Non-financial corporations	1,493,271	1,280,670	1,386,755	1,187,775
Financial corporations	214,207	228,679	220,034	230,572
General government	44,682	49,576	44,682	49,576
Other	12,717	17,280	12,717	17,281
Total deposits from customers	**3,813,863**	**3,671,390**	**3,665,524**	**3,478,096**

Deposits and borrowings from customers by contractual maturity

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Demand deposits	3,464,832	3,015,900	3,366,093	2,873,767
Term deposits due within:				
less than 1 month	61,678	100,229	58,141	94,722
more than 1 month and less than 3 months	60,500	130,020	51,867	124,224
more than 3 months and less than 6 months	37,064	53,559	27,036	47,918
more than 6 months and less than 12 months	128,875	255,437	122,432	250,857
more than 1 year and less than 5 years	51,452	105,619	36,521	81,248
more than 5 years	9,462	10,626	3,434	5,360
Total term deposits	349,031	655,490	299,431	604,329
Total deposits from customers	**3,813,863**	**3,671,390**	**3,665,524**	**3,478,096**

Deposits and borrowings from customers by categories

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
At amortised cost	3,774,118	3,635,380	3,665,524	3,478,096
At fair value through profit or loss	39,745	36,010	-	-
Total deposits from customers	**3,813,863**	**3,671,390**	**3,665,524**	**3,478,096**
Including unit-linked insurance plan liabilities	*25,772*	*21,629*	-	-

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

NOTE 24. DEBT SECURITIES ISSUED

Publicly listed debt securities

ISIN code of the issued bond	Eligibility	Currency	Interest rate	Initial maturity date	Principal, EUR thousands	Amortised cost, EUR thousands 31/12/2021	Amortised cost, EUR thousands 31/12/2020
XS2393742122	MREL eligible	EUR	1.625%	22/11/2026	200,000	198,714	-
LV0000880102	Subordinated	EUR	5.00%	13/12/2031	40,000	40,104	-
LV0000880011	Subordinated	EUR	5.50%	24/11/2027	20,000	20,077	20,070
LV0000802221	Subordinated	EUR	6.25%	06/12/2026	40,000	-	40,010
						258,895	**60,080**

Unsecured subordinated securities qualify for inclusion in the Bank's and the Group's Tier 2 capital. For details on capital adequacy refer to *Capital management* section of the Note 33 (*Risk Management*).

Redemption of subordinated bonds

In the beginning of December 2021, after obtaining all necessary regulatory approvals, AS Citadele Banka early redeemed subordinated bond liabilities (LV0000802221) of EUR 40 million. The early redemption right was exercised in order to maintain effective Citadele Group's Tier 2 capital structure.

Issuance of subordinated bonds and MREL eligible senior unsecured bonds

On 17 November 2021, AS Citadele Banka completed issuance of EUR 200 million of senior unsecured preferred bonds (XS2393742122). The bonds were issued with five years maturity, with issuer's optional redemption date after four years. The purpose of the issuance is to meet Minimum Requirement for own funds and Eligible Liabilities (MREL). The senior unsecured preferred bonds were offered to institutional investors. In total almost 40 investors participated in the offering. Out of total order book 59% was received from Nordic and Baltic investors, 27% from UK and 14% from investors of other European countries. The bonds were issued at a spread of 185 basis points over the mid-swap rate. The new security was priced with a coupon of 1.625%. The bonds are listed on Euronext Dublin and Nasdaq Riga. As of the issuance date, the bonds are rated Baa3 by Moody's.

On 10 December 2021 AS Citadele banka completed an oversubscribed issuance of EUR 40 million bonds (LV0000880102) in the local Baltic market by this contributing to the development of the Baltic capital markets. The bonds were issued with ten years maturity, with issuer's optional redemption date after five years and with fixed interest rate of 5% per annum. The purpose of this issuance was to further improve Citadele's capital adequacy ratio as well as to refinance the previous outstanding subordinated bonds issued in 2016. Citadele aims to strengthen the bank's capital position and to support the bank's ongoing growth strategy providing active lending to small and medium sized enterprises. The unsecured subordinated bonds were offered to institutional and retail investors in Latvia, Lithuania and Estonia, as well as institutional investors located in the Member State of the EEA. Out of total order book 52% was received from investors in Latvia, 20% from Lithuania, 19% from Estonia and 9% from other EU countries.

Profile of the bondholders as of the last coupon payment date of the subordinated bonds

ISIN code of the issued bond	Last coupon or origination date	Number of bondholders	Legal and professional investors			Private individuals		
			Number	EUR th.	%	Number	EUR th.	%
LV0000880102	13/12/2021	146	45	27,250	68%	101	12,750	32%
LV0000880011	24/05/2021	76	42	16,780	84%	34	3,220	16%

NOTE 25. OTHER LIABILITIES

Publicly listed debt securities

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Insurance reserves:				
Annuity pension products	41,492	30,940	-	-
Unearned premiums – life insurance	118	93	-	-
Unearned premiums – other insurance	48	55	-	-
IBNR, RBNS and other	19	42	-	-
Payables to lease suppliers	19,155	-	-	-
Employee related accruals	12,218	6,498	8,640	6,342
Other accrued expenses	8,348	7,836	5,417	5,006
Lease liabilities	7,614	8,769	6,529	8,699
Regulatory fee and similar accruals	1,876	2,182	1,876	2,182
Other liabilities	9,359	7,783	3,014	4,774
Total other liabilities	**100,247**	**64,198**	**25,476**	**27,003**

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

NOTE 26. SHARE CAPITAL

The Bank has one class ordinary shares. As of the period end, the Bank's registered and authorised share capital was EUR 159,344,468 (2020: EUR 158,511,384). From the total registered capital EUR 156,888,384 (2020: EUR 156,555,796) were issued and fully paid while EUR 2,456,084 (2020: EUR 1,955,588) were registered as conditional capital. The conditional capital represents the maximum number of shares that may be allocated for awarding to employees as share options. No dividends were proposed and paid during the reporting period. Each ordinary share carries one vote, a share in profits and is eligible for dividends.

Shareholders of the Bank

	31/12/2021		31/12/2020	
	Paid-in share capital (EUR)	Total shares with voting rights	Paid-in share capital (EUR)	Total shares with voting rights
European Bank for Reconstruction and Development	39,138,948	39,138,948	39,138,948	39,138,948
RA Citadele Holdings LLC[1]	42,772,216	42,772,216	35,082,302	35,082,302
Delan S.à.r.l.[2]	15,597,160	15,597,160	15,597,160	15,597,160
EMS LB LLC[3]	15,577,301	15,577,301	13,864,142	13,864,142
NNS Luxembourg Investments S.à.r.l.	-	-	13,864,142	13,864,142
Amolino Holdings Inc.[4]	15,639,924	15,639,924	13,863,987	13,863,987
Shuco LLC[5]	12,297,697	12,297,697	10,998,979	10,998,979
Members of the Management Board of the Bank	302,732	302,732	-	-
Other shareholders	15,562,406	15,562,406	14,146,136	14,146,136
Total	**156,888,384**	**156,888,384**	**156,555,796**	**156,555,796**

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

In the reporting period 332,588 share options, previously awarded to the employees of the Bank, vested. All options were exercised on the vesting date, from these 302,732 were exercised by the Members of the Management Board of the Bank.

Earnings per share

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

	12m 2021 Group	12m 2020 Group	12m 2021 Bank	12m 2020 Bank
Profit for the period, EUR thousands	55,045	3,608	29,643	(4,761)
Weighted average number of the ordinary shares outstanding during the period in thousands	156,722	156,556	156,722	156,556
Basic earnings per share in EUR	**0.35**	**0.02**	**0.19**	**(0.03)**
Weighted average number of the ordinary shares (basic) outstanding during the period in thousands	156,722	156,556	156,722	156,556
Effect of share options in issue in thousands	1,095	886	1,095	886
Weighted average number of the ordinary shares (diluted) outstanding during the period in thousands	**157,817**	**157,442**	**157,817**	**157,442**
Profit for the period, EUR thousands	55,045	3,608	29,643	(4,761)
Weighted average number of the ordinary shares (diluted) outstanding during the period in thousands	157,817	157,442	157,817	157,442
Diluted earnings per share in EUR	**0.35**	**0.02**	**0.19**	**(0.03)**

NOTE 27. OFF-BALANCE SHEET ITEMS

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

Contingent liabilities and financial commitments outstanding

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Contingent liabilities:				
Outstanding guarantees	17,333	18,138	21,932	17,481
Outstanding letters of credit with public	5,002	4,331	5,001	4,331
Contingent liabilities with credit institutions	11,930	1,434	11,930	1,434
Total contingent liabilities	**34,265**	**23,903**	**38,863**	**23,246**
Provisions for credit risk	(229)	(142)	(229)	(142)
Maximum credit risk exposure for guarantees and letters of credit	**34,036**	**23,761**	**38,634**	**23,104**
Financial commitments:				
Card commitments	122,102	124,135	122,118	124,140
Unutilised credit lines and overdraft facilities	66,443	50,723	166,571	88,818
Loans granted, not fully drawn down	145,566	63,131	142,376	63,131
Factoring commitments	53,488	22,665	-	-
Other commitments	344	396	-	-
Total financial commitments	**387,943**	**261,050**	**431,065**	**276,089**
Provisions for financial commitments	(3,605)	(1,969)	(3,552)	(1,891)
Maximum credit risk exposure for financial commitments	**384,338**	**259,081**	**427,513**	**274,198**

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

Notional amounts and fair values of derivatives of the Group

	Notional amount EUR thousands		Fair value EUR thousands			
	31/12/2021	31/12/2020	31/12/2021		31/12/2020	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Swaps	278,049	253,819	3,989	(614)	1,152	(4,124)
Forwards	12,842	24,661	314	(125)	322	(337)
Total foreign exchange contracts	**290,891**	**278,480**	**4,303**	**(739)**	**1,474**	**(4,461)**
Derivatives	**290,891**	**278,480**	**4,303**	**(739)**	**1,474**	**(4,461)**

Notional amounts and fair values of derivatives of the Bank

	Notional amount EUR thousands		Fair value EUR thousands			
	31/12/2021	31/12/2020	31/12/2021		31/12/2020	
			Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts:						
Swaps	278,049	253,819	3,989	(614)	1,152	(4,124)
Forwards	12,842	24,661	314	(125)	322	(337)
Total foreign exchange contracts	**290,891**	**278,480**	**4,303**	**(739)**	**1,474**	**(4,461)**
Derivatives	**290,891**	**278,480**	**4,303**	**(739)**	**1,474**	**(4,461)**

The Group's banks use derivative foreign exchange instruments to manage their currency positions, which arise also due to derivative foreign exchange contracts concluded with the banks' clients. Before entering into derivative foreign currency agreement with a private individual or a company, the Group's entities assess the counterparty's ability to meet the contractual provisions. As at 31 December 2021, 2% (2020: 29%) of the fair value of derivative assets on foreign exchange contracts is attributable to credit and finance institutions. As at 31 December 2021, none (2020: nil) of the receivables arising out of derivative transactions were past due.

NOTE 28. ASSETS UNDER MANAGEMENT

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

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Fixed income securities:				
Corporate bonds	193,845	206,766	-	-
Government bonds	71,233	68,552	-	-
Credit institution bonds	54,083	30,566	-	-
Other financial institution bonds	22,477	21,787	-	-
Total investments in fixed income securities	**341,638**	**327,671**	**-**	**-**
Other investments:				
Investment funds	641,845	485,557	-	-
Deposits with credit institutions	1,005	61,923	-	-
Compensations for distribution on behalf of deposit guarantee fund	12,049	17,284	12,049	17,284
Shares	116,175	71,771	-	-
Real estate	4,820	4,247	-	-
Loans	631	681	631	681
Other	31,777	91,774	-	-
Total other investments	**808,302**	**733,237**	**12,680**	**17,965**
Total assets under management	**1,149,940**	**1,060,908**	**12,680**	**17,965**

Customer profile on whose behalf the funds are managed

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/03/2020 Bank
Pension plans	814,908	745,174	-	-
Insurance companies, investment and pension funds	187,750	161,338	-	-
Other companies and government	19,397	54,057	12,680	17,965
Private individuals	127,885	100,339	-	-
Total liabilities under management	**1,149,940**	**1,060,908**	**12,680**	**17,965**

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

NOTE 29. FINANCIAL ASSETS PLEDGED

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Loans to credit institutions	353	1,802	-	1,470
Debt securities	526,755	461,670	524,996	459,965
Loans to customers and other assets	7,558	9,374	7,558	9,374
Total financial assets pledged	**534,666**	**472,846**	**532,554**	**470,809**
Total liabilities secured by pledged assets	**475,810**	**438,833**	**475,810**	**438,833**

All pledged amounts consist of placements to secure various Bank's and Group's transactions in the ordinary course of business. As at the period end, substantial part of the collateral is placed with the Bank of Latvia to secure EUR 480 million financing in the ECB's latest targeted longer-term refinancing operations (TLTRO-III). For details on TLTRO-III financing received refer to Note 22 (*Deposits from Credit Institutions and Central Banks*).

NOTE 30. CASH AND CASH EQUIVALENTS

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Cash and cash balances with central banks	371,025	1,146,606	361,626	1,131,008
Loans on demand to credit institutions	36,743	31,018	13,710	20,019
Demand deposits from central banks and credit institutions	(3,425)	(1,074)	(11,670)	(2,830)
Total cash and cash equivalents	**404,343**	**1,176,550**	**363,666**	**1,148,197**

NOTE 31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

Cash and balances at central banks

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

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

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

Loans to public

The fair value of loans and advances to customers is calculated by discounting expected future cash flows. The discount rate is the sum of money market rate as of the end of the reporting period and credit margin, which is adjusted for current market conditions. If all the Bank's assumed discount rates would change by 10%, the fair value of the loan portfolio would change by EUR 21.1 million (2020: EUR 16.4 million).

Debt securities

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

Equity instruments and other financial instruments at fair value

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

Equity instruments include Visa Inc. preferred C shares which have been valued by reference to consideration, which is contingent upon future events. The valuation is dependent on exchange rate, Visa Inc. stock price and preferred stocks' conversion ratio as well as liquidity discount. The instrument is categorised as Level 3. If the applied liquidity discount was decreased by 1000bp, the estimated fair value would increase by EUR 0.4 million as of 31 December 2021 (2020: EUR 0.4 million).

Derivatives

Derivatives are valued using techniques based on observable market data.

Deposits and borrowings from customers

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

The fair value of deposits and borrowings from customers repayable on demand is their carrying amount. The fair value of other deposits is calculated by discounting expected cash flows using average market interest rates close to or at the period-end. If all the assumed discount rates would change by 10%, the fair value of the non-subordinated non-life insurance deposit portfolio would change by EUR 0.03 million (2020: EUR 0.10 million).

The fair value of unit-linked investment contract liabilities is their carrying amount which equals fair value of unit-linked insurance plan assets. The fair value of other life insurance deposits carried at fair value through profit or loss is calculated by discounting expected cash flows using current effective deposit rates. If the assumed discount rates would change by +/-50bp, the fair value of the portfolio would decrease by EUR -71/+68 thousand.

The fair value of unit-linked investment contract liabilities is their carrying amount which equals fair value of unit-linked insurance plan assets. The fair value of other life insurance deposits carried at fair value through profit or loss is calculated by discounting expected cash flows using current effective deposit rates.

Debt securities issued

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

Fair value hierarchy

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

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

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

Fair values of financial assets and liabilities of the Group on 31 December 2021

			Fair value hierarchy (where applicable)		
	Carrying value	Total fair value	Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Financial assets measured at fair value:					
Debt securities	340,701	340,701	257,464	83,237	-
Equity instruments	1,279	1,279	-	-	1,279
Other financial instruments	42,032	42,032	42,032	-	-
Derivatives	4,303	4,303	-	4,303	-
Financial assets not measured at fair value:					
Cash and balances at central banks	371,025	371,025	-	-	-
Loans to credit institutions	58,742	58,742	-	-	-
Debt securities	1,461,019	1,463,194	1,304,631	139,075	19,488
Loans to public	2,701,509	2,712,632	-	-	2,712,632
Total assets	**4,980,610**	**4,993,908**	**1,604,127**	**226,615**	**2,733,399**
Financial liabilities measured at fair value:					
Derivatives	739	739	-	739	-
Deposits and borrowings from customers	39,745	39,745	25,772	-	13,973
Financial liabilities not measured at fair value:					
Deposits from credit institutions and central banks	479,235	479,235	-	-	-
Deposits and borrowings from customers	3,774,118	3,775,140	-	-	3,775,140
Debt securities issued	258,895	259,344	-	259,344	-
Total liabilities	**4,552,732**	**4,554,203**	**25,772**	**260,083**	**3,789,113**

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

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

Fair values of financial assets and liabilities of the Bank on 31 December 2021

	Carrying value	Total fair value	Fair value hierarchy (where applicable): Quoted market prices	Valuation technique - observable inputs	Valuation technique – non-market observable inputs
Financial assets measured at fair value:					
Debt securities	233,166	233,166	161,592	71,574	-
Equity instruments	1,279	1,279	-	-	1,279
Other financial instruments	7,400	7,400	7,400	-	-
Derivatives	4,303	4,303	-	4,303	-
Financial assets not measured at fair value:					
Cash and balances at central banks	361,626	361,626	-	-	-
Loans to credit institutions	35,693	35,693	-	-	-
Debt securities	1,419,142	1,420,473	1,269,110	131,875	19,488
Loans to public	2,609,713	2,620,836	-	-	2,620,836
Total assets	**4,672,322**	**4,684,776**	**1,438,102**	**207,752**	**2,641,603**
Derivatives measured at fair value	739	739	-	739	-
Financial liabilities not measured at fair value:					
Deposits from credit institutions and central banks	499,628	499,628	-	-	-
Deposits and borrowings from customers	3,665,524	3,666,588	-	-	3,666,588
Debt securities issued	258,895	259,344	-	259,344	-
Total liabilities	**4,424,786**	**4,426,299**	**-**	**260,083**	**3,666,588**

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

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

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

	EUR thousands			
	12m 2021 Group	**12m 2020 Group**	**12m 2021 Bank**	**12m 2020 Bank**
As of the beginning of the period, net	**1,248**	**5,092**	**1,248**	**5,092**
Total comprehensive income				
Revaluation gain	*31*	*515*	*31*	*515*
Transfer to income statement on settlement	-	*(3,359)*	-	*(3,359)*
Transfer to associates accounted for using the equity method	-	(1,000)	-	(1,000)
As of the end of the period, net	**1,279**	**1,248**	**1,279**	**1,248**

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

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

	EUR thousands	
	12m 2021 Group	12m 2020 Group
Balance as at the beginning of the period	**14,381**	**12,984**
Premiums received	3,365	3,650
Commissions and risk charges	(383)	(377)
Paid to policyholders	(3,494)	(2,076)
Other	94	215
Currency revaluation result	10	(15)
Balance as at the end of the period	**13,973**	**14,381**

In the year ended 31 December 2021 from financial liabilities designated at fair value through profit or loss which are not unit-linked the Group has recognised net revaluation result of EUR 53 thousand in the net financial income line of the statement of income (2020: EUR -73 thousand). The amount of change in 2021 in the fair value of the financial liabilities that is attributable to changes in the credit risk of the liabilities measured at fair value is EUR 63 thousand (2020: EUR 101 thousand). Most of the insurance business the Group is involved in relates to investment contracts rather than insurance risk; therefore, premiums received are recognised as liabilities of the Group since settlement in due course is expected. The amount of insurance risk generated by the Group currently is not significant and, therefore, not further disclosed in detail in these financial statements.

NOTE 32. RELATED PARTIES

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

Assets and liabilities from transactions with related parties

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Credit exposures to related parties, net				
Loans to public and credit institutions				
Management	293	302	130	267
Consolidated subsidiaries	-	-	974,089	202,328
Investments in subsidiaries	-	-	76,808	46,482
Investments in associates	279	274	279	274
Other assets	12	-	126	61
Financial commitments and guarantees outstanding	6,215	100	216,401	38,153
Credit exposures to related parties, net	**6,799**	**676**	**1,267,833**	**287,565**
Liabilities to related parties				
Deposits and borrowings from customers and credit institutions				
Management	1,137	1,116	1,137	1,019
Consolidated subsidiaries and associates	1,376	-	52,773	48,634
Other liabilities (including lease liabilities) and provisions for expected credit losses	66	3	338	241
Liabilities to related parties	**2,579**	**1,119**	**54,248**	**49,894**

As at 31 December 2021 no assets with consolidated subsidiaries were credit impaired (2020: none). The recognised expected credit losses on non-credit impaired loans from consolidated subsidiaries as at 31 December 2021 was EUR 1.28 million (2020: EUR 0.25 million).

In 2021 an increase of EUR 1.03 million in allowances for expected credit losses for loans from consolidated subsidiaries was recognised (2020: EUR 0.15 million release of impairment loss allowance recognised). The increase in expected credit loss allowances was primarily driven by EUR 771.8 million additional lending to subsidiaries to fund leasing and factoring business. The ultimate recoverability of the loans issued to subsidiaries depends on the performance of the underlying business of the respective subsidiaries. For information on investments in subsidiaries refer to Note 19 (*Investments in Related Entities*).

Income and expense from transactions with related parties

	EUR thousands			
	2021 Group	2020 Group	2021 Bank	2020 Bank
Interest income				
Management	13	12	11	10
Consolidated subsidiaries	-	-	16,943	4,167
Interest expense				
Consolidated subsidiaries	-	-	(194)	(512)
Shareholders (EBRD)	(683)	-	-	-
Fee and commission income	102	4	2,079	981
Fee and commission expense	(5)	(2)	(5)	(4)
Net financial income	2	-	2	4
All other income	-	-	1,485	2,472
Administrative and other expense (excluding management's remuneration, Note 9)	(2,010)	(2,054)	(2,009)	(4,558)

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

On acquisition data SIA UniCredit Leasing (in 2021 renamed to SIA Citadele Leasing) had a borrowing from European Bank for Reconstruction and Development (EBRD). The interest expense to shareholders (EBRD) in 2021 represents the amounts paid for the EBRD borrowing. The borrowed amounts were repaid fully to the EBRD during 2021.

NOTE 33. RISK MANAGEMENT

Risk management policies

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

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

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

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

Credit risk

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

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

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

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

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

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

Loan to value of loans to public

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

	Group, EUR thousands							
	31/12/2021				31/12/2020			
	LTV < 100%		LTV ≥ 100% and unsecured		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans and credit lines	1,359,310	3,245,902	238,794	49,592	1,002,584	2,177,093	248,113	89,905
Finance leases	343,779	552,683	639,085	465,446	193,985	338,448	654	625
Card lending	86	369	59,777	11	229	304	67,951	13,789
Factoring	-	-	53,120	-	14,432	14,629	2,970	2,959
Other loans	-	-	7,558	-	-	-	10,305	-
Total net loans to public	**1,703,175**	**3,798,954**	**998,334**	**515,049**	**1,211,230**	**2,530,474**	**329,993**	**107,278**
Including Stage 3 classified exposures	*43,244*	*179,787*	*12,039*	*8,388*	*14,141*	*36,158*	*5,787*	*3,406*

	Bank, EUR thousands							
	31/12/2021				31/12/2020			
	LTV < 100%		LTV ≥ 100% and unsecured		LTV < 100%		LTV ≥ 100% and unsecured	
	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral	Carrying value of assets	Estimated fair value of collateral
Regular loans and credit lines	1,350,697	3,226,245	217,506	43,862	996,535	2,164,461	240,965	83,315
Card lending	86	369	59,777	11	229	304	67,951	13,789
Other loans	-	-	7,558	-	-	-	10,305	-
Loans to subsidiaries	1,003	1,155	973,086	-	-	-	202,328	1,206
Total net loans to public	**1,351,786**	**3,227,769**	**1,257,927**	**43,873**	**996,764**	**2,164,765**	**521,549**	**98,310**
Including Stage 3 classified exposures	*29,133*	*147,729*	*1,200*	*101*	*12,591*	*31,726*	*5,525*	*3,144*

Collateral value is determined using both estimated fair value of the real estate and other pledged assets. Qualifying high quality guarantees issued by state development or similar institutions are also included. Personal guarantees from households or unrated non-financial enterprises are excluded. Mostly, loans falling into category "Regular loans and credit lines" are secured by collateral or commercial pledges. In general, card loans are granted to clients on a basis of their cash flows' assessment and no collateral is required in most cases. Similarly, consumer lending products, which are presented as regular loans, are unsecured and granted based on client's credit assessment. For loans to the leasing subsidiaries of the Group, no formal tangible collateral is required. The intragroup financing is used to originate finance leases to clients. Full compliance with lending guidelines of the Group are obeyed by subsidiaries when originating leases to clients. Finance leases are secured by the respective property leased-out. Most factoring balances are originated under recourse terms, many are insured with reputable third parties. Insurance coverage is not considered an eligible collateral for the purposes of this disclosure.

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

	Group as of 31/12/2021, EUR thousands					
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	Total
Assets						
Cash and cash balances at central banks	270,249	88,875	2,502	-	9,399	371,025
Loans to credit institutions	3,201	16	406	6,017	49,102	58,742
Debt securities	481,772	635,869	96,982	421,132	165,965	1,801,720
Loans to public	1,299,294	1,000,969	380,421	9,372	11,453	2,701,509
Equity instruments	124	-	-	79	1,076	1,279
Other financial instruments	25,759	-	-	15,811	462	42,032
Derivatives	4,182	15	-	106	-	4,303
Other assets	56,812	9,527	5,146	30	2,436	73,951
Total assets	**2,141,393**	**1,735,271**	**485,457**	**452,547**	**239,893**	**5,054,561**
Liabilities						
Deposits from credit institutions and central banks	477,065	-	-	2,153	17	479,235
Deposits and borrowings from customers	2,845,249	669,061	62,472	53,821	183,260	3,813,863
Debt securities issued	258,895	-	-	-	-	258,895
Derivatives	357	125	-	200	57	739
Other liabilities	76,081	12,177	12,463	32	4,001	104,754
Total liabilities	**3,657,647**	**681,363**	**74,935**	**56,206**	**187,335**	**4,657,486**
Off-balance sheet items						
Contingent liabilities	7,498	25,747	637	121	262	34,265
Financial commitments	229,014	131,811	23,153	322	3,643	387,943

For additional information on geographical distribution of securities exposures please refer to Note 15 (*Debt Securities*). EUR 9.4 million of the Group's cash and deposit with central banks balances presented as "Other countries" is with Swiss National Bank (2020: EUR 15.6 million). From the Group's loans to credit institutions presented as "Other countries" EUR 20.0 million are with Swiss credit institutions (2020: EUR 6.7 million) and EUR 23.6 million with United States registered credit institutions (2020: EUR 21.4 million). Investments in mutual funds are not analysed by their ultimate issuer and are classified as other financial instruments.

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

	Bank as of 31/12/2021, EUR thousands					
	Latvia	Lithuania	Estonia	Other EU countries	Other countries	Total
Assets						
Cash and cash balances at central banks	270,249	88,875	2,502	-	-	361,626
Loans to credit institutions	-	-	-	6,578	29,115	35,693
Debt securities	470,922	626,137	94,838	335,844	124,567	1,652,308
Loans to public	1,829,828	584,948	181,119	9,097	4,721	2,609,713
Equity instruments	124	-	-	79	1,076	1,279
Other financial instruments	7,400	-	-	-	-	7,400
Derivatives	4,182	15	-	106	-	4,303
Other assets	101,248	9,314	3,191	1	13,820	127,574
Total assets	**2,683,953**	**1,309,289**	**281,650**	**351,705**	**173,299**	**4,799,896**
Liabilities						
Deposits from credit institutions and central banks	477,065	-	-	2,153	20,410	499,628
Deposits and borrowings from customers	2,834,407	669,457	61,133	15,602	84,925	3,665,524
Debt securities issued	258,895	-	-	-	-	258,895
Derivatives	357	125	-	200	57	739
Other liabilities	22,127	6,565	809	32	14	29,547
Total liabilities	**3,592,851**	**676,147**	**61,942**	**17,987**	**105,406**	**4,454,333**
Off-balance sheet items						
Contingent liabilities	7,477	25,747	637	52	4,950	38,863
Financial commitments	266,091	138,314	26,229	322	109	431,065

For additional information on geographical distribution of securities exposures please refer to Note 15 (*Debt Securities*). From the Bank's loans to credit institutions presented as "Other countries" EUR 23.6 million with United States registered credit institutions (2020: EUR 21.4 million).

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

Market risk

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

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

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

If market prices of the Groups investments in equities and mutual investment funds were to change by 5%, the net result of the Group would change by EUR 0.9 million (2020: EUR 1.3 million) and securities fair value revaluation reserve by EUR 0.0 million (2020: EUR 0.0 million) and the net result of the Bank would change by EUR 0.4 million (2020: EUR 0.9 million) and securities fair value revaluation reserve by EUR 0.0 million (2020: EUR 0.0 million).

Interest rate risk

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

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

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

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

	31/12/2021, EUR thousands					
	Total for all currencies		**EUR only**		**USD only**	
	Profit / (loss) before taxation	Securities fair value revaluation reserve	Profit / (loss) before taxation	Securities fair value revaluation reserve	Profit / (loss) before taxation	Securities fair value revaluation reserve
Bank						
+100 basis points scenario	1,726	(8,219)	1,653	(6,360)	79	(1,425)
-100 basis points scenario	3,556	8,645	3,934	6,669	(384)	1,513
Group						
+100 basis points scenario	5,119	(9,179)	5,093	(6,853)	21	(1,887)
-100 basis points scenario	4,082	9,629	4,548	7,176	(460)	1,987

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

Currency risk

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

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

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

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

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

	Group, EUR thousands					
	31/12/2021			**31/12/2020**		
Scenario:	**USD**	**CHF**	**Other currencies**	**USD**	**CHF**	**Other currencies**
2% adverse change	11	20	10	11	170	8
5% adverse change	28	51	24	27	425	20

Scenario:	Bank, EUR thousands 31/12/2021 USD	CHF	Other currencies	31/12/2020 USD	CHF	Other currencies
2% adverse change	1	1	1	11	1	-
5% adverse change	2	2	3	28	3	-

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

	Group as of 31/12/2021, EUR thousands EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and cash balances at central banks	359,896	1,303	9,399	61	366	371,025
Loans to credit institutions	21,217	33,464	188	330	3,543	58,742
Debt securities	1,669,674	101,770	11,227	16,226	2,823	1,801,720
Loans to public	2,682,943	12,830	5,726	-	10	2,701,509
Equity instruments	203	1,076	-	-	-	1,279
Other financial instruments	33,719	7,899	-	414	-	42,032
Derivatives	4,303	-	-	-	-	4,303
Other assets	70,816	162	2,411	-	562	73,951
Total assets	**4,842,771**	**158,504**	**28,951**	**17,031**	**7,304**	**5,054,561**
Liabilities						
Deposits from credit institutions and central banks	475,815	115	-	46	3,259	479,235
Deposits and borrowings from customers	3,450,918	304,822	12,547	19,392	26,184	3,813,863
Debt securities issued	258,895	-	-	-	-	258,895
Derivatives	739	-	-	-	-	739
Other liabilities	100,736	25	3,991	-	2	104,754
Total liabilities	**4,287,103**	**304,962**	**16,538**	**19,438**	**29,445**	**4,657,486**
Equity	397,845	(752)	29	(33)	(14)	397,075
Total liabilities and equity	**4,684,948**	**304,210**	**16,567**	**19,405**	**29,431**	**5,054,561**
Net balance sheet position	***157,823***	***(145,706)***	***12,384***	***(2,374)***	***(22,127)***	***-***
Net off-balance sheet foreign exchange contracts	(155,050)	145,137	(11,370)	2,915	22,063	3,695
Net long/ (short) total position	***2,773***	***(569)***	***1,014***	***541***	***(64)***	***3,695***

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

	Bank as of 31/12/2021, EUR thousands					
	EUR	USD	CHF	GBP	Other	Total
Assets						
Cash and cash balances at central banks	359,896	1,303	-	61	366	361,626
Loans to credit institutions	5,694	28,332	81	67	1,519	35,693
Debt securities	1,566,334	68,968	-	14,322	2,684	1,652,308
Loans to public	2,596,929	12,784	-	-	-	2,609,713
Equity instruments	203	1,076	-	-	-	1,279
Other financial instruments	7,400	-	-	-	-	7,400
Derivatives	4,303	-	-	-	-	4,303
Other assets	113,099	109	13,805	-	561	127,574
Total assets	**4,653,858**	**112,572**	**13,886**	**14,450**	**5,130**	**4,799,896**
Liabilities						
Deposits from credit institutions and central banks	477,354	18,805	2	48	3,419	499,628
Deposits and borrowings from customers	3,382,385	239,379	2,553	17,342	23,865	3,665,524
Debt securities issued	258,895	-	-	-	-	258,895
Derivatives	739	-	-	-	-	739
Other liabilities	29,504	40	-	-	3	29,547
Total liabilities	**4,148,877**	**258,224**	**2,555**	**17,390**	**27,287**	**4,454,333**
Equity	346,170	(557)	-	(35)	(15)	345,563
Total liabilities and equity	**4,495,047**	**257,667**	**2,555**	**17,355**	**27,272**	**4,799,896**
Net balance sheet position	***158,811***	***(145,095)***	***11,331***	***(2,905)***	***(22,142)***	***-***
Net off-balance sheet foreign exchange contracts	(155,050)	145,137	(11,370)	2,915	22,063	3,695
Net long/ (short) total position	***3,761***	***42***	***(39)***	***10***	***(79)***	***3,695***

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

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

Liquidity risk

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

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

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

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

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

Liquidity coverage ratio

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

		EUR thousands			
		31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
1.	Liquidity buffer	1,255,477	2,061,640	1,190,783	1,985,199
2.	Net liquidity outflow	635,011	578,923	727,528	573,097
3.	**Liquidity coverage ratio**	**198%**	**356%**	**164%**	**346%**

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

	Group as of 31/12/2021, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and cash balances at central banks	331,083	-	-	-	-	39,942	371,025
Loans to credit institutions	36,759	21,983	-	-	-	-	58,742
Debt securities	22,052	143,055	29,816	83,809	1,095,724	427,264	1,801,720
Loans to public	94,118	131,991	142,953	300,034	1,395,216	637,197	2,701,509
Equity instruments	-	-	-	-	-	1,279	1,279
Other financial instruments	-	-	-	-	-	42,032	42,032
Derivatives	735	2,026	6	1,536	-	-	4,303
Other assets	26,268	514	211	1,979	2,741	42,238	73,951
Total assets	**511,015**	**299,569**	**172,986**	**387,358**	**2,493,681**	**1,189,952**	**5,054,561**
Liabilities							
Deposits from credit institutions and central banks	3,425	-	-	-	475,810	-	479,235
Deposits and borrowings from customers	3,535,407	58,558	30,108	128,875	51,452	9,463	3,813,863
Debt securities issued	-	-	-	-	-	258,895	258,895
Derivatives	477	207	55	-	-	-	739
Lease liabilities	258	506	737	1,461	4,652	-	7,614
Other liabilities	19,933	2,705	2,524	5,855	37,089	29,034	97,140
Total liabilities	**3,559,500**	**61,976**	**33,424**	**136,191**	**569,003**	**297,392**	**4,657,486**
Equity	-	-	-	-	-	397,075	397,075
Total liabilities and equity	**3,559,500**	**61,976**	**33,424**	**136,191**	**569,003**	**694,467**	**5,054,561**
Net balance sheet position – long/ (short)	(3,048,485)	237,593	139,562	251,167	1,924,678	495,485	-
Off-balance sheet items							
Contingent liabilities	34,265	-	-	-	-	-	34,265
Financial commitments	387,943	-	-	-	-	-	387,943

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

Financial liabilities by contractual undiscounted cash flows

	Group as of 31/12/2021, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	Over 1 year	Total	Carrying amount
Financial liabilities designated at fair value through profit or loss	402	6,691	3,072	6,443	23,150	39,758	39,745
Financial liabilities measured at amortised cost*	3,538,752	52,418	29,226	128,677	810,574	4,559,647	4,519,862
Off-balance sheet items							
Contingent liabilities	34,265	-	-	-	-	34,265	34,265
Financial commitments	387,943	-	-	-	-	387,943	387,943

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

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

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

Financial liabilities by contractual undiscounted cash flows

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

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

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

	Bank as of 31/12/2021, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years and undated	Total
Assets							
Cash and cash balances at central banks	321,684	-	-	-	-	39,942	361,626
Loans to credit institutions	13,710	21,983	-	-	-	-	35,693
Debt securities	22,052	139,791	25,086	76,242	980,477	408,660	1,652,308
Loans to public	36,941	1,019,053	64,226	155,930	722,177	611,386	2,609,713
Equity instruments	-	-	-	-	-	1,279	1,279
Other financial instruments	-	-	-	-	-	7,400	7,400
Derivatives	735	2,026	6	1,536	-	-	4,303
Other assets	21,452	1	1	17	5	106,098	127,574
Total assets	**416,574**	**1,182,854**	**89,319**	**233,725**	**1,702,659**	**1,174,765**	**4,799,896**
Liabilities							
Deposits from credit institutions and central banks	14,919	1,943	6,956	-	475,810	-	499,628
Deposits and borrowings from customers	3,424,234	51,867	27,036	122,432	36,521	3,434	3,665,524
Debt securities issued	-	-	-	-	-	258,895	258,895
Derivatives	477	207	55	-	-	-	739
Lease liabilities	258	506	737	1,461	3,567	-	6,529
Other liabilities	2,218	-	-	-	-	20,800	23,018
Total liabilities	**3,442,106**	**54,523**	**34,784**	**123,893**	**515,898**	**283,129**	**4,454,333**
Equity	-	-	-	-	-	345,563	345,563
Total liabilities and equity	**3,442,106**	**54,523**	**34,784**	**123,893**	**515,898**	**628,692**	**4,799,896**
Net balance sheet position – long/ (short)	(3,025,532)	1,128,331	54,535	109,832	1,186,761	546,073	-
Off-balance sheet items							
Contingent liabilities	38,863	-	-	-	-	-	38,863
Financial commitments	431,065	-	-	-	-	-	431,065

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

Financial liabilities by contractual undiscounted cash flows

	Bank as of 31/12/2021, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	Over 1 year	Total	Carrying amount
Financial liabilities measured at amortised cost*	3,439,447	54,325	36,097	128,506	811,986	4,470,361	4,430,576
Off-balance sheet items							
Contingent liabilities	38,863	-	-	-	-	38,863	38,863
Financial commitments	431,065	-	-	-	-	431,065	431,065

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

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

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

Financial liabilities by contractual undiscounted cash flows

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

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

Change in lease liabilities

	EUR thousands			
	2021 Group	2020 Group	2021 Bank	2020 Bank
Opening balance	**8,769**	**8,699**	**8,699**	**10,702**
New lease liabilities recognised	7,240	8,901	5,899	8,901
Amortisation of existing lease liabilities and derecognition	(8,395)	(8,831)	(8,069)	(10,904)
Implied interest expense calculated	64	41	50	94
Settlement of implied interest expense	(64)	(41)	(50)	(94)
Closing balance	**7,614**	**8,769**	**6,529**	**8,699**

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

	Group as of 31/12/2021, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(86)	(66)	2	-	-	-	(150)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
Outflow	(38,959)	(127,753)	(1,433)	(47,133)	-	-	(215,278)
Inflow	39,303	129,651	1,380	48,770	-	-	219,104

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

	Bank as of 31/12/2021, EUR thousands						
	Within 1 month	2-3 months	4-6 months	7-12 months	2-5 years	Over 5 years	Total
Derivatives settled on a net basis							
Foreign exchange derivatives	(86)	(66)	2	-	-	-	(150)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
Outflow	(38,959)	(127,753)	(1,433)	(47,133)	-	-	(215,278)
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Foreign exchange derivatives	(958)	(76)	-	9	-	-	(1,025)
Derivatives settled on a gross basis							
Foreign exchange derivatives:							
Outflow	(73,462)	(74,500)	(3,130)	(1,641)	(81)	-	(152,814)
Inflow	72,142	73,959	3,037	1,644	81	-	150,863

Comparison of contractual undiscounted cash flows and carrying amount of derivatives

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Contractual undiscounted cash flows of derivatives	3,676	(2,976)	3,676	(2,976)
Carrying value of derivatives, net	3,564	(2,987)	3,564	(2,987)

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

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

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

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

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

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

Capital management

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

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

Total SREP capital requirement (TSCR) requires capital to cover risks in addition to these covered by the regulation (EU) 575/2013. TSCR is established in a supervisory review and evaluation process (SREP) carried out by the supervisory authority. The supervisory authority determines TSCR on a risk-by-risk basis, using supervisory judgement, the outcome of supervisory benchmarking, ICAAP calculations and other relevant inputs. The additional pillar 2 capital requirement is re-assessed annually by the supervisory authority. As of the period end based on the FCMC's assessment an additional 2.30% capital requirement (TSCR) for the Group and the Bank is determined to cover pillar 2 risks. As of the period end the Bank and the Group is required to cover 56.25% of the TSCR with Common Equity Tier 1 capital (1.29% capital requirement), 75% with Tier 1 capital (1.73% capital requirement) and 100% with Total Capital (2.30% capital requirement). From 1 March 2022 an updated pillar 2 capital requirement of 2.5% applies.

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

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

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

The Group and the Bank applies requirements of minimum loss coverage for non-performing exposures in line with FCMC regulations for the exposures originated until 25 April 2019, and in line with a regulation (EU) 2019/630 for exposures originated starting from 26 April 2019. The minimum loss coverage calculation is mathematically simplistic "calendar based" calculation for non-performing exposures, which is constructed on the principle - the longer an exposure has been non-performing, the lower the probability for the recovery of its value. Therefore, the portion of the exposure that should be covered by provisions, impairments, other adjustments or deductions should increase with time, following a pre-defined calendar. Insufficient coverage for non-performing exposures is deductible from the regulatory capital. Due to the Group's provisioning policy and portfolio structure, the regulation of minimum loss coverage for non-performing exposures has had minor impact on the Group's capital adequacy position.

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

Regulatory capital requirements of the Group on 31 December 2021

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

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

Capital adequacy ratio (including net result for the period)

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Common equity Tier 1 capital				
Paid up capital instruments and share premium	157,127	156,556	157,127	156,556
Retained earnings	230,786	176,651	186,548	156,574
Regulatory deductions	(8,255)	(5,599)	(6,290)	(5,187)
Other capital components and transitional adjustments, net	9,634	13,405	5,173	8,746
Tier 2 capital				
Eligible part of subordinated liabilities	60,000	60,000	60,000	60,000
Total own funds	**449,292**	**401,013**	**402,558**	**376,689**
Risk weighted exposure amounts for credit risk, counterparty credit risk and dilution risk	2,164,268	1,340,639	2,174,244	1,303,818
Total exposure amounts for position, foreign currency open position and commodities risk	10,916	13,690	10,916	4,747
Total exposure amounts for operational risk	206,624	187,358	162,314	146,960
Total exposure amounts for credit valuation adjustment	4,592	933	4,592	933
Total risk exposure amount	**2,386,400**	**1,542,620**	**2,352,066**	**1,456,458**
Total capital adequacy ratio	**18.8%**	**26.0%**	**17.1%**	**25.9%**
Common equity Tier 1 capital ratio	**16.3%**	**22.1%**	**14.6%**	**21.7%**

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

Transitional adjustments applied as of 31 December 2021

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

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

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

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

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

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

	EUR thousands			
	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Common equity Tier 1 capital, fully loaded	386,366	336,917	339,503	312,412
Tier 2 capital	60,000	60,000	60,000	60,000
Total own funds, fully loaded	**446,366**	**396,917**	**399,503**	**372,412**
Total risk exposure amount, fully loaded	**2,383,981**	**1,539,013**	**2,349,379**	**1,452,523**
Total capital adequacy ratio, fully loaded	**18.7%**	**25.8%**	**17.0%**	**25.6%**
Common equity Tier 1 capital ratio, fully loaded	**16.2%**	**21.9%**	**14.5%**	**21.5%**

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

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

	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
Leverage Ratio – fully phased-in definition of Tier 1 capital	7.5%	7.3%	6.9%	7.1%
Leverage Ratio – transitional definition of Tier 1 capital	7.6%	7.4%	6.9%	7.1%

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

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

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

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

The MREL targets effective as of period end were determined by the SRB using the financial and supervisory information as of 31 December 2019 and is expected to be updated by the SRB annually based on more recent financial information of the Group.

Operational risk

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

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

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

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

The Group aims to avoid operational risks with a potential impact which exceeds 1 bp of CET1 capital and has a higher probability of occurrence than once per five years, or risks with unquantifiable impact which are unmanageable, irrespective of the financial gains this could bring. Each accepted risk must be economically justified and, in cases where the assessment of operational risk in monetary terms is possible, the costs of the control measures required must be commensurate with the eventual loss that could be prevented by the existence of the control system.

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

The Group applies following approaches for operational risk management:

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

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

NOTE 34. EVENTS AFTER THE REPORTING DATE

Citadele has agreed to sell its Swiss subsidiary

In January 2022, AS Citadele banka has entered into a binding agreement with Trusted Novus Bank Limited regarding the sale of its Swiss subsidiary – Kaleido Privatbank AG. Trusted Novus Bank Limited will acquire 100% of Kaleido Privatbank AG. The closing of the acquisition is expected by year end 2022, subject to regulatory approvals.

The sale of Kaleido Privatbank AG is a further step focusing on Citadele's core activities in the Baltics and is in line with Citadele's long-term ambition to become the leading financial services provider in the Baltics.

Recent events in Ukraine and Russian sanctions

The new laws, policies and sanctions, including sanctions imposed on Russia, are diligently implemented. Consistently with long standing Citadele's objective to become the leading financial services provider in the Baltics, internal risk exposure limits with Russia, other CIS countries and Ukraine have been low. As of signing of these financial statements the carrying amount of exposures to credit institutions and companies domiciled in Russia or Ukraine is less than EUR 1.1 million. Carrying value of the Group's investments in collective investment funds with direct exposure to eastern Europe is around EUR 4 million. Of these funds, direct exposures to the above countries are only a part of the overall investment funds' holdings. Based on the management's assessment, as of signing these financial statements, the Bank and the Group has not experienced a material direct impact from the recent events in Ukraine or from Russian sanctions. The indirect impact from these events is monitored, as Citadele's clients and global markets adjust to the new economic realities.

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Independent Auditors' Report

To the shareholders of AS "Citadele banka"

Report on the Audit of the Separate and Consolidated Financial Statements

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the accompanying separate and consolidated financial statements of AS "Citadele banka" ("the Bank") and its subsidiaries ("the Group") set out on pages 16 to 75 of the accompanying separate and consolidated Annual Report, which comprise:

- the separate and consolidated balance sheet as at 31 December 2021,
- the separate and consolidated statement of income for the year then ended,
- the separate and consolidated statement of comprehensive income for the year then ended,
- the separate and consolidated statement of changes in equity for the year then ended,
- the separate and consolidated statement of cash flows for the year then ended, and
- the notes to the separate and consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of AS "Citadele banka" and its subsidiaries as at 31 December 2021, and of its separate and consolidated financial performance and its separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the 'Law on Audit Services' of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Separate and Consolidated Financial Statements* section of our report.

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

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

Key Audit Matters

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

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

Impairment of loans, and provisions for off-balance sheet items (separate and consolidated financial statements)

Key audit matter	***Our response***
The gross amount of loans to public in the consolidated financial statements as at 31 December 2021: EUR 2 783 million; total allowances for impairment losses as at 31 December 2021: EUR 81.6 million; of which impairment losses on loans recognised in 2021: EUR 3.06 million; the gross amount of off-balance sheet items as at 31 December 2021: EUR 387.9 million; total provisions as at 31 December 2021: EUR 3.6 million; of which provision losses on these items recognised in 2021: EUR 1.72 million; *The gross amount of loans to public in the separate financial statements as at 31 December 2021: EUR 2 674 million; total impairment loss allowances as at 31 December 2021: EUR 64.6 million; of which impairment losses on loans recognised in 2021: EUR 12.895 million. The gross amount of off-balance sheet items as at 31 December 2021: EUR 431.07 million; total provisions as at 31 December 2021: EUR 3.55 million; of which provision losses on these items recognised in 2021: EUR 1.75 million.*	Our audit procedures included, among others: With respect to the Impairment of loans, and provisions for off-balance sheet items in general: • inspecting the Bank's and the Group's expected credit losses ("ECL") impairment provisioning methodology and assessing its compliance with the relevant requirements of IFRS 9. As part of the above, we challenged the Management Board on whether the level of the methodology's sophistication is appropriate based on an assessment of the entity-level and portfolio-level factors; • assessing and testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, including, but not limited to, those over loan risk monitoring, identification of loss events, and the calculation of the impairment loss allowances; • assessing whether the definition of default and the staging criteria were consistently applied and in line with the requirements of IFRS 9; • making relevant inquiries of the Bank's risk management and information technology (IT) personnel in order to obtain an understanding of the impairment allowances and provisioning process, IT applications used therein, key data sources and assumptions used in the ECL model. Assessing and testing the Bank's IT control environment for data security and access, assisted by our own IT specialists.

We refer to the financial information: Note 3 (j), (p), (z) and (ee), Notes 11, 16, 27. We also refer to the 2020 annual financial statements: Note 3 (j), (p), (z) and (ff), Notes 11, 16, 26.

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

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

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

Accordingly, the most significant areas of estimation uncertainty and

We involved our own financial risk modelling and IT specialists in the following:

- Evaluating the appropriateness of the Bank's and the Group's IFRS 9 impairment methodologies (including the staging criteria used);
- Reperforming and inspecting model code for the calculation of certain components of the ECL model (including the staging criteria);
- Evaluating whether the changes were appropriate by assessing the updated model methodology;
- Assessing the reasonableness of the model predictions by comparing them against actual results and evaluating the resulting differences.

For loans assessed on an individual basis:

- Selecting a sample of individual exposures, with focus on those with the greatest potential impact on the financial information due to their magnitude and risk characteristics like restructurings, as well as lower value items which we independently assessed as high-risk;
- For non-credit impaired exposures, for which the credit risk has not significantly increased since the initial recognition ("stage 1") and non-credit impaired exposures, for which the credit risk has significantly increased since the initial recognition ("stage 2"), within the sample selected, critically assessing the existence of any evidence of credit-impairment as at 31 December 2021, by reference to the underlying documentation and through discussion with the Management Board and credit risk personnel and taking into consideration business operations of the respective customers as well as market conditions and historical repayment pattern;
- For stage 3 (credit impaired) exposures in our sample, challenging key assumptions applied in the Bank's and the Group's estimates of future cash flows such as collateral values and realization period, and performing respective independent recalculations, where relevant. We sought the Management Board's and credit risk personnel's explanations for any material discrepancies identified as a result of the above procedures.

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

- testing the underlying impairment models, assessed as significant, including model approval processes, including judgements associated with recognition of impairment allowances for loans and provisions for off-balance sheet items are:

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

the calculation of main risk parameters (probability of default (PD), loss given default (LGD) and exposure at default (EAD)) and macroeconomic factors;

- obtaining the relevant forward looking information and macroeconomic forecasts used in the Bank's and the Group's ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board and through inspection of publicly available information;
- challenging LGD and PD parameters, by assessing historical default levels and by reference to historical realized losses on defaults;
- for a sample of exposures, assessing the appropriateness of the staging;
- for a sample of exposures tested collectively, assessing the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models;
- For post model adjustment, considering the size and complexity of management COVID-19 related overlay, in order to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of the data used back to source data.

In order to assess loss allowances in totality:

- critically assessing the reasonableness of the ECL allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage;
- evaluating the accuracy and adequacy of the financial information disclosures.

Business combination (separate and consolidated financial statements)	
Key audit matter	***Our response***
The Group finalised a leasing group acquisition deal in early 2021. This acquisition constituted a business combination under IFRS 3 Business combinations. Fair value of total assets acquired: EUR 839.75 million, fair value of liabilities assumed: EUR 810.55 million, consideration transferred: EUR 29.2 million. *We refer to the financial information: Note 19.* The accounting for this transaction is complex due to significant judgements and estimates that are required to identify the assets acquired and liabilities assumed as a part of the transaction and initially measure them at fair value on the acquisition date. Accordingly, we have identified this area to be a key audit matter.	Our audit procedures included, among others: • obtaining understanding of the management's process related to the acquisition accounting. We inspected key documents, terms and conditions of the transaction and assessed the accounting treatment of consideration transferred and assets and liabilities acquired in accordance with IFRS 3 Business Combinations. • involving our own valuation specialists to support us in challenging the valuations produced by the Group and the methodology used to identify the assets and liabilities acquired, in particular: - the methodologies adopted and key assumptions used in valuing the acquired leasing and loan portfolio, such as the required discount rates to discount the different risk grades of loans acquired as well as the reconciliation of underlying data used in arriving at the fair value estimate; • evaluating the adequacy of the financial information disclosures, including disclosures of key assumptions and judgements.

Reporting on Other Information

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

- Key figures as set out on page 2 of the accompanying separate and consolidated Annual Report;
- the Management Report, as set out on pages 4 to 14 of the accompanying separate and consolidated Annual Report,
- the Statement on Management's Responsibility, as set out on page 15 of the accompanying separate and consolidated Annual Report,
- the Other regulatory disclosures, as set out on pages 86 to 88 of the accompanying separate and consolidated Annual Report,
- the Quarterly Financials of the Group, as set out on page 89 of the accompanying separate and consolidated Annual Report,
- the Statement of Corporate Governance, as set out in a separate statement prepared by management available on the Bank's website www.citadele.lv,
- Sustainability Report, as set out in a separate statement prepared by the Management Board, available on the Bank's website www.citadele.lv.

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

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

If, based on the work we have performed and in light of the knowledge and understanding of the Bank and the Group 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 – "Regulations on the Preparation of 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, in all material respects:

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia – "Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies".

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank and 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.

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

We were appointed by those charged with governance on 23 April 2021 to audit the separate and consolidated financial statements of AS "Citadele banka" for the year ended 31 December 2021. Our total uninterrupted period of engagement is 9 years, covering the periods ending 31 December 2013 to 31 December 2021.

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 in EU Regulation (EU) No 537/2014. We also remained independent of the audited group in conducting the audit.

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

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

Report on the Auditors' Examination of the European Single Electronic Format (ESEF) Report

In addition to our audit of the accompanying consolidated financial statements, as included in the consolidated Annual Report, we have also been engaged by the management of the Group to express an opinion on compliance of the consolidated financial statements prepared in a format that enables uniform electronic reporting ("the ESEF Report") with the requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "RTS on ESEF").

Responsibilities of Management and Those Charged with Governance for the ESEF Report

Management is responsible for the preparation of the consolidated financial statements in a format that enables uniform electronic reporting that complies with the RTS on ESEF. This responsibility includes:

— the preparation of the consolidated financial statements in the applicable xHTML format;
— the selection and application of appropriate iXBRL tags, using judgment where necessary;
— ensuring consistency between digitised information and the consolidated financial statements presented in human-readable format; and
— the design, implementation and maintenance of internal control relevant to the application of the RTS on ESEF.

Those charged with governance are responsible for overseeing the financial reporting process.

Auditors' Responsibility for the Examination of the ESEF Report

Our responsibility is to express an opinion on whether the ESEF report complies, in all material respects, with the RTS on ESEF, based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with *International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000)* issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the RTS on ESEF. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements of set out in the RTS on ESEF, whether due to fraud or error. Our procedures included, among other things:

— obtaining an understanding of the tagging process;
— tracing the tagged data to the consolidated financial statements of the Group presented in human-readable format;

— evaluating the completeness of the Group's tagging of the consolidated financial statements;
— evaluating the appropriateness of the Group's use of iXBRL elements selected from the ESEF taxonomy and creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
— evaluating the use of anchoring in relation to the extension elements; and
— evaluating the appropriateness of the format of the consolidated financial statements.

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

Opinion

In our opinion, the ESEF Report of the Group as at and for the year ended 31 December 2021 has been prepared, in all material respects, in accordance with the requirements of the RTS on ESEF.

KPMG Baltics SIA
Licence No. 55

Anders Bäckström
Partner
KPMG Baltics AS authorised representative
Riga, Latvia

Rainers Vilāns
Latvian Sworn Auditor
Certificate No. 200

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

OTHER REGULATORY DISCLOSURES

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

Income Statement, regulatory format

	EUR thousands	12m 2021 Group	12m 2020 Group	12m 2021 Bank	12m 2020 Bank
1.	Interest income	123,974	90,124	93,458	81,144
2.	Interest expense	(15,890)	(22,584)	(14,994)	(22,484)
3.	Dividend income	37	42	37	42
4.	Commission and fee income	60,655	51,761	49,720	43,445
5.	Commission and fee expense	(24,198)	(21,580)	(23,397)	(20,745)
6.	Gain or loss on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	526	1,334	412	1,234
7.	Gain or loss on financial assets and liabilities measured at fair value through profit or loss, net	443	(25,033)	381	(25,572)
8.	Fair value change in the hedge accounting	-	-	-	-
9.	Gain or loss from foreign exchange trading and revaluation of open positions	7,282	6,076	6,821	6,587
10.	Gain or loss on derecognition of non-financial assets, net	-	-	-	-
11.	Other income	7,606	19,154	4,816	3,629
12.	Other expense	(4,227)	(4,061)	(3,076)	(3,108)
13.	Administrative expense	(86,264)	(71,945)	(64,660)	(61,681)
14.	Amortisation and depreciation charge *	(10,351)	(8,044)	(7,616)	(7,688)
15.	Gain or loss on modifications in financial asset contractual cash flows	(932)	160	(932)	160
16.	Provisions, net	(1,721)	1,937	(1,747)	1,973
17.	Impairment charge and reversals, net	(90)	(12,394)	(9,054)	(547)
18.	Negative goodwill recognised in profit or loss	-	-	-	-
19.	Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	5	(726)	5	(726)
20.	Profit or loss from non-current assets and disposal groups classified as held for sale	(213)	(307)	(213)	(307)
21.	**Profit before taxation**	**56,642**	**3,914**	**29,961**	**(4,644)**
22.	Corporate income tax	(1,597)	(306)	(318)	(117)
23.	**Net profit / loss for the period**	**55,045**	**3,608**	**29,643**	**(4,761)**
24.	**Other comprehensive income for the period**	**(3,372)**	**(765)**	**(2,770)**	**(697)**

* Group's amortisation and depreciation charges for 2021 include EUR 1,578 thousand of depreciation of assets under operating lease contracts. Operating lease of assets is core business of the Group, thus these expenses are part of operating income.

Balance Sheet, regulatory format

	EUR thousands	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
1.	Cash and demand balances with central banks	371,025	1,146,606	361,626	1,131,008
2.	Demand deposits due from credit institutions	36,743	31,018	13,710	20,020
3.	Financial assets designated at fair value through profit or loss	47,410	49,314	12,778	19,805
3.1.	*Including loans to public and credit institutions*	-	-	-	-
4.	Financial assets at fair value through other comprehensive income	340,905	377,240	233,370	224,976
5.	Financial assets at amortised cost	4,184,527	2,944,709	4,050,838	2,877,548
5.1.	*Including loans to public and credit institutions*	*2,723,508*	*1,561,492*	*2,631,696*	*1,538,582*
6.	Derivatives – hedge accounting	-	-	-	-
7.	Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
8.	Investments in subsidiaries, joint ventures and associates	279	274	77,087	46,756
9.	Tangible assets	20,444	12,930	11,496	14,143
10.	Intangible assets	8,562	5,981	6,083	5,832
11.	Tax assets	4,603	3,272	3,050	3,057
12.	Other assets	39,117	25,028	28,912	16,355
13.	Non-current assets and disposal groups classified as held for sale	946	946	946	946
14.	**Total assets (1.+....+13.)**	**5,054,561**	**4,597,318**	**4,799,896**	**4,360,446**
15.	Due to central banks	475,816	438,838	475,816	438,838
16.	Demand liabilities to credit institutions	3,419	1,069	11,664	2,824
17.	Financial liabilities designated at fair value through profit or loss	40,485	40,471	739	4,461
17.1	*Including deposits from customers and credit institutions*	*39,745*	*36,010*	-	-
18.	Financial liabilities measured at amortised cost	4,033,012	3,705,544	3,936,567	3,567,473
18.1	*Including deposits from customers and credit institutions*	*3,774,117*	*3,645,464*	*3,677,672*	*3,507,393*
19.	Derivatives – hedge accounting	-	-	-	-
20.	Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
21.	Provisions	3,934	2,211	3,882	2,133
22.	Tax liabilities	573	677	189	115
23.	Other liabilities	100,247	64,198	25,476	27,003
24.	Liabilities included in disposal groups classified as held for sale	-	-	-	-
25.	**Total liabilities (15.+...+24.)**	**4,657,486**	**4,253,008**	**4,454,333**	**4,042,847**

26.	Shareholders' equity	397,075	344,310	345,563	317,599
27.	**Total liabilities and shareholders' equity (25.+26.)**	**5,054,561**	**4,597,318**	**4,799,896**	**4,360,446**
28.	**Memorandum items**	**422,208**	**284,953**	**469,928**	**299,335**
29.	Contingent liabilities	34,265	23,903	38,863	23,246
30.	Financial commitments	387,943	261,050	431,065	276,089

ROE and ROA ratios

	12m 2021 Group	12m 2020 Group	12m 2021 Bank	12m 2020 Bank
Return on equity (ROE) (%)	14.85%	1.05%	8.94%	(1.49%)
Return on assets (ROA) (%)	1.14%	0.09%	0.65%	(0.12%)

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

Capital adequacy ratio

	EUR thousands	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
1	**Own funds (1.1.+1.2.)**	**449,292**	**401,013**	**402,558**	**376,689**
1.1	Tier 1 capital (1.1.1.+1.1.2.)	489,292	341,013	342,558	316,689
1.1.1	*Common equity Tier 1 capital*	*489,292*	*341,013*	*342,558*	*316,689*
1.1.2	*Additional Tier 1 capital*	-	-	-	-
1.2	Tier 2 capital	60,000	60,000	60,000	60,000
2	**Total risk exposure amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)**	**2,386,400**	**1,542,620**	**2,352,066**	**1,456,458**
2.1	Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	2,164,268	1,340,639	2,174,244	1,303,818
2.2	Total risk exposure amount for settlement/delivery	-	-	-	-
2.3	Total risk exposure amount for position, foreign exchange and commodities risks	10,916	13,690	10,916	4,747
2.4	Total risk exposure amount for operational risk	206,624	187,358	162,314	146,960
2.5	Total risk exposure amount for credit valuation adjustment	4,592	933	4,592	933
2.6	Total risk exposure amount related to large exposures in the trading book	-	-	-	-
2.7	Other risk exposure amounts	-	-	-	-
3	**Capital adequacy ratios**				
3.1	Common equity Tier 1 capital ratio (1.1.1./2.*100)	**16.3%**	**22.1%**	**14.6%**	**21.7%**
3.2	Surplus (+)/ deficit (-) of Common equity Tier 1 capital (1.1.1.-2.*4.5%)	281,904	271,595	236,715	251,148
3.3	Tier 1 capital ratio (1.1./2.*100)	**16.3%**	**22.1%**	**14.6%**	**21.7%**
3.4	Surplus (+)/ Deficit (-) of Tier 1 capital (1.1.-2.*6%)	246,108	248,456	201,434	229,302
3.5	Total capital ratio (1./2.*100)	**18.8%**	**26.0%**	**17.1%**	**25.9%**
3.6	Surplus (+)/ Deficit (-) of total capital (1.-2.*8%)	258,380	277,604	214,393	260,172
4	**Combined buffer requirements (4.1.+4.2.+4.3.+4.4.+4.5.)**	95,456	61,705	94,083	58,258
4.1	Capital conservation buffer	59,660	38,566	58,802	36,411
4.2	Conservation buffer for macroprudential or systemic risk at member state's level	-	-	-	-
4.3	Institution specific countercyclical buffer	-	-	-	-
4.4	Systemic risk buffer	-	-	-	-
4.5	Other systemically important institution buffer	35,796	23,139	35,281	21,847
5	**Capital adequacy ratios, including adjustments**				
5.1	Impairment or asset value adjustments for capital adequacy ratio purposes	-	-	-	-
5.2	Common equity tier 1 capital ratio including line 5.1 adjustments	16.3%	22.1%	14.6%	21.7%
5.3	Tier 1 capital ratio including line 5.1 adjustments	16.3%	22.1%	14.6%	21.7%
5.4	Total capital ratio including line 5.1 adjustments	18.8%	26.0%	17.1%	25.9%

Capital adequacy ratios here are calculated in accordance with the Basel III regulation as implemented via EU regulation 575/2013, directive 2013/36/EU and relevant FCMC regulations. In the disclosure above, in the Group's and the Bank's regulatory capital, audited profits and any losses accumulated up to the reporting date are included.

	EUR thousands	31/12/2021 Group	31/12/2020 Group	31/12/2021 Bank	31/12/2020 Bank
1.A	**Own funds, IFRS 9 transitional provisions not applied**	**446,366**	**396,917**	**399,503**	**372,412**
1.1.A	Tier 1 capital, IFRS 9 transitional provisions not applied	386,366	336,917	339,503	312,412
1.1.1.A	*Common equity Tier 1 capital, IFRS 9 transitional provisions not applied*	*386,366*	*336,917*	*339,503*	*312,412*
2.A	**Total risk exposure amount, IFRS 9 transitional provisions not applied**	**2,383,981**	**1,539,013**	**2,349,379**	**1,452,523**
3.1.A	Common equity Tier 1 capital ratio, IFRS 9 transitional provisions not applied	16.2%	21.9%	14.5%	21.5%
3.3.A	Tier 1 capital ratio, IFRS 9 transitional provisions not applied	16.2%	21.9%	14.5%	21.5%
3.5.A	Total capital ratio, IFRS 9 transitional provisions not applied	18.7%	25.8%	17.0%	25.6%

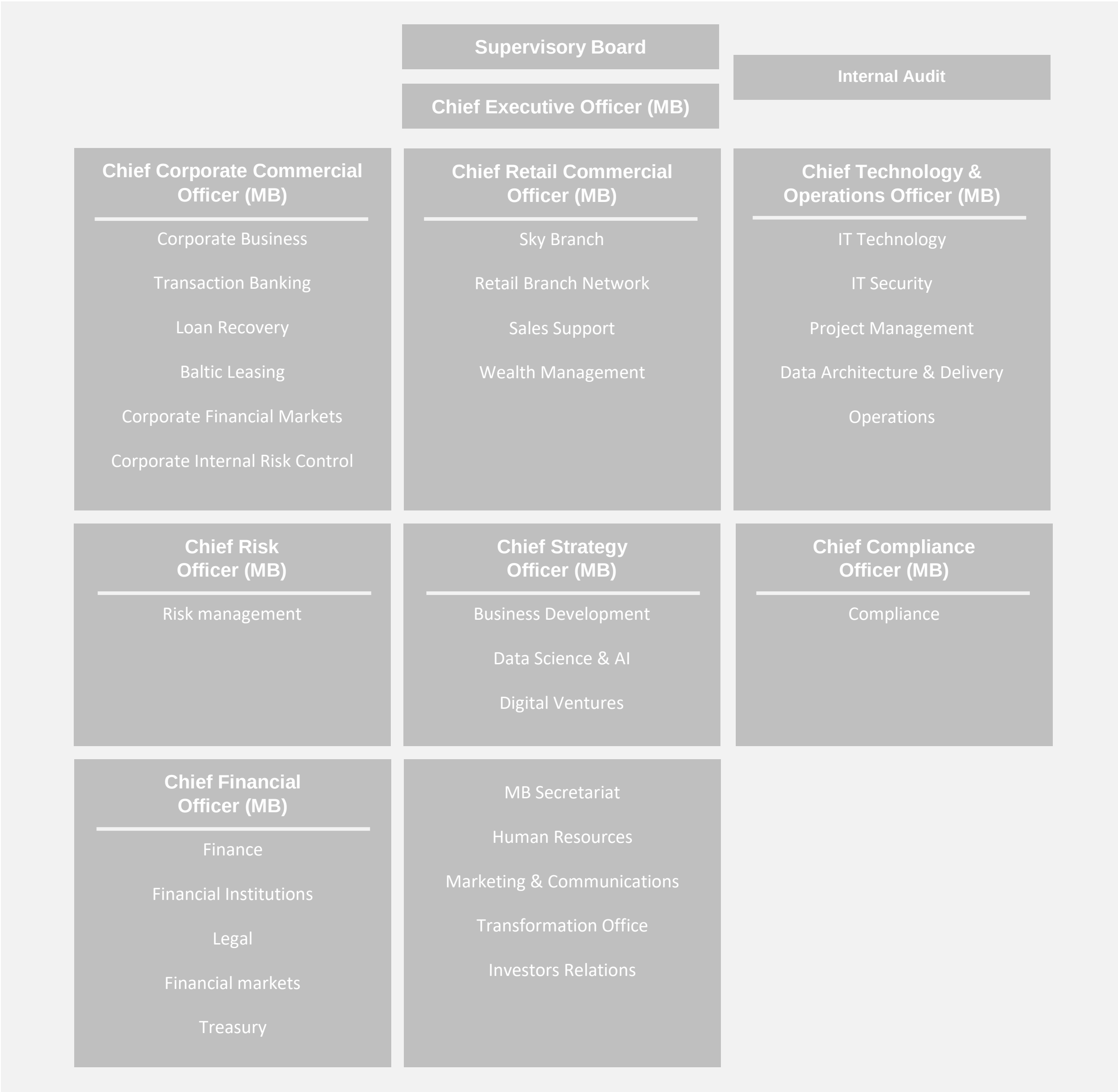
Business Strategy and Objectives

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

Branches

AS Citadele banka has 19 branches and client service centres in Latvia, 1 branch in Estonia and 1 branch in Lithuania as of the period end. AS Citadele banka has 4 client consultation centres in Latvia. The Lithuanian branch has 6 customer service units in Lithuania. Information about branches, client service centres and ATMs of Citadele is available in the Citadele web page's section "Branches and ATMs".

Bank's Organizational Structure



QUARTERLY STATEMENTS OF INCOME AND BALANCE SHEETS OF THE GROUP

	Group, EUR thousands				
	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Interest income	31,714	31,598	30,653	30,009	21,892
Interest expense	(4,499)	(3,967)	(3,470)	(3,954)	(5,152)
Net interest income	**27,215**	**27,631**	**27,183**	**26,055**	**16,740**
Fee and commission income	16,598	15,896	14,709	13,452	13,529
Fee and commission expense	(6,985)	(5,955)	(5,956)	(5,302)	(5,851)
Net fee and commission income	**9,613**	**9,941**	**8,753**	**8,150**	**7,678**
Net financial income	503	2,138	2,293	2,385	5,301
Net other income / (expense)	(318)	191	1,874	96	15,336
Operating income	**37,013**	**39,901**	**40,103**	**36,686**	**45,055**
Staff costs	(15,347)	(15,001)	(15,895)	(14,868)	(13,009)
Other operating expenses	(8,354)	(6,032)	(5,558)	(5,209)	(5,333)
Depreciation and amortisation	(1,014)	(2,606)	(2,630)	(2,523)	(2,021)
Operating expense	**(24,715)**	**(23,639)**	**(24,083)**	**(22,600)**	**(20,363)**
Profit before impairment	**12,298**	**16,262**	**16,020**	**14,086**	**24,692**
Net credit losses	(1,608)	(3,775)	6,878	(3,108)	300
Other impairment losses	(56)	(35)	(89)	(18)	(448)
Operating profit before non-current assets held for sale	**10,634**	**12,452**	**22,809**	**10,960**	**24,544**
Result from non-current assets held for sale	(60)	(51)	(46)	(56)	(243)
Operating profit	**10,574**	**12,401**	**22,763**	**10,904**	**24,301**
Income tax	(268)	(250)	(648)	(431)	(194)
Net profit	**10,306**	**12,151**	**22,115**	**10,473**	**24,107**

	Group, EUR thousands				
	31/12/2021	30/09/2021	30/06/2021	31/03/2021	31/12/2020
Assets					
Cash and cash balances at central banks	371,025	370,806	486,072	306,060	1,146,606
Loans to credit institutions	58,742	78,725	60,020	79,184	51,287
Debt securities	1,801,720	1,729,212	1,684,213	1,702,676	1,760,190
Loans to public	2,701,509	2,602,470	2,456,803	2,473,663	1,541,223
Equity instruments	1,279	1,302	1,311	1,281	4,764
Other financial instruments	42,032	41,653	39,633	43,587	43,343
Derivatives	4,303	4,657	3,889	5,094	1,474
Investments in related entities	279	274	274	274	274
Tangible assets	20,444	22,643	23,770	24,686	12,930
Intangible assets	8,562	8,501	8,212	7,474	5,981
Tax assets	4,603	5,537	5,340	4,216	3,272
Non-current assets held for sale	946	946	946	946	946
Other assets	39,117	52,263	35,447	41,324	25,028
Total assets	**5,054,561**	**4,918,989**	**4,805,930**	**4,690,465**	**4,597,318**
Liabilities					
Deposits from credit institutions and central banks	479,235	477,492	478,047	440,384	449,991
Deposits and borrowings from customers	3,813,863	3,893,309	3,797,982	3,737,707	3,671,390
Debt securities issued	258,895	61,000	60,088	60,981	60,080
Derivatives	739	1,476	1,120	1,392	4,461
Provisions	3,934	2,763	1,757	2,221	2,211
Tax liabilities	573	659	806	681	677
Other liabilities	100,247	94,631	90,860	93,953	64,198
Total liabilities	**4,657,486**	**4,531,330**	**4,430,660**	**4,337,319**	**4,253,008**
Equity					
Share capital	156,888	156,888	156,556	156,556	156,556
Reserves and other capital components	7,320	8,260	8,354	8,627	10,265
Retained earnings	232,867	222,511	210,360	187,963	177,489
Total equity	**397,075**	**387,659**	**375,270**	**353,146**	**344,310**
Total liabilities and equity	**5,054,561**	**4,918,989**	**4,805,930**	**4,690,465**	**4,597,318**
Off-balance sheet items					
Guarantees and letters of credit	34,265	44,596	46,144	47,658	23,903
Financial commitments	387,943	297,747	267,409	267,395	261,050

DEFINITIONS AND ABBREVIATIONS

ALCO – Assets and Liabilities Management Committee.

AML – anti-money laundering.

BRRD – the bank recovery and resolution directive.

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

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

CTF – combating terrorist financing.

ECB - European Central Bank.

EU – the European Union.

FCMC – Financial and Capital Markets Commission.

FMCRC – Financial Market and Counterparty Risk Committee.

GIC – Group’s Investment Committee.

IAS – International accounting standards.

ICAAP – internal capital adequacy assessment process.

IFRS – International financial reporting standards.

LCR – liquidity coverage ratio.

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

ML/TF – money laundering and terrorism financing.

MREL – minimum requirement for own funds and eligible liabilities.

NSFR – net stable funding ratio.

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

O-SII – other systemically important institution.

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

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

RTS – regulatory technical standards.

SRB – the Single Resolution Board.

SREP – supervisory review and evaluation process.

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

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

Stage 3 financial instruments – Credit-impaired exposures.

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

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

TLOF – total liabilities and own funds.

TLTRO – ECB's targeted longer-term refinancing operations

TSCR – SREP capital requirement.