IPAS CBL Asset Management

Annual Report

for 2021

Prepared in accordance with the International Financial Reporting Standards as adopted by the European Union

CONTENTS

GENERAL INFORMATION

Name of the Company	CBL Asset Management
Legal status	Joint stock investment management company
Registration number with the Enterprise Register, place and date	40003577500 Riga, 11 January 2002
Legal address	Republikas laukums 2a, Riga, Latvia, LV-1010
Shareholder	AS Citadele banka (100%) Republikas laukums 2a Riga, Latvia, LV-1522
Investments in companies	OOO Mizush Asset Management Ukraina (Ukraine) Gorkogo 172, Kyiv, Ukraine AAS CBL Life (100%) Republikas laukums 2a, Riga, Latvia
Members of the Board and their positions	Chairman of the Board – Kārlis Purgailis – appointed on 08.09.2017 Member of the Board – Zigurds Vaikulis – appointed on 19.04.2018 Member of the Board – Andris Kotāns – appointed on 11.05.2015 Member of the Board – Lolita Sičeva – appointed on 11.05.2015
Members of the Council and their positions	Chairman of the Council – Vaidas Žagūnis – appointed on 03.08.2021 Member of the Council – Vaidas Žagūnis – appointed on 10.08.2020 - released on 03.08.2021 Deputy Chairman of the Council – Vladimirs Ivanovs – appointed on 03.08.2021 Deputy Chairman of the Council – Vladimirs Ivanovs – appointed on 10.08.2020, released on 03.08.2021 Member of the Council – Blohmé Nils Magnus Göran – appointed on 03.08.2021 Member of the Council – Peter Meier – appointed on 30.09.2015, released on 03.08.2021
Reporting year	1 January 2021 – 31 December 2021
Auditors	Rainers Vilāns Sworn Auditor Certificate No. 200 KPMG Baltics SIA Vesetas iela 7 Riga, Latvia, LV-1013 Licence No. 55

MANAGEMENT REPORT

Line of business

IPAS CBL Asset Management (hereinafter – the Company) was established on 11 January 2002. The legal and postal address of the Company is Republikas laukums 2A, Riga, LV-1010, unified registration No. 40003577500. License to provide investment management services was issued on 15 February 2002 and re-registered on 10 December 2004, 30 September 2005, 5 December 2005, 5 August 2010, 19 February 2014 and 19 January 2015 under No. 06.03.07.098/367. Licence for operation of alternative investment fund manager issued on 10 January 2014 and re-registered on 19 January 2015 under No.06.13.08.098/369. Licence for managing state funded pension scheme funds issued on 20 September 2002.

The Company's operating activity in 2021 was related to the management of state-funded pension scheme funds, establishment and management of investment funds, individual management of customer financial instruments portfolios as well as management of private pension fund pension scheme funds.

The officials of the Company – the management and the council is presented in the general information section of these financial statements.

Key events in 2021

Although 2021 passed in the shadow of the pandemic each wave impacted the global economy less. Due to massive stimulus packages the pace of recovery from the shock caused by the pandemic was significant. Pre-pandemic levels of economic output were achieved and even exceed by many countries in the world already in 2021 which laid a rather healthy basis for growth for the following year.

During 2021, investors and economists gradually shifted their attention to the heritage of the pandemic and the monetary and fiscal stimuli injected into the system. The rise in consumer prices gained momentum during 2021 with inflation breaking the record of several decades at the year end. In the first six months of the year, inflation was accelerated primarily by the rapid recovery in prices of resources after the adjustments made in 2020 as the pandemic began. During the second half of the year, the price pressure turned universal. The base inflation was uplifted by a strong demand overfed by fiscal and monetary stimuli. The manufacturing sector working at full capacity proved to be in position to support the spending fever and the manufacturing and supply chains were kept under pressure the entire year.

In the second half of 2021, inflation turned into a political problem which forced the US Federal Reserve System (FRS) to change its monetary thinking in favour of more restrictive policies. From the intention to raise rates at the end of 2023 at the earliest, at the end of 2021 the FRS turned to forecasts of raising rates by eight base points in the course of three years with the base rate of over 2% at the end of 2024. The FRS announced plans to begin reducing its balance sheet of nearly USD 9 trillion, which had more than doubled from the beginning of the pandemic. Unlike the FRS, nearly the entire 2021 the European Central Bank ignored the many economic and financial market indicators which demanded introducing less loose monetary policies also in the Eurozone.

Inflation in Western countries during 2021 was accompanied by rising forecasts for base rates, which had a rising effect on government bond yields. This had a significant impact on the performance of the 2021 bond segment and safer bond segments during the year showed significantly worse performance. The widespread rise in equity prices in western countries that began in the spring of 2020 persisted throughout 2021. Despite growing market volatility in the last months of the year, western equity markets closed the year at new record levels. Emerging equity markets could not keep up and a small decrease year-on-year was recorded, especially due to China's negative performance.

The Company has historically been active in investment management. It means that in parallel to the fixed long-term strategy the manager makes tactical decisions on significant deviations from the structural guidance if considered necessary depending on the economic situation or that in financial markets. The corrections in financial markets that took place as a result of growing rates and geopolitical unrest since early 2022 have improved equity market valuations and significantly raised the future yield potential of bonds. We will continue making use of these and other investment opportunities in the market to improve our performance against market benchmarks and competitor products.

For the Baltic economies, 2021 proved to be a significantly better year than expected and the economic recovery in Latvia, Lithuania and Estonia was substantially faster than in other European countries. Based on preliminary data, GDP growth in Latvia was 4.7%, in Lithuania 5.1%, and in Estonia as high as 8.3% during the first three quarters of 2021. It has taken less than two years for the three Baltic states to exceed pre-pandemic GDP levels. 2021 was a very good year for manufacturing and saw a rapid growth in e-commerce and logistics, whereas certain service industries were still under operational restrictions. The economic recovery in the Baltics during 2021 was accompanied by a sharp increase in inflation. CPI growth in Lithuania and Estonia at the end of 2021 exceeded 10% year-on-year while inflation in Latvia in December 2021 hit 7.9%. Inflation in the Baltics increased during 2021 primarily in response to the energy crisis in Europe and the resulting increase in prices of fuel, electricity, natural gas and heat energy. Price pressures seem to grow systematically also in many other areas. As the economies recover, unemployment in the Baltics has decreased notably, to 6% in Estonia and to approximately 7% in Latvia and Lithuania (as of the 3rd quarter of 2021). Companies report increasing difficulties with recruitment and during the first three quarters the average remuneration in Estonia increased by 6.7% while that in Latvia and Lithuania increased by more than 10%.

During the pandemic, residents continued to sharply increase their deposits, and bank deposits by households in the Baltic countries in 2021 increased between 16% and 21%, depending on the country. In Latvia, deposits of local households in commercial banks in 2021 exceeded EUR 9.5 billion and current liabilities of Latvian households slightly exceed 20% of

GDP, one of the lowest rates in Europe. The large amount of deposits provide market opportunities for various savings products. Overall these are the conditions that lay a strong internal foundation for future growth.

In 2021, the Company managed the following investment funds:

CBL Equity Funds:
CBL European Leaders Equity Fund
CBL Russian Equity Fund
CBL US Leaders Equity Fund Klase R Acc EUR (hedged)
CBL US Leaders Equity Fund Klase R Acc USD

CBL Bond Funds:
CBL Eastern European Bond Fund Klase R Acc USD
CBL Eastern European Bond Fund Klase R Acc EUR (hedged)
CBL Global Emerging Markets Bond Fund R Acc USD
CBL Global Emerging Markets Bond Fund R Acc EUR (hedged)

CBL Funds of Funds:
CBL Prudent Opportunities Fund - EUR
CBL Optimal Opportunities Fund - EUR
CBL Optimal Opportunities Fund - USD

CBL Alternative Investment Fund:
SAIF Baltic Pearl Real Estate Fund

In January 2021, the Company created a new investment fund CBL US Leaders Equity Fund. The objective of the investment fund is to achieve long-term capital appreciation from investments made primarily in a portfolio of diversified shares of US companies. The investment plan has two investment certificate classes R Acc USD and R Acc EUR. In November 2021 CBL Russian Equity Fund was closed and its assets were merged with CBL US Leaders Equity Fund. In the reporting year the funds managed by the Company continued to receive high-grade international awards. As at the period end, the internationally renowned financial research company Morningstar rated the performance of ‘CBL Eastern European Bond Fund R Acc USD’ with the highest possible rating – five stars (overall rating), while the performance of ‘CBL Prudent Opportunities Fund’ was rated with four stars, and ‘CBL Global Emerg Mkts Bond R Acc EUR Hdg’ and ‘CBL Optimal Opportunities EUR’ were rated with three stars.

On 5 October 2021, the Company added to a number of products to CBL’s plans, which were acquired in 2020 from subsidiary of PNB banka, PNB Asset Management. These Tier 2 pension investment plan were PNB conservative investment plan ‘DAUGAVA’, PNB balanced investment plan ‘VENTA’ and PNB active investment plan ‘GAUJA’. As at the reporting date, the Company managed four investment plans for state funded pensions: IP ‘CBL Aktīvais ieguldījumu plāns’, IP ‘CBL Universālais ieguldījumu plāns’, IP ‘CBL dzīves cikla plāns Millennials’, IP ‘CBL Ilgtspējīgu iespēju ieguldījumu plāns’, with total assets as at 31 December 2021 amounting to EUR 815 million.

After the reporting date, in February 2022 the Company created a new Tier 2 passively managed investment fund ‘CBL Indeksu plāns’. The objective of the investment fund is to achieve long-term capital appreciation from up to 100% of investments made primarily in world equity markets.

Financial results

The customer base of the Company is diversified as our services are used by both private individuals and companies from Latvia and other countries. At the reporting date, total assets under management by the Company amounted to EUR 1,194 million, and the largest share of them, 68% or EUR 815 million, were funds of the state funded pension scheme. Net assets of the investment funds managed by the Company amounted to EUR 125 million or 10% of total net assets under management. Other assets under management were assets of private individuals, legal persons and insurance companies; in total 242 customer portfolios with a total value of net assets of EUR 197 million and net assets of private pension funds with a total value of EUR 58 million.

In 2021 commission income increased by 36% and amounted to EUR 6.98 million primarily due to increased total assets under management and the variable commission fee for state funded pension plans, Tier 3 pension plans and individual customer portfolios. Commission expenses decreased by 25% and amounted to EUR 0.65 million mainly due to increased commission fee for customer acquisition under state funded pension plans in 2020. As a result, net commission income increased by 49% and amounted to EUR 6.34 million.

The total comprehensive income of the reporting year is a profit of EUR 4.12 million (2020: EUR 2.36 million).

The Company does not plan to distribute dividends.

As concerns customer acquisition and servicing, the Company maintains close cooperation with parent company AS Citadele banka. A number of operating processes of the Company are outsourced to the parent company. This outsourcing strategy has further improved financial performance in 2021 and it will be continued in the future.

Subsequent events

A subsequent event that followed the reporting date and was not related to normal functioning of the financial market was the rapid escalation of the geopolitical tension in Eastern Europe which transformed into an invasion of Ukraine by Russia in the second half of February. As at the date of these financial statements, a war is raging in Ukraine with no signs of de-escalation in sight and the level of uncertainty is paramount. However, it is predictable already now that the events unfolding in and around Ukraine (such as sanctions imposed on Russia, steep rises in prices of energy resources etc.) will have a detrimental effect on the pace of economic growth worldwide, will contribute to increased volatility in financial markets and affect investor sentiment. The management has assessed the potential direct and indirect impact of the geopolitical situation on the Company's operations. According to the management, the geopolitical tension may have an adverse effect on the valuation of financial assets under its management and it cannot be precluded that a higher than normal outflow of customer funds will be observed from private portfolios and UCITS funds managed by the Company. It would make it difficult to achieve the rather ambitious targets set in the Company's budget for 2022 for asset management, commission fees and profit. At the same time, the impact of these circumstances on the ability of the Company to continue as a going concern is not perceived by the management as material. The Company will continue to receive commission income, although in smaller amounts, its liquidity position is strong and is maintained in non-cash format, not being subject to trends in the financial market.

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Kārlis Purgailis
Chairman of the Board

For the date refer to the time stamp.

STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES

The Board (hereinafter - the Management) of the Company is responsible for the preparation of the financial statements of JSC Citadele Asset Management in accordance with the laws and regulations of the Republic of Latvia which require that the financial statements of asset management companies be prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The financial statements on pages 8 to 29 are prepared based on source documents and present fairly the financial position of the Company as at 31 December 2021 and the results of its operations, as well as the cash flows for the year then ended.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis. Appropriate accounting methods have been consistently applied in the reporting period.

Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the financial statements.

The Management of the Company is responsible for the maintenance of a proper accounting system, safeguarding the Company's assets, and the prevention and detection of fraud and other irregularities in the Company. The Company is responsible for the fulfilment of the legislation of the Republic of Latvia and regulations by the FCMC applicable to the Company.

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Kārlis Purgailis
Chairman of the Board

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SEPARATE INCOME STATEMENT

	Note	EUR 2021	EUR 2020
Fee and commission income	3	6 983 453	5 130 318
Commission and fee expense	4	(648 388)	(868 013)
Net fee and commission income		**6 335 065**	**4 262 305**
Interest expenses		(5 715)	(1 235)
Net interest income		**(5 715)**	**(1 235)**
Net foreign exchange transaction result		3 105	(6 554)
Other income	5	50 000	240 000
Other expenses	6	(511 932)	(290 717)
Net operating income		**(458 827)**	**(57 271)**
Personnel expenses	8	(1 522 650)	(1 560 834)
Administrative and other expenses	7	(156 247)	(179 291)
Amortisation of intangible assets, right-of-use assets and fixed assets	11	(70 175)	(103 335)
Profit before tax		**4 121 451**	**2 360 339**
Corporate income tax for the reporting year		**-**	**-**
Profit of the reporting year		**4 121 451**	**2 360 339**
Total comprehensive income for the reporting year attributable to shareholders		**4 121 451**	**2 360 339**

The accompanying notes on pages 12 to 29 form an integral part of these financial statements.

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Vaidas Žagūnis
Chairman of the Council

Kārlis Purgailis
Chairman of the Board

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SEPARATE BALANCE SHEET

	Note	EUR 31/12/2021	EUR 31/12/2020
Assets			
Non-current assets			
Investments in subsidiaries	*10*	4 268 615	4 268 615
Right-of-use assets	*11*	80 545	120 817
Intangible assets	*11*	19 514	37 503
Property and equipment	*11*	872	1 623
Prepaid expenses	*12*	2 367 026	2 596 674
Total long term assets		**6 736 572**	**7 025 232**
Short term assets			
Balances due from credit institutions	*9*	8 967 126	5 348 690
Deferred expenses and accrued income	*12*	1 432 108	754 005
Other assets	*13*	49 599	33 461
Total short term assets		**10 448 833**	**6 136 156**
Total assets		**17 185 405**	**13 161 388**
Equity and liabilities			
Share capital	*18*	5 904 918	5 904 918
Retained earnings		10 823 863	6 702 412
Total equity and reserves		**16 728 782**	**12 607 330**
Accrued liabilities	*14*	164 124	168 256
Provisions	*15*	192 346	242 615
Liabilities for leased tangible assets	*16*	80 802	120 872
Other liabilities	*17*	19 352	22 315
Total liabilities		**456 624**	**554 058**
Total liabilities		**17 185 405**	**13 161 388**

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Chairman of the Board

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SEPARATE STATEMENT OF CASH FLOWS

	Note	2021 EUR	2020 EUR
Cash flows from operating activities			
Profit before income tax		4 121 451	2 360 339
Adjustments for			
Amortisation and depreciation	*11*	29 903	36 375
Amortization of right-of-use assets	*11*	40 272	66 960
Amortisation of acquisition cost of pension plans	*6*	213 859	32 852
Interest expenses on lease liabilities		564	1 235
Cash flow from operating activities before changes in assets and liabilities		**4 406 049**	**2 497 761**
Decrease in provisions and accrued expenses		(54 401)	(266 715)
Increase in prepaid expenses and accrued income		(662 314)	(2 931 769)
Increase in other assets		(16 138)	(24 685)
Increase/decrease in other liabilities		(2 963)	4 039
Increase/(decrease) in net cash flows from operating activities		**3 670 233**	**(721 369)**
Cash flow from investing activities			
Acquired fixed and intangible assets	*11*	(11 163)	(2 184)
Net cash used in investing activities		**(11 163)**	**(2 184)**
Cash flows from financing activities			
Lease payments	*16*	(40 634)	(69 292)
Net cash flows from financing activities		**(40 634)**	**(69 292)**
Increase/(decrease) in net cash flows for the reporting period		**3 618 436**	**(792 845)**
Cash and cash equivalents at the beginning of the year		5 348 690	6 141 535
Cash and cash equivalents at the end of the year	*9*	**8 967 126**	**5 348 690**

The accompanying notes on pages 12 to 29 form an integral part of these financial statements.

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Vaidas Žagūnis Chairman of the Council	Kārlis Purgailis Chairman of the Board

For the date refer to the time stamp.

SEPARATE STATEMENT OF CHANGES TO THE SHAREHOLDER'S EQUITY

	EUR		
	Share capital	**Retained earnings**	**Total equity**
As at 31 December 2019	**5 904 918**	**4 342 073**	**10 246 991**
Profit of the reporting year	-	2 360 339	2 360 339
As at 31 December 2020	**5 904 918**	**6 702 412**	**12 607 330**
Profit of the reporting year		4 121 451	4 121 451
As at 31 December 2021	**5 904 918**	**10 823 863**	**16 728 781**

The accompanying notes on pages 12 to 29 form an integral part of these financial statements.

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Vaidas Žagūnis
Chairman of the Council

Kārlis Purgailis
Chairman of the Board

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS

NOTE 1. GENERAL INFORMATION ABOUT THE COMPANY

Joint stock investment management company Citadele Asset Management (the 'Company') was established on 11 January 2002.

The Company manages securities portfolios on behalf of its customers, issues investment fund certificates and manages those funds, manages state funded pension scheme capital as well as provides customers with investment consulting. The sole shareholder of the Company is AS Citadele banka, the registered office of the joint stock investment management company IPAS CBL Asset Management is Republikas laukums 2a, Riga, LV - 1010, Latvia.

These separate financial statements of IPAS 'CBL Asset Management' were approved for issue by the Board on 30 March 2022.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the EU, which includes standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Accounting Standards (IAS) approved by the International Accounting Standards Committee (IASC) and interpretations of the Standing Interpretations Committee (IFRIC). Certain notes have been prepared in accordance with the requirements of the Financial and Capital Market Commission (FCMC).

The financial statements are prepared on a historical cost basis.

These notes disclose the accounting policies consistently applied in 2020 and 2021, as well as the new standards and interpretations adopted by the Company except as indicated in section 'Changes in classification'.

Changes in classification

During 2021, the Company evaluated the classification of payments for public data bases and reclassified them from Administration and other expenses to Other expenses. Similarly, after careful assessment several other types of expenses were reclassified from Administrative and other expenses to Other expenses, as these expenses were related to operating expenses rather than administrative efficiencies.

	EUR		
	2020		
	After reclassification	Reclassification	Before reclassification
Other expenses	(290 717)	(108 951)	(181 766)
Administrative and other expenses	(179 291)	108 951	(288 242)

New standards and interpretations

New accounting and financial reporting standards, interpretations and amendments which were not applicable to the previous annual financial statements have been issued. Certain standards became effective in 2021, while others will become effective in subsequent reporting periods. This section describes the standards applicable to the Company. Where the implementation impact was or is expected to be reasonably material it is disclosed.

New requirements effective for 2021 without a material impact on the Company

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

Future requirements that have no impact on the financial data for 2021

A number of new standards, interpretations and amendments to existing standards have become effective for the financial periods beginning on or after 1 January 2021 which are not yet endorsed by the EU. These standards were not applied in the preparation of these financial statements. The Company does not plan to adopt these standards early. The Company is in the process of evaluating the potential effect, if any, of changes arising from these new standards and interpretations.

IFRS 17 - Insurance Contracts. 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. IFRS 17 does not impact the Company's financial statements but is applicable to subsidiary CBL Life.
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform, Phase 2
Amendments to IAS 1 – Classification of Liabilities as Current or Non-current
Amendments to IAS 1 and IFRS 2 practice statement – Disclosure of accounting policies
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

Reporting currency

Items included in the financial statements of the investment company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in euro (EUR), which is the Company's presentation and functional currency.

Consolidation

Since the parent company AS Citadele Banka prepares consolidated financial statements comprising also the financial statements of the Company and its subsidiaries, the Company does not prepare its consolidated financial statements. The consolidated financial statements of the parent company AS Citadele Banka are available at the headquarters of AS Citadele Banka at Republikas laukums 2a, Riga and www.citadele.lv.

Recognition of income and expenses

Interest income and expense items are recognised on an accrual basis using the effective interest rate.

Commission and fee income related to asset management and trading with fund shares is charged to the income statement as earned.

The Company determines the commission fee for the management of each UCITS (Undertakings Collective Investment in Transferable Securities) investment fund, alternative investment fund and state funded pension scheme, considering the investment policy, region and complexity of transactions of each fund and/or plan. Commission fees and their calculation is established and published in prospectuses of state funded pension schemes, which are approved and registered with FCMC. To determine the commission fees for the management of state funded pension schemes, the Company considers the maximum contribution as set by the Cabinet Regulations No 765 (until 31.12.2017 Cabinet Regulations No 615).

For the service – individual management of investors' financial instruments portfolios in accordance with the investors' authorisation (Portfolio management service), contribution to the company for individual management of portfolio is determined in accordance with the General price list of the company published on the website www.cblam.lv. Upon individual agreement, the Company and the Client may establish their special price list in the contract on investment portfolio management. Calculation and payment of contribution for the management of investment portfolios is determined in the General investment portfolio managements regulations published on the website www.cblam.lv.

Commission fee for the management of private pension funds established by the Company is included in the individual Pension Plan regulations, considering the investment policy, region and complexity of transactions of each plan. Amount and calculation of contributions to the Company as the pension plan manager is established and published in the Pension plan regulation, approved and registered with FCMC.

If the return on investment exceeds the plan's benchmark (12 months EURIBOR, USD 12 months LIBOR for the active plan), the fund manager may be provided with additional or variable consideration of up to 10% of the excess profit on investment of the pension plan assets. Excess profit can be withheld only if all the following conditions are met:

-the return on investment exceeds the performance of the adjustments to comparatives in the relevant reporting period (month);

-the return on investment exceeds the performance of the adjustments to comparatives since the start of the plan;

-in the total (cumulative) profit of the plan during the reporting period is above the highest total (cumulative) profit ever recorded (High Watermark principle). Additional or variable consideration is calculated once a month. The fee for investment management services is treated as variable consideration as the amount is based on the value of net assets of managed investments and pension plans. Revenue from variable consideration is recognised only when it is highly probable that the related uncertainty will be resolved and the amount of recognised cumulative revenue will not be decreased substantially.

The fixed part of the fee for investment management services is calculated and accrued daily and under effective laws and regulations is paid once a month as the uncertainty related to the variable part is resolved. Revenue from the fixed part of consideration is recognised over time as the related performance obligation is satisfied and no significant judgement is to be made to determine the transaction price or the fact that the performance obligation has been satisfied. Accrued revenue or contract assets are disclosed at each reporting date under Accrued revenue.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract with a customer are recognised by the Company as an asset if it expects to recover those costs. The incremental costs of obtaining a contract are those costs that the Company incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained. Such directly re-invoiced costs are recognised by the Company as contract costs under assets on the balance sheet. Where the amortisation period of the potential contract cost asset is expected to be one year or less the cost of obtaining a contract is recognised by the Company directly in the profit and loss statement of the year to which it relates. Contract cost assets are carried at historical cost less accumulated depreciation and impairment. Accumulated depreciation is recognised systemically based on how services are provided under the contract over its expected duration by reference to the expected dynamics of generating revenue.

Foreign currency revaluation

The official currency unit of the Republic of Latvia Euro (EUR) is the functional currency of the Company which is used in these financial statements. Foreign currency transactions are revalued into euros at the official exchange rate set by the Bank of Latvia at the transaction date. All monetary assets and liabilities denominated in foreign currencies are translated to EUR according to the exchange rate of the ECB on the last day of the reporting year. Non-monetary items of assets and liabilities are revalued to euros in accordance with the reference exchange rate published by the European Central Bank on the transaction date. Differences arising on payments in currencies or disclosures of assets and liabilities using exchange rates other than those used for initial booking of transactions are recognized in the profit and loss statement at net amount.

Taxes

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. Corporate income tax assets and liabilities are determined to the extent they are expected to be recovered from or paid to tax authorities. Profits tax is paid only upon profit distribution (dividends). Profits tax is recognised by the Company upon profit distribution, as dividends are declared.

The tax rate in the Republic of Latvia is 20% from the taxable base determined by dividing the value of the amount taxable with corporate income tax by coefficient 0.8, including:

distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends), and

conditionally distributed profit (such as non-operating expenses, and other specific cases provided for by the law).

Intangible assets

Intangible assets are carried at historical cost amortized over the useful life of the asset on a straight line basis. The annual rate of amortization is 33%.

Term deposits

Term deposits are initially recognised at fair value and subsequently carried at amortised cost determined in line with the amount of cash placed as a term deposit plus capitalised and accrued interest income using the effective interest rate. Interest income on term deposits is recognised on an accrual basis, i.e. in proportion to the period of time from the date of placement of the deposit to the reporting date.

Investments in subsidiaries and associates

Investments in subsidiaries (i.e. an entity in which the Company holds more than 50% of share capital or which is controlled in any other way) are carried at cost. Subsequent to initial recognition, investments in subsidiaries are recognized at cost net of impairment losses. Should any events or changes in circumstances indicate that the carrying amount of investments in subsidiaries and associates could not be recoverable the respective investments in subsidiaries and associates assets are reviewed for impairment. Dividends received from the subsidiaries and associates are recognized when the legal right to receive them has been established.

Property and equipment

Property and equipment is recorded at historical cost less accumulated depreciation less any impairment losses. Should the recoverable amount of an asset become lower than its carrying amount for circumstances other than temporary the asset is written down to its recoverable amount.

Depreciation is calculated on a straight-line basis over the useful life of the asset. Depreciation rates range from 20% to 50% per year.

Maintenance and repair expenses are charged to the income statement as incurred.

Profit or loss from disposal of an asset is calculated as the difference between the carrying amount of the asset and proceeds from sale, and is recognised in the income statement as incurred.

Assets under management

Assets managed by the Company on behalf of customers, funds and other institutions are not regarded as assets of the Company. As such these assets are not reflected on the Company's balance sheet. Assets under management are presented in these financial statements only for disclosure purposes.

Fair value of financial assets and liabilities

Financial assets of the Company are carried at amortised cost. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and include trade and other receivables as well as cash and cash equivalents. Financial liabilities that include trade accounts payable and other financial liabilities arising from the operating activities of the Company are classified as other liabilities measured at amortised cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company have access at that date. The fair value of liabilities represents the risk of default.

IFRS introduces a fair value hierarchy for the measurement of financial assets and liabilities, based on whether or not observable market data are used in the measurement of the fair value of financial assets and liabilities. The balance sheet of the Company does not include assets and liabilities at fair value. Fair values of financial assets and liabilities not measured at fair value may be classified in the following fair value hierarchy levels:

The Company believes that the fair value of these financial assets matches their initial nominal value and the carrying amount at any future date.

Given the short term nature of settlements the carrying amounts of financial assets and liabilities are not materially different from their fair values.

Cash and cash equivalents

Cash and cash equivalents represent cash in bank and short-term deposits with initial maturities below three months.

Employee benefits

Employee entitlements to the annual leave are recognized when the vacation days have been accrued to the employees. Accruals for employees' annual leave pay are estimated based on days of unused annual leave of the employees up to the reporting date. The Company pays social security contributions to the state funded pension scheme on behalf of its employees in accordance with the laws and regulations of Latvia. The state funded pension scheme is a defined contribution plan under which the Company is to pay fixed contributions determined by law. The Company has no additional legal or constructive obligations to pay further contributions if the state funded pension scheme is unable to honour its liabilities towards the employees. State social security contributions are accrued in the year in which the associated services are rendered by the employees of the Company.

Other receivables

Trade receivables are recognized and carried at contractual amounts less allowances for doubtful receivables. Doubtful debt allowances are recognised when recovery of the entire amount of the receivable is no longer reasonably expected. Receivables are written off when their recoverability is considered impossible.

Lease - the Company as a lessee

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are accounted under IFRS 16. 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 Company 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. Operating lease expenses are disclosed as 'Depreciation of leased fixed assets'. Similarly the implied interest expense on lease liabilities is presented as interest expense.

The three year lease term applied to the rent of the Company's office is linked to the business planning horizon of AS Citadele banka. The incremental borrowing rate derived from the deposit rate of AS Citadele banka adjusted for a risk spread to account for the absence of deposit guarantees for leases is used for transactions.

Use of judgments and estimates in preparation of the financial statements

In the preparation of the financial statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and as adopted by the EU, the management has relied on certain estimates and assumptions that impact certain balance sheet and income statement items, and the amount of potential liabilities. The significant areas of judgement and estimation used in the preparation of the accompanying financial statements relate to the measurement of recoverable amounts of investments, provision for the liquidation of the Ukrainian subsidiary, in relation to determining the lease term.

The three year lease term applied to the lease transactions is linked to the business planning horizon of AS Citadele banka.

The impairment of investment in subsidiaries is calculated on the basis of the recoverable amount of the investment. Where the recoverable amount is less than the carrying amount, an impairment loss is recognized for the investment.

Future events may impact assumptions that were used as the basis for estimates. Any impact from changes in the estimates is reflected in the financial statements as determined. Taking into account the decision made by the AS "Citadele banka" group on the liquidation of the subsidiary in Ukraine, the process is started, as a result of which the Ukrainian subsidiary has no income that would cover the expenses of this company during the liquidation. Consequently, the liquidation expenses are reimbursed by the Company by investing in the capital of the subsidiary. As it will not be possible to recover these investments, a 100% allowance was recognised for the amount of these investments (see Note 10 and Note 15).

Financial risk management

The Company has approved a risk management policy that forms the basis for the management and hedging of risks.

The conditions that underlie stress testing of capital adequacy were revised in light of instability in the global and Latvian financial markets and economy. The calculation of market risk relies on increasing the reliability of the models.

The key financial risks related to the Company's financial instruments are currency risk, interest rate risk, credit risk, liquidity risk and capital adequacy risk.

Currency risk

Financial assets and liabilities of the Company that are exposed to currency risk include cash and cash equivalents, other receivables and other liabilities. The Company is primarily exposed to currency risk in relation to the US dollar (see Note 22).

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Company's equity.

	EUR			
	2021		**2020**	
Increase/decrease in USD exchange	5%	5%	5%	5%
Effect on profit/loss before tax	2 608	(2 608)	2 932	(2 932)
Effect on equity	**2 608**	**(2 608)**	**2 932**	**(2 932)**

Liquidity risk

Liquidity risk relates to the Company's ability to settle its payment liabilities according to the investment management policy. The Company manages liquidity risk by maintaining appropriate amounts of cash and cash equivalents. In order to maintain sufficient cash balances the Company plans its cash flow and analyses the actual performance on a regular basis.

The maturity profile of the Company's financial assets and liabilities as at 31 December 2021 is disclosed in Note 23.

Credit risk

Credit risk is the likelihood of incurring losses if a client fails to meet its contractual liabilities. The Company is exposed to credit risk in relation to receivables, accrued income, cash and cash equivalents. The maximum credit risk exposure as at 31 December 2021 on these assets was EUR 10 232 238 (2020: EUR 5 931 222). The Company has no assets that are impaired or past due. It should be noted that although the Company applies IFRS 9 and its expected credit loss model, the Company's management estimates that the impact of expected credit risk losses would be insignificant.

In accordance with the Company's investment policy, funds are placed in term deposits based on the credit institution's credit rating and the interest rate offered.

Credit risk is managed by the Company by monitoring receivables on an ongoing basis to ensure that the Company's exposure to bad debts is minimized.

Interest rate risk

The Company is not exposed to a significant interest rate risk. The Company generates interest income from cash in term deposits at fixed interest rates.

Capital adequacy

The Company maintains sufficient equity to be able to compensate losses incurred by customers due to the Company's fault. The amount of required capital is determined according to Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013. As at 31 December 2020, the minimum ratio of equity against risk weighted assets and memorandum items as determined by the FCMC is disclosed in Note 21.

NOTE 3. FEE AND COMMISSION INCOME

	EUR	
	2021	**2020**
Management of investment funds	4 619 628	3 863 250
Management of individual portfolios	2 350 007	1 231 361
Commission income from investment consultations	1 381	29 292
Issuance of investment certificates	12 437	6 415
Total	**6 983 453**	**5 130 318**

NOTE 4. FEE AND COMMISSION EXPENSES

	EUR	
	2021	**2020**
Distribution of investment certificates and other products	647 398	845 691
Servicing of accounts	648	20 656
Custodian bank fees	342	1 666
	648 388	**868 013**

NOTE 5. OTHER INCOME

After evaluation of the liquidation process of the 100% subsidiary OOO Mizush Asset Management Ukraina and based on the information received from PricewaterhouseCoopers Ukraine, the liquidator of Mizush, that the tax audit had been completed successfully, an opinion has been received and the final stage of liquidation of Mizush has been initiated it was decided to release the provision of EUR 50 000 created for potential tax penalties (EUR 50 000) against the 100% subsidiary OOO Mizush Asset Management Ukraina or its shareholder. It was decided in 2020 to release the provision of EUR 240 000 created for potential claims against Mizush or its shareholder. Subsidiary OOO Mizush Asset Management Ukraina is undergoing liquidation as it is not conducting any business activities. The final tax audit has been completed. According to local regulations closing financial statements will be prepared and issued, followed by a formal decision on liquidation according to timing stipulated in law. In light of war raging in Ukraine a formal liquidation decision may be delayed.

NOTE 6. OTHER EXPENSES

	EUR	
	2021	**2020**
FCMC charges	153 157	106 323
Amortisation of acquisition cost of pension plans	213 859	32 852
Public data bases	103 586	107 010
Other expenses	41 330	44 532
Total	**511 932**	**290 717**

NOTE 7. ADMINISTRATIVE AND OTHER EXPENSES

	EUR	
	2021	2020
IT and communication expenses	60 805	60 097
Professional services *	19 163	51 559
Non-deductible VAT	26 071	31 547
Rent of premises	13 654	23 229
Business trips	2 253	4 322
Advertisement and representation expenses	31 213	6 270
Other expenses	3 088	2 267
Total	**156 247**	**179 291**

* Professional services include the fee paid for the annual report for 2021 of EUR 22 977 (2020: EUR 18 957), and EUR 3 500 (2020: EUR 3 500) paid for other assurance services in relation to the financial instruments and market requirements, provided by the auditor of the Company's annual report.

NOTE 8. PERSONNEL EXPENSES

	EUR	
	2021	2020
Remuneration to members of the Council and Board*	384 378	420 648
Remuneration to other employees	836 938	838 042
Total remuneration	**1 221 316**	**1 258 690**
Compulsory state social security contributions	288 477	285 944
Business risk state duty	165	182
Other personnel costs	12 692	16 018
Total	**1 522 650**	**1 560 834**

*Includes total remuneration paid to members of the Council and Board, including that for the performance of other functions.

NOTE 9. BALANCES DUE FROM CREDIT INSTITUTIONS

	EUR	
	31/12/2021	31/12/2020
Demand deposits with credit institutions*	8 967 126	5 348 690
Balances due from credit institutions (cash and cash equivalents)	**8 967 126**	**5 348 690**

* Demand deposits with AS Citadele banka carry negative % rates according to the price list of AS Citadele banka.

NOTE 10. INVESTMENTS IN SUBSIDIARIES

	Holding 31/12/2021		Holding 31/12/2020	
<u>Related parties</u>	%	EUR	%	EUR
OOO Mizush Asset Management Ukraina (Ukraine)	100.00%	2 124 105	100.00%	2 124 105
Provision recognized OOO Mizush Asset Management Ukraina (Ukraine)		(2 124 105)		(2 124 105)
AAS CBL Life (Latvia)	100.00%	4 268 615	100.00%	4 268 615
Total related parties	100.00%	**4 268 615**	100.00%	**4 268 615**

During the reporting period, allowances for investments in subsidiaries did not change.

In February 2019, final settlements were made with all OOO Mizush Asset Management Ukraina investors of the funds, the liquidation of all funds was completed and the liquidation process of the Company was started. The Company hired AA PricewaterhouseCoopers Legal for liquidation. The Company has recognised provisions for liquidation expenses (refer to Note 15). Total assets amount to EUR 0.00, business activities have been discontinued and all expenses in 2021 were related to liquidation. Subsidiary OOO Mizush Asset Management Ukraina is undergoing liquidation as it is not conducting any business activities. The final tax audit has been completed. According to local regulations closing financial statements will be prepared and issued, followed by a formal decision on liquidation according to timing stipulated in law. In light of war raging in Ukraine a formal liquidation decision may be delayed.

Insurance joint-stock company CBL Life offers life insurance services.

Financial indicators of related party AAS CBL Life for 2021 are available on the website of Citadele Group https://www.cblgroup.com/lv/companies/cbl-life/

NOTE 11. FIXED ASSETS, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

	EUR			
	2021			
	Right-of-use assets	**Other fixed assets and inventory**	**Intangible assets**	**Total**
Historical cost				
As at the beginning of the year	**127 529**	**22 321**	**177 992**	**327 842**
Additions	-	633	10 530	**11 163**
Disposals	-	-	-	**-**
Year-end	**127 529**	**22 954**	**188 522**	**339 005**
Accumulated depreciation				
As at the beginning of the year	**6 712**	**20 698**	**140 489**	**167 899**
Depreciation	40 272	1 384	28 519	**70 175**
Disposals	-	-	-	**-**
Year-end	**46 984**	**22 081**	**169 008**	**238 074**
Carrying amount				
As at the beginning of the year	**120 817**	**1 623**	**37 503**	**159 943**
Year-end	**80 545**	**872**	**19 514**	**100 931**

	EUR			
	2020			
	Right-of-use assets	Other fixed assets and inventory	Intangible assets	Total
Historical cost				
As at the beginning of the year	**293 753**	**21 456**	**176 673**	**491 882**
Additions	127 529	865	1 319	**129 713**
Disposals	(293 753)	-	-	**(293 753)**
Year-end	**127 529**	**22 321**	**177 992**	**327 842**
Accumulated depreciation				
As at the beginning of the year	**73 438**	**19 742**	**105 070**	**198 250**
Depreciation	66 960	956	35 419	**103 335**
Disposals	(133 686)	-	-	**(133 686)**
Year-end	**6 712**	**20 698**	**140 489**	**167 899**
Carrying amount				
As at the beginning of the year	**220 315**	**1 714**	**71 603**	**293 632**
Year-end	**120 817**	**1 623**	**37 503**	**159 943**

NOTE 12. DEFERRED EXPENSES AND ACCRUED INCOME

	EUR	
	31/12/2021	31/12/2020
Current assets		
Accrued commission and fee income	1 215 512	549 071
Prepaid expenses	216 596	204 934
Long-term investments		
Prepaid expenses	2 367 026	2 596 674
Total	**3 799 134**	**3 350 679**

Accrued commission and fee income was received shortly after the end of the period, therefore the impairment provision was assessed as not significant. Variable commission fee income of EUR 683 356 will be received after issue of the auditor's report on the annual report of the Tier 2 pension plan and approval by the Board. See Note 23.

Purchase of Tier 2 pension plans of PNB

Prepaid expenses for the reporting period include the purchase transaction of pension plans to be amortised according to the calculation.

After receipt of all regulatory permits, on 5 October 2021 the pension plans acquired in 2020 were merged with existing CBL pension investment plans.

The management right asset was recognised at cost. The asset will be expensed in proportion to revenue flows from management of acquired assets. The estimated amortisation period is 20 years. Initially in the first five years after the change of the manager the volume of assets under management is expected to increase followed by the subsequent five years of reduction based on estimated reaching of the retirement age and retiring of plan participants (38% of capital participants of the PNB portfolios are born before 30 June 1971). The preliminary assumptions underlying the amortised cost of the transaction were compared to the actual cash flows in 2017 and significant deviation were not detected.

The monetary impact of the transaction is disclosed in the table below:

	EUR	
	31/12/2021	**31/12/2020**
Purchase transaction of pension plans at the beginning of the year	**2 797 481**	**-**
Acquisition of pension plans	**-**	**2 830 333**
Net changes charged to the profit and loss statement	(213 859)	(32 852)
Purchase transaction of pension plans at the end of the year	**2 583 622**	**2 797 481**

NOTE 13. OTHER ASSETS

	EUR	
	31/12/2021	**31/12/2020**
Financial assets		
Guarantee deposits	249	249
Other receivables	1 868	-
Non-financial assets		
Prepayments	46 131	33 212
Other receivables	1 351	-
Total financial and non-financial assets	**49 599**	**33 461**

NOTE 14. ACCRUED LIABILITIES

	EUR	
	31/12/2021	**31/12/2020**
Financial liabilities		
Professional services	66 550	83 715
Non-financial liabilities		
Accrued liabilities for vacations	97 574	84 541
Total	**164 124**	**168 256**

NOTE 15. PROVISIONS

	EUR		
	Provision for liquidation of a subsidiary	**Provision for the variable part of remuneration**	**Total provisions**
Provisions as at 31.12.2020	**81 788**	**160 827**	**242 615**
Increase of provisions	**-**	**165 528**	**165 528**
Variable part of remuneration for 2021	-	165 528	165 528
Decrease of provisions	**81 788**	**134 009**	**215 797**
Variable part of remuneration paid out for 2019/2020	-	134 009	134 009
Liquidation expenses of the subsidiary used	31 788	-	31 788
Reversed provisions for liquidation of the subsidiary*	50 000	-	50 000
Provisions as at 31.12.2021	**-**	**192 346**	**192 346**

	EUR		
	Provision for liquidation of a subsidiary	**Provision for the variable part of remuneration**	**Total provisions**
Provisions as at 31.12.2019	**365 305**	**174 313**	**539 618**
Increase of provisions	**-**	**129 498**	**129 498**
Variable part of remuneration for 2020	-	129 498	129 498
Decrease of provisions	**283 517**	**142 984**	**426 501**
Variable part of remuneration paid out for 2018/2019	-	142 984	142 984
Liquidation expenses of the subsidiary used	43 517	-	43 517
Reversed provisions for liquidation of the subsidiary*	240 000	-	240 000
Provisions as at 31.12.2020	**81 788**	**160 827**	**242 615**

* the transaction is described in Note 5 Other income.

NOTE 16. LIABILITIES FOR LEASED TANGIBLE ASSETS

	EUR	
	2021	**2020**
Liabilities for leased tangible assets at the beginning of the year	**120 872**	**221 467**
Calculated interest	564	(1 235)
Initiation/termination of lease agreements (net)	-	(30 068)
Lease payments	(40 634)	(69 292)
Liabilities for leased tangible assets at the end of the year	**80 802**	**120 872**

NOTE 17. OTHER LIABILITIES

	EUR	
	31/12/2021	**31/12/2020**
Financial liabilities		
Accounts payable to suppliers and other companies	1 867	15 737
Non-financial liabilities		
Due to staff	580	-
Compulsory state social security contributions	1 681	-
Value added tax	15 224	6 578
Total financial and non-financial liabilities	**19 352**	**22 315**

NOTE 18. SHARE CAPITAL

As at 31 December 2021, share capital of the Company amounted to EUR 5 904 918 and consisted of 5 904 918 ordinary name shares. The nominal value of one share is EUR 1. AS Citadele banka is the sole shareholder of the Company. All shares are fully paid up.

NOTE 19. TAXES AND STATE SOCIAL SECURITY CONTRIBUTIONS

	EUR				
	Value added tax	**Compulsory state social security contributions**	**Personal income tax**	**Business risk duty**	**Total**
Payable/(overpaid) 31.12.2020	**6 578**	**-**	**-**	**-**	**6 578**
Calculated for 2021	174 192	404 071	224 143	165	802 571
Paid in 2021	(165 546)	(402 390)	(224 143)	(165)	(792 244)
Payable/(overpaid) 31.12.2021	**15 224**	**1 681**	**-**	**-**	**16 905**

Assets and liabilities of compulsory state social security contributions and personal income tax paid in Latvia and other jurisdictions are presented separately.

NOTE 20. REMUNERATION

	EUR	
	2021	**2020**
Total remuneration paid to employees with an impact on the risk profile:	745 577	742 696
Remuneration to members of the Council and Board	*194 608*	*199 620*
Remuneration to employees who assume risk on behalf of the investment portfolios of or managed by the Company	*499 836*	*490 466*
Remuneration to employees who perform internal control functions	*51 133*	*52 610*
Remuneration to other employees	502 532	520 155
Total remuneration	**1 248 109**	**1 262 851**
-incl. fixed part	*1 139 679*	*1 147 624*
-incl. variable part	*108 430*	*115 226*

	2021	**2020**
Average number of people remunerated	**30**	**30**
incl. average number of recipients of the fixed part	30	30
incl. average number of recipients of the variable part	25	26

The Company uses the remuneration policy of Citadele Group which aims to retain, attract, motivate and develop professional and talented people to promote achievement of long and short term objectives. According to the policy, remuneration is matched to the employee's performance, is coherent and fair, and is consistent with and competitive against labour market levels. The policy also sets additional basic principles for positions that impact the risk profile to discourage accepting risks in excess of certain levels, to avoid limiting the ability of Citadele Group to strengthen its equity, to match values of Citadele Group, to be consistent with the principles of protecting customer or investor interests and those of other stakeholders; the policy considers that setting a guaranteed variable part of remuneration is not consistent with the principle of prudent risk management or setting the variable part of remuneration based on performance according to the policy and it should not be part of future remuneration plans.

Remuneration structure:

▪ The fixed part of remuneration or salary which reflects primarily the employee's professional experience and responsibilities under the job description and labour contract. The fixed part of remuneration consists of salary and special payments to employees that are related to factors other than their performance. Groups of positions are determined by the Board of Citadele banka and so is the range of fixed remuneration for each group, including positions that impact the risk profile, on the basis of studies of remuneration at financial institutions conducted by a competent organisation. The fixed part of remuneration consists of salary and special payments to employees that are related to factors other than their performance, for example, child birth benefit, benefits payable in case of death of parents etc.

▪ The variable part of remuneration reflects the employee's performance in excess of the requirements set in the job description, the consistency of such performance and the assessment of existing and potential risks related to it. The variable part is comprised of sales commissions, bonuses for achievement of quality and quantity indicators and targets (in a monetary and financial instrument form), one-off bonuses for exceptional achievements, long-term motivation programme and other financial benefits. No performance fee is provided in prospectus of investment funds managed by the Company.

The Company is committed to implementing a fair and reasonable remuneration practice and policy to promote sustainable business and development in the long term and to achieve interests of both the Company and its employees.

During 2021, the remuneration policy of Citadele Group was revised by adding a statement that Citadele Group undertakes to follow developments and update the Remuneration Policy, on a regular basis, to reflect best practices and innovations in sustainable finance and ESG.

The responsibility for setting the core principles of the Remuneration Policy and its approval rests with the Council of Citadele banka and so is the development, updating (at least once a year) and supervision over implementation.

NOTE 21. CAPITAL ADEQUACY

Capital adequacy ratio calculated in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the European Council of 26 June 2013 and the requirements of the FCMC as at 31 December 2021 and 2020 was as follows:

	EUR	
	31/12/2021	**31/12/2020**
Tier I capital		
Paid-in share capital	5 904 918	5 904 918
Audited retained earnings (not subject to dividend payment)	6 702 412	4 342 073
Audited profit of the reporting year (not to be distributed as dividends)	4 121 451	2 360 339
Intangible assets	(19 514)	(37 503)
Total Tier I capital	**16 709 267**	**12 569 827**
(Decrease) in equity		
Significant investments in other credit and financial institutions, insurance companies	(4 268 615)	(4 268 615)
Total (Decrease) in equity	**(4 268 615)**	**(4 268 615)**
Equity to be utilised in the capital adequacy ratio calculation	**12 440 652**	**8 301 212**
Summary of calculations		
Capital requirement equal to 25% of total recurring expenses of the previous year	**(533 544)**	**(556 798)**
Cover of capital requirement	**11 907 108**	**7 744 414**
Capital adequacy ratio %	**186.5%**	**119.3%**
FCMC minimum capital adequacy ratio requirement %	8.00%	8.00%

Both in 2021 and 2020, the capital adequacy ratio met the requirements of the FCMC for the minimum indicator of 8%.

NOTE 22. CURRENCY ANALYSIS

The following table presents certain balance sheet items by currency as at 31 December 2021:

	EUR	USD	Other currencies	Total
Assets				
Balances due from credit institutions	8 966 313	-	813	**8 967 126**
Deferred expenses and accrued income	1 162 804	52 164	544	**1 215 512**
Other assets	1 939	-	178	**2 117**
Total financial assets	**10 131 056**	**52 164**	**1 535**	**10 184 755**
Liabilities				
Accrued liabilities	(66 550)	-	-	**(66 550)**
Other liabilities	(1 867)	-	-	**(1 867)**
Total financial liabilities	**(68 417)**	**-**	**-**	**(68 417)**
Net long/(short) position	**10 062 639**	**52 164**	**1 535**	**10 116 338**

The following table presents certain balance sheet items by currency as at 31 December 2020:

	EUR	USD	Other currencies	Total
Assets				
Balances due from credit institutions	5 346 452	-	2 238	**5 348 690**
Deferred expenses and accrued income	489 597	58 630	844	**549 071**
Other assets	71	-	178	**249**
Total financial assets	**5 836 120**	**58 630**	**3 260**	**5 898 010**
Liabilities				
Accrued liabilities	(83 715)	-	-	**(83 715)**
Other liabilities	15 737	-	-	**15 737**
Total financial liabilities	**(67 978)**	**-**	**-**	**(67 978)**
Net long/(short) position	**5 768 142**	**58 630**	**3 260**	**5 830 032**

CBL Asset Management

NOTE 23. ASSETS AND LIABILITIES' CONTRACTUAL MATURITY STRUCTURE

The following table presents balance sheet items by their remaining maturity as at 31 December 2021:

	EUR				
	Up to 1 month	**1 – 6 months**	**6 – 12 months**	**1 – 5 years**	**Total**
Assets					
Balances due from credit institutions	8 967 126	-	-	-	**8 967 126**
Deferred expenses and accrued income	532 156	683 356	-	-	**1 215 512**
Other assets	-	2 117	-	-	**2 117**
Total financial assets	**9 499 282**	**685 473**	**-**	**-**	**10 184 755**
Liabilities					
Accrued liabilities	(60 398)	(6 152)	-	-	**(66 550)**
Other liabilities	-	(1 867)	-	-	**(1 867)**
Total financial liabilities	**(60 398)**	**(8 019)**	**-**	**-**	**(68 417)**
Liabilities for leased tangible assets	(3 349)	(16 768)	(20 173)	(40 512)	**(80 802)**
Net long/(short) position	**9 435 535**	**660 686**	**(20 173)**	**(40 512)**	**10 035 536**

The following table presents balance sheet items by their remaining maturity as at 31 December 2020:

	EUR				
	Up to 1 month	**1 – 6 months**	**6 – 12 months**	**1 – 5 years**	**Total**
Assets					
Balances due from credit institutions	5 348 690	-	-	-	**5 348 690**
Deferred expenses and accrued income	549 071				**549 071**
Other assets	-	71	-	178	**249**
Total financial assets	**5 897 761**	**71**	**-**	**178**	**5 898 010**
Liabilities					
Accrued liabilities	(43 715)	(40 000)	-	-	**(83 715)**
Other liabilities	(15 737)	-	-	-	**(15 737)**
Total financial liabilities	**(59 452)**	**(40 000)**	**-**	**-**	**(99 452)**
Liabilities for leased tangible assets	(3 331)	(16 676)	(20 062)	(80 803)	**(120 872)**
Net long/(short) position	**5 834 978**	**(56 605)**	**(20 062)**	**(80 625)**	**5 677 686**

CBL Asset Management

NOTE 24. RELATED PARTY TRANSACTIONS

The Company is a wholly owned subsidiary of AS Citadele banka. Other companies referred to as related parties are Citadele Group companies.

Amounts due from and to related parties

	EUR	
	31/12/2021	**31/12/2020**
Assets		
Due from AS Citadele banka	8 967 126	5 348 690
Due from AS Citadele banka (Right-of-use asset under IFRS 16)	80 545	120 817
Due to AAS CBL Life	8 925	7 654
Total	**9 056 596**	**5 477 161**
Liabilities		
Due to AAS CBL Life	19 653	11 668
Due to AS Citadele banka (lease liabilities under IFRS 16)	80 803	120 872
Total liabilities	**100 456**	**132 540**

Income and expenses from related parties

	EUR	
Income	**2021**	**2020**
Commission income from AAS CBL Life	94 843	68 759
Total income	**94 843**	**68 759**
Expenses		
Interest expenses to AS Citadele banka	5 715	115
Interest expenses to SIA Citadeles moduļi	-	1 120
Commission expenses to AS Citadele banka	511 391	784 322
Commission expenses to AAS CBL Life	68 892	49 922
Other expenses to AS Citadele banka	50 489	50 489
Lease and maintenance of premises expenses to AS Citadele banka	13 654	2 276
Lease and maintenance of premises expenses to SIA Citadeles moduļi	-	20 953
Amortisation AS Citadele banka (Right-of-use asset under IFRS 16)	40 272	6 712
Amortisation SIA Citadeles moduļi (Right-of-use asset under IFRS 16)	-	60 248
Total expenses	**690 413**	**976 157**

Assets under management from related parties

	EUR	
	31/12/2021	**31/12/2020**
AAS CBL Life	57 565 820	47 145 157
Total	**57 565 820**	**47 145 157**

NOTE 25. ASSETS UNDER MANAGEMENT

The table below provides an analysis of total assets under management (including investment funds and pension plans managed by the Company) on behalf of customers by investment type.

	31/12/2021		31/12/2020	
	EUR thousand	%	EUR thousand	%
Debt securities				
Securities of credit institutions	62 109	5.20%	33 237	3.15%
Corporate securities	205 936	17.25%	215 544	20.40%
Central government bonds	94 382	7.91%	89 583	8.48%
Financial institution bonds	22 732	1.90%	21 787	2.06%
Municipality bonds	5 177	0.43%	6 286	0.59%
Total debt securities and other fixed income securities:	**390 336**	**32.70%**	**366 437**	**34.68%**
Other investments				
Investment funds	650 712	54.51%	493 864	46.74%
Shares	116 175	9.73%	71 771	6.79%
Cash	33 665	2.82%	89 885	8.51%
Term deposits	-	0.00%	28 512	2.70%
Real estate property	4 820	0.40%	4 247	0.40%
Derivatives	(1 887)	-0.16%	1 961	0.19%
Total other investments:	**803 485**	**67.30%**	**690 240**	**65.32%**
Total debt securities and other investments	**1 193 821**	**100.00%**	**1 056 677**	**100.00%**

Investment funds established and managed and state funded pension plans managed by the Company by net assets:

	31/12/2021		31/12/2020	
	EUR thousand	%	EUR thousand	%
State funded pension schemes				
CBL Aktīvais ieguldījumu plāns	533 057	56.74%	445 674	52.34%
CBL Universālais ieguldījumu plāns	237 624	25.29%	169 374	19.89%
CBL dzīves cikla plāns “Millennials”	33 422	3.56%	15 720	1.85%
CBL Ilgtspējīgu iespēju ieguldījumu plāns	10 806	1.15%	5 869	0.69%
Investment plan DAUGAVA *	-	-	34 211	4.02%
Investment plan VENTA *	-	-	30 003	3.52%
Investment plan GAUJA *	-	-	44 322	5.21%
Total state funded pension schemes	**814 909**	**86.75%**	**745 173**	**87.51%**

Investment funds				
IF CBL Eastern European Bond Fund R Acc EUR (hedged)	45 124	4.80%	53 248	6.25%
IF CBL Eastern European Bond fund R Acc USD	5 700	0.61%	5 720	0.67%
IF CBL Russian Equity Fund	-	-	3 099	0.36%
IF CBL Prudent Opportunities fund EUR	974	0.10%	631	0.07%
IF CBL Optimal Opportunities fund EUR	8 788	0.94%	4 866	0.57%
IF CBL Optimal Opportunities fund USD	1 010	0.11%	187	0.02%
SAIF Baltic Pearl Real Estate Fund	4 629	0.49%	4 068	0.48%
IF CBL European Leaders Equity Fund ***	14 278	1.52%	8 622	1.01%
IF CBL US Leaders Equity Fund Klase R Acc EUR (hedged)**	10 119	1.08%	-	-
IF CBL US Leaders Equity Fund Klase R Acc USD**	8 076	0.86%	-	-
IF CBL Global Emerging Markets Bond Fund Klase R Acc EUR (hedged)	22 137	2.36%	22 413	2.63%
IF CBL Global Emerging Markets Bond Fund Klase R Acc USD	3 682	0.39%	3 486	0.41%
Total investment funds	**124 517**	**13.25%**	**106 340**	**12.49%**
Total pension plans and investment funds	**939 426**	**100.00%**	**851 513**	**100.00%**

* In the reporting period, the state funded pension plans of IPAS PNB Asset Management, a subsidiary of AS PNB Banka in liquidation, DAUGAVA, VENTA and GAUJA acquired in 2020 with total assets under management amounting to EUR 102.8 million and 55.8 thousand participants were merged with CBL plans on 5 October.
** In the reporting period, the Company created new equity funds IF CBL US Leaders Equity Fund Klase R Acc USD and IF CBL US Leaders Equity Fund Klase R Acc EUR (hedged).

*** During the reporting period IF CBL Russian Equity Fund was merged with IF CBL US Leaders Equity Fund Klase R Acc USD

NOTE 26. SUBSEQUENT EVENTS

A subsequent event that followed the reporting date and was not related to normal functioning of the financial market was the rapid escalation of the geopolitical tension in Eastern Europe which transformed into an invasion of Ukraine by Russia in the second half of February. As at the date of these financial statements, a war is raging in Ukraine with no signs of de-escalation in sight and the uncertainty is enormous. However, it is predictable already now that the events unfolding in and around Ukraine (such as sanctions imposed on Russia, steep rises in prices of energy resources etc.) will have a detrimental effect on the pace of economic growth worldwide, will contribute to increased volatility in financial markets and affect the investor sentiment. The management has assessed the potential direct and indirect impact of the geopolitical situation on the Company's operations. According to the management, the geopolitical tension may have an adverse effect on the valuation of financial assets under its management and it cannot be precluded that a higher than normal outflow of customer funds will be observed from private portfolios and UCITS funds managed by the Company. It would make it difficult to achieve the rather ambitious targets set in the Company's budget for 2022 for asset management, commission fees and profit. At the same time, the impact of these circumstances on the ability of the Company to continue as a going concern is not perceived by the management as material. The Company will continue to receive commission income, although in smaller amounts, and its liquidity position is strong, and is maintained in non-cash format and is not subject to trends on the financial market.

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Independent Auditors' Report

To the shareholder of IPAS CBL Asset Management

Report on the Audit of the separate Financial Statements

Our Opinion on the separate Financial Statements

We have audited the accompanying separate financial statements of IPAS CBL Asset Management ("the Company") set out on pages 8 to 29 of the accompanying Annual Report, which comprise:

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

In our opinion, the accompanying separate financial statements give a true and fair view of the separate financial position of IPAS CBL Asset Management as at 31 December 2021, and of its separate financial performance and its separate 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 Financial Statements* section of our report.

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

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

Existence and accuracy of revenue

The Company's revenue for the year ended 31 December 2021 amounted to EUR 6 983 453 (2020: EUR 5 130 318).

Reference to the separate financial statements: Note 2 'Income and expense recognition' on page 13 (accounting policy); Note 3 'Commission and fee income' on page 17 (notes to the separate financial statements).

Key Audit Matter

As described in Note 1 to the separate financial statements, the Company provides asset management services for a number of investment funds, state-funded pension schemes and private pension fund pension plans, as well as administers individually managed portfolios for the benefit of third parties.

Revenue from this activity is generated as a fixed fee for management services and a variable fee for meeting return criteria. The fixed fee for management services is calculated as a fixed percentage of the net asset value of the managed fund, plan or separately managed portfolios, while the variable fee for meeting certain criteria is calculated using the formula in the fund prospectus and is linked to the growth of fund's asset value.

We paid special attention to this area because it involves a large number of day-to-day transactions that affect revenue, as well as operational complexity due to the large number of investments generated and the different fees and conditions that apply to them.

Our response

Our audit procedures included, among others:

- Documenting, assessing and testing the design, implementation and operating effectiveness of the key internal controls of the Company relating to the calculation and recognition of fee income, and of internal controls over daily revaluation of the net asset values of the investment vehicles under management.
- We compared the rates and calculation formulas used in the calculation of fees with those provided in the prospectuses of the funds or plans managed by the Company.
- For the year ended 31 December 2021:
  - we developed an independent forecast of fixed fee income by analytically estimating the fees that should be recognized based on the terms of the contracts and amounts of assets under management according to custodian bank statements;
  - checked the correctness of the calculation of the variable fee income against the conditions of the fund and plan prospectuses and the value of the assets under

management according to custodian bank statements.

- Reviewed on a sample basis income other than from the management of investment funds or plans against the applicable conditions, primarily for individually managed portfolios.
- Evaluated the accuracy and completeness of disclosures on revenue recognition against the requirements of applicable financial reporting standards.

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- General Information about the Company, as set out on page 3 of the accompanying Annual Report,
- Management Report, as set out on pages 4 , 5 and 6 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 7 of the accompanying Annual Report.

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

In connection with our audit of the separate 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 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 Company 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 financial statements are prepared is consistent with the separate financial statements; and
- the Management Report has been prepared in accordance with the requirements of Regulation No. 113 of the Financial and Capital Market Commission of the Republic of Latvia.

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

Management is responsible for the preparation of the separate 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's separate financial reporting process.

Auditors' Responsibility for the Audit of the separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 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 26 August 2021 to audit the separate financial statements of IPAS CBL Asset Management 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 Company;
- 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 Company the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

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

KPMG Baltics SIA
License No. 55

Rainers Vilāns
Partner pp KPMG Baltics SIA
Sworn auditor
Certificate No. 200
Riga, Latvia
31 March 2022

THIS DOCUMENT IS SIGNED WITH A SECURE ELECTRONICAL SIGNATURE AND CONTAINS A TIMESTAMP

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails