AS Reģionālā investīciju banka

Consolidated and Bank's annual report for the year ended 31 December 2022

09.03.2023

* This version of financial statements is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation

Contents

AS Reģionālā investīciju banka
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Management Report

The consolidated report includes Regional investment bank AS and its subsidiary company SIA "Grunewald Residence", which together formed the Group until 15 July 2022, after which the subsidiary company was liquidated and excluded from the Commercial Register. Considering that the share of SIA Grunewald Residence in the total assets of the Group is insignificant, the following report will talk about the bank and its indicators. AS Regional investment bank is a joint-stock company registered in the Republic of Latvia. Registered address: J. Alunāna Street 2, Riga, Latvia, LV - 1010, registered in the Enterprise Register on 28 September 2001 with No. 40003563375. On 3 October 2001, the Financial and Capital Market Commission of the Republic of Latvia (Regulator) approved Regional Investment Bank AS as a credit institution and issued license No. 170. After the merger of the Regulator and the Bank of Latvia, as from January 1, 2023, the authority supervising the Bank is the Bank of Latvia.

In 2022, as in the previous 2 years, the Bank worked in a dynamically changing and unstable external environment. The background of the bank's activity in 2022 was formed by the increasing economic and energy crisis in Europe and the Baltic States, the rapidly growing inflationary factors, as well as the decisions of the ECB and FRS on raising the base interest rate. The war in Ukraine, which began on 24 February 2022, contrary to the expectations of many, did not end during 2022, turning into a long-term and large-scale military conflict in Europe. With the support of the USA and NATO countries, Ukraine managed to prevent the rapid escalation and expansion of the military conflict throughout the country, localizing it in certain areas in the southeast of Ukraine. During 2022, the countries of the European Union and the United States took extensive measures to put pressure on Russia, Belarus and several countries whose economies are actively used to circumvent the established sanctions. The imposed restrictions on work with these regions have made corrections in the work of both individual companies and entire sectors of the Latvian economy caused a sharp increase in the price of energy resources, significant changes in supply chains and raw material markets. These factors, both directly and indirectly, have introduced corrections in the fulfilment of several goals set for the Bank, however, in general, they have not had a dramatic impact on the Bank's business, stability, and the profitability of the main lines

Against the background of the mentioned events, 2022 has become the year when the positive effect of the Bank's business development and transformation processes, which the Bank's team has promoted throughout the previous years, began to clearly appear in the Bank's performance results. This applies both to the positive effect of optimizing internal processes and the Bank's operating costs, and to the effect of business development in the Bank's priority areas of operation in the Latvian market. In 2022, the Bank confidently executed a new loan issuance plan, which allowed the Bank to take the 2nd place in terms of credit portfolio growth dynamics among all members of the Latvian Financial Industry Association according to the results of the 3rd quarter of 2022 (*FNA data*). Such an important indicator of the Bank's activity as the net operating income from the Bank's main products at the end of 2022 was 10.07 million EUR compared to 6.71 million EUR in 2021, showing an increase of 3.36 million euro or 50%. Income from the Latvian credit portfolio in 2022, compared to 2021, increased by 73%, while commission income from resident clients increased by 47%.

The beginning of the war in Ukraine led to the fact that the Bank did not implement its 2022 plans to work with credit projects with the risk of this country. During 2022, the economic and financial sector of Ukraine demonstrated the ability to quickly and effectively adapt to the unprecedented events taking place in the country, as a result of which the national economy of Ukraine as a whole continued to function. Despite this circumstance and acting cautiously, at the beginning of the military conflict, i.e. in February 2022, the Bank suspended a new credit project with consideration of Ukrainian risks and stopped issuing loans to Ukrainian companies. During 2022, the credit portfolio as a whole, taking into account planned and extraordinary loan repayments, was reduced from EUR 30.5 million at the end of

2021 to EUR 24.0 million at the end of 2022, i.e. by EUR 6.5 million. Despite the difficult situation in Ukraine, in 2022 the Bank received approximately 89% of all interest payments stipulated in the contracts from Ukrainian customers.

At the same time, in 2022, an increase in the volume and profitability of the residents' credit portfolio was observed, as well as in the second half of 2022, the possibilities of effective deployment of free liquidity appeared, such as the use of overnight deposits in the Bank of Latvia, which made it possible to fully compensate for the loss of profitability of the credit portfolio with the risk of Ukraine. At the end of 2022, the Latvian credit portfolio made up approximately 55% of the Bank's total credit portfolio. The 2023 budget foresees an increase in the share of the credit portfolio of Latvian residents to 64%, the share of interest income from the Latvian portfolio in 2023 will increase from 46% in 2022 to 66%.

In its activities, the Bank still adheres to the principles and values formulated in 2018, focusing on the Bank's main mission, to be a reliable partner of its Customers in all matters related to the Bank's services. As in previous years, we offer our Customers high competence, understanding of Customer needs, excellent product quality and speed of decision-making.

Capital, liquidity and deposits. The Bank's financial indicators during 2022 have been stable, with a safe margin of resilience according to liquidity and capital standards (respectively 73.26% and 27.82% against standards of 40% and 10.90%). During the reporting period, the total amount of deposits increased significantly, by 64%, while the amount of deposits of Latvian residents, which is an important element when evaluating the development of the Bank's business model, has increased from EUR 62.1 million at the end of 2021 up to EUR 123.8 million as at 31 December 2022, i.e. for 99%.

Customer base and crediting Latvian business. In accordance with the Bank's development strategy, in 2022 we have significantly increased the share of Latvian projects in the credit portfolio, starting cooperation with several well-known Customers and Customer groups in the Latvian market, leaders in their business segments. Still, despite the difficult situation in many sectors of the Latvian economy, we ensure an efficient process of attracting new projects and examining loan projects, focusing on our profile customer, Latvian medium and large businesses. In 2022, the Bank has issued new loans for the total amount of EUR 70.5 million, of which EUR 42.8 million were issued to residents of Latvia and other loans were issued mostly to residents of EU countries.

Level of interest and commission income. In 2022, the Bank's core business demonstrated convincing growth - interest income amounting to 7.49 million. which is by EUR 2.77 million or 58% more than in 2021. Interest income from the Bank's credit portfolio, as part of the total interest income, also showed positive dynamics in general at 4.60 million. EUR against EUR 4.41 million a year earlier, i.e. by 4% more. In this position, of course, a significant correction caused by the war in Ukraine must be taken into account, the income of the Bank's credit portfolio with Ukrainian risk in 2022 amounted to EUR 1.35 million compared to EUR 2.02 million a year earlier, i.e. decreased by EUR 671 thousand or 33%. On the other hand, the Bank's main priority, the Latvian loan portfolio, has demonstrated convincing growth not only in terms of volume, but also in terms of profitability with an increase in interest income from EUR 1.22 million in 2021 to EUR 2.11 million in 2022, i.e. by EUR 894 thousand or 73%. Of this increase, EUR 173 thousand is the positive effect from the increase of the variable part of the interest rate in the second half of 2022, but EUR 720 thousand is additional income, which is formed from the increase in the size of Latvia's credit portfolio during 2022.

Financial Results. Despite the fact that 2022 was a successful year for the Bank and the Bank's profitability significantly improved in it, the Bank's financial result does not fully reflect this, as the profit for the reporting year in the 12 months of 2022 amounts to EUR 0.23 million . The amount of profit is affected by additional impairment in the amount of EUR 3.3 million mainly for loans with Ukrainian country risk. The amount of assets at the end of December 2022 was EUR 393.93 million, which is 54% more than a year ago.

Development and the most important plans for 2023. In 2023, we focused on such aspects of the Bank's operation as the quality of customer service and the strengthening of an individual approach in daily work with the Customer. Our Clients deserve the best service in the banking sector and we are working to ensure that our offer meets this high standard. In 2023, it is planned to implement several projects that will allow us to raise the quality of our service to a new level, including we plan to offer our customers a new internet banking solution and a renovated customer service hall.

In 2023, we will continue to work actively in our core field of activity, loans. It is planned to issue new loans for no less than 49.4 million EUR , including EUR 33.5 million in Latvia, making the Bank's credit portfolio reach EUR 127.4 million. In order to achieve this goal, we will continue to improve our lending products in order to be able to fulfil our promise to customers in any situation - to provide the highest competence on the market in the Client's field of activity and to offer the Client a fast and maximally economically efficient financing solution for business projects.

The Bank continues to work to promote good corporate governance by integrating the principles of responsible banking and sustainable financing into its core business processes. We also support our clients' efforts in the areas of environmental protection, social responsibility and sustainability, thus contributing to the operational efficiency and long-term value growth of their companies. Our team plans to start offering "green" solutions and products in 2023 as well, helping existing and potential customers to develop their business according to the requirements of the "green course", to attract co-financing from additional funds and to make their business more stable and efficient.

On behalf of the Bank's Board and Shareholders, we express our gratitude to our customers, cooperation partners and employees for the results achieved in 2022 and their contribution to the development of the Bank's growth!

Board's recommendation on profit distribution

The Board recommends leaving the profit of the reporting year undistributed and transferring it to retained earnings.

Aleksandrs Jakovlevs Chairman of the Board	Yuriy Rodin Chairman of the Council

Riga, 9 March 2023

Council and Board of the Bank

As at 31 December 2022 and the signing date of the financial statements:

Supervisory Council

		Appointment date
Yuriy Rodin	Chairman of the Council	Re-elected – 28.06.2022
Mark Bekker	Deputy Chairman of the Council	Re-elected – 28.06.2022
Alla Vanetsyants	Member of the Council	Re-elected – 28.06.2022
Irina Buts	Member of the Council	Re-elected – 28.06.2022
Margot Kahr Jacobs	Independent Member of the Council	24.05.2022

The following changes took place in the composition of the Supervisory Council of AS Reģionālā investīciju banka: Member of the Council Dmitrij Bekker was dismissed on 23 May 2022, and Margot Kahr Jacobs was appointed as Member of the Council on 24 May 2022.

Management Board

		Appointment date
Aleksandrs Jakovļevs	Chairman of the Board	Re-elected - 05.08.2019
Andrejs Gomza	Member of the Board	Re-elected – 05.11.2021
Dace Gaigala	Member of the Board	04.03.2019
Vita Matvejeva	Member of the Board	20.01.2020
Edgars Vadzītis	Member of the Board	11.07.2022

The following changes took place in the composition of the Management Board of AS Reģionālā investīciju banka: Member of the Board Alda Odiņa was dismissed on 20 April 2022, and Edgars Vadzītis was appointed as Member of the Board on 11 July 2022.

Aleksandrs Jakovļevs
Chairman of the Board

Yuriy Rodin
Chairman of the Council

Riga, 9 March 2023

Statement of Management Responsibility

Council and Board (hereinafter - the management) of the Bank are responsible for the preparation of the Consolidated financial statements of the Bank and its subsidiary (hereinafter – the Group) and the Bank's financial statements.

The Consolidated and Bank's financial statements on pages 14 through 102 are prepared in accordance with the source documents and present fairly the financial position of the Group and the Bank as at 31 December 2022 and the results of their operations and cash flows for the reporting year 2022.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted in the European Union on a going concern basis. 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 the Bank is responsible for the maintenance of proper accounting records, the safeguarding of the Group's and Bank's assets and the prevention and detection of fraud and other irregularities in the Group and the Bank. 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 the Bank of Latvia and other normative acts of the Republic of Latvia applicable for credit institutions.

Aleksandrs Jakovļevs Chairman of the Board	Yuriy Rodin Chairman of the Council

Riga, 9 March 2023

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Translation from Latvian

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Reģionālā investīciju banka AS

Report on the audit of the financial statements

Opinion

We have audited the accompanying consolidated financial statements of Reģionālā investīciju banka AS and its subsidiary (the Group) and the accompanying financial statements of Reģionālā investīciju banka AS (the Bank) set out on pages 14 to 102 of the accompanying Annual Report, which comprise the statements of financial position as at 31 December 2022, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements of the Group and the Bank give a true and fair view of the financial position of the Group and the Bank as at 31 December 2022 and of the financial performance of the Group and the Bank and the cash flows of the Group and the Bank for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group and the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter on the assessment of the impact of the Russia's war in Ukraine on the going concern of the Group and the Bank

We draw attention to Note 3 (a) the financial statements, which outlines the significant assumptions made by the management in the assessment of the impact of geopolitical conflict between Russia and Ukraine on the going concern of the Group and the Bank. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and the Bank of the current period. These matters were addressed in the context of our audit of the financial statements of the Group and the Bank as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements of the Group and the Bank. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements of the Group and the Bank.

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Key audit matter	How we addressed the key audit matter
Implementation of the Bank's Development Strategy (the Consolidated and the Bank's separate financial statements)	
The Bank prepared initial Development Strategy for years 2018-2021 to adapt its business model and clients' base. The Strategy was further updated for years 2019-2022. In February 2021, the Bank's Council approved the updated Development Strategy for years 2021-2025, which integrated the experience of previous years including aspects of COVID-19 pandemic and changes in the Bank's approach to its development. The key direction of the Development Strategy, as disclosed in Note 4(j) to the financial statements, is extension of lending in Latvia and the broader European Union with a focus on the segment of medium and large companies. Budget for year 2023 has been prepared in line with the Bank's Development Strategy for years 2021-2025. In prior periods, given that the Group and the Bank were in the early stage of the new business model implementation as defined in the Development strategy, there was an uncertainty on whether and how the Group and the Bank will succeed in implementing the new strategy. The Group and the Bank have been implementing the Development Strategy at a slower pace than initially planned, implying that the Group and the Bank are still in progress with the implementation. Reviewing the implementation status of the Development Strategy required significant attention during the audit because of its potential impact on the Group's and Bank's liquidity and capital adequacy. Significant deviations from Development strategy may have an impact on Bank's and Group's going concern; therefore, we considered it to be a key audit matter.	Our audit procedures included, among others, the following: We reviewed the Group's and the Bank's Development Strategy for years 2021–2025 and its implementation status based on year 2022 actual results. We discussed the implementation status and deviations from actual results of the Group's and the Bank's Development Strategy with the Group's and the Bank's management and representatives of the banking regulator ("regulator"). During year 2022 the regulator was Financial Capital and Market Commission and after the merge on 1 January 2023 is the Bank of Latvia. We obtained the year 2023 budget prepared by the management and evaluated the underlying assumptions. We performed this evaluation with reference to the supporting documents, and liquidity and capital adequacy requirements, where appropriate. We also assessed the adequacy of the disclosures relating to the matter in Note 4(j) to the financial statements.
Loan loss impairment (the Consolidated and the Bank's separate financial statements)	
The carrying amount of loans to corporate and individual customers as at 31 December 2022 amounted to EUR 109 354 thousand in the Bank's separate financial statements and EUR 109 354 thousand in the Consolidated financial statements; the total impairment loss allowance as at 31 December 2022 amounted to EUR 5 224 thousand in the Bank's separate financial statements and EUR 5 224 thousand in the Consolidated financial statements. Loan receivables are significant part of total assets of the Consolidated and the Bank's separate financial statements. The Group and the Bank have significant	Our audit procedures included, among others, the following: We gained understanding and reviewed key controls over the loan issuance, accounting and monitoring and loan impairment assessment processes. We gained understanding of how management applied the assumptions and data used to develop accounting estimates used within the Group's and the Bank's expected credit loss model. We have also reviewed controls relating to input of data to models and the general IT-controls within the relevant systems. In addition to testing the key controls, we assessed the Group's and the Bank's accounting policies and the management's assumptions relating to the estimation of expected credit loss and involved our internal IFRS 9 specialists to assess its compliance

exposures to the borrowers in foreign jurisdictions, including those in the Ukraine. On 24 February 2022, Russia launched a large-scale invasion of Ukraine which resulted in the ongoing war with consequences that are not possible predict as of today. The war in Ukraine has created challenges to businesses located and operating there. The stability of the Ukrainian economy is fundamentally impacted by the ongoing events. The Bank has a significant portion of portfolio issued to the businesses in Ukraine - 21 % of Bank's and 21% of Consolidated total portfolio for the year ended 31 December 2022 which raise a concern about the possible impact of the war on the loan recoverability and collateral value. The basis of the Bank's and the Group's loan impairment policy is presented in the accounting policies section in Notes 3(n) and 4(a) to the financial statements. Critical accounting estimates and judgments, disclosures of loans and guarantees and the credit risk management are set out in Notes 3(n), 4(a) and 13 to the financial statements. In order to provide for expected credit losses, management uses a model-based approach, individual assessments and model overlay assessments to consider factors not captured by the models. We identified this area to be significant for the audit because measurement and recognition of allowances for loan loss impairment reflected in the Group's and the Bank's expected credit loss model are associated with significant estimation, as it requires the management to exercise judgement and apply complex and subjective assumptions about both the timing and amounts of such impairment. Key areas of judgement include the identification of exposures with a significant increase in credit risk, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward-looking information li and war in Ukraine. Individual impairment allowances recognized by the Group and the Bank mostly relate to large, individually monitored exposures to corporates and individuals. Therefore, the assessment of the aforementioned exposures is based on the knowledge about each individual borrower and often on the estimated fair value of the relevant collaterals, the assessment of customers which are likely to default, and the future cash flows relating to loans. Due to the above circumstances, we considered loan impairment assessment to be a key audit matter.	with the requirements of IFRS 9. For a sample of the loans we assessed the significant expected credit loss model components: staging criteria, including parameters determining a significant increase in credit risk, Loss Given Default (LGD), Probability of Default (PD), Exposure at Default (EAD) and assessed whether the Group and the Bank have calculated the estimated expected credit loss in line with the provisioning policy. We assessed whether the borrowers exhibited the significant increase in credit risk or the possible default risk that may affect meeting their scheduled repayment obligations. We selected a sample of loans with higher risk characteristics such as significant exposures arising from the related borrower groups, borrowers in foreign jurisdictions (including Ukraine), exposures arising from delayed payments outstanding on the reporting date and restructured loans, including loans with subject to Ukraine country risk. The sample of loans was assessed as to the existence of significant increase in credit risk and default triggers by reviewing the underlying loan documentation and discussing the respective loans with the representatives of the Loan Department and the Debt Collection Department. As concerns non-performing loans, we reviewed the forecasts of future cash flows used in the assessment of loan impairment, evaluated the key assumptions made by the management such as the applied discount rates, collateral values, forecasted business performance and, as applicable, cost to repossess the collateral, collateral sales costs and sales periods. We performed analytical procedures, such as a comparison of loan loss impairment allowance balances to industry levels, comparison to prior year, movements between stages etc. We also assessed the adequacy of the financial statement disclosures in Notes 3 (n), 4(a) and 13.

<table>
<tr><th colspan="2">Anti-money Laundering (regulatory requirements regarding anti-money laundering) (the Consolidated and the Bank's separate financial statements)</th></tr>
<tr><td>In 2018, the amendments to the Law on the Prevention of Money Laundering and Terrorism Financing have come into force. The banks in Latvia were prohibited to establish and maintain the business relationship with shell-companies that possessed A and B features simultaneously. As the Group and the Bank historically have cooperated with the shell-companies, these events required the Group and the Bank to revise their AML policies as well as the client's base.

Bank is subject to regular Anti-money Laundering related inspections performed by regulator. Historically bank has been imposed regulatory fines.

As disclosed in Note 4(i) to the financial statements, latest regulator's inspections were executed during 2022. The results and consequences of inspections are not known as of today.

Given the importance of the matter to the Group's and the Bank's reputational risk, we have identified this as a key audit matter.</td><td>Our audit procedures included, among others, the following:

We reviewed the Bank's AML/CFT risk management strategy for 2022 and obtained updated strategy for year 2023. We discussed with the Bank's representatives responsible for compliance with anti-money laundering requirements, the adherence to the set targets in the strategy during the year 2022. We reviewed and evaluated the Bank's remediation plan in relation to the FCMC findings and its implementation by inspecting the implementation status reports and correspondence on the implementation with the regulator.

We updated our understanding of the Bank's internal policies and procedures and involved our internal AML specialists in the assessment of policy compliance with AML/CFT laws and regulations.

We updated our understanding and tested the key controls for limited number of largest clients of the Bank over the Client Onboarding, Enhanced due diligence, Transaction monitoring processes and reviewed their compliance with AML/CFT laws and regulations.

We reviewed the communication with the regulator in order to identify undisclosed or unrecorded violations noted by the regulatory institution and, if such are identified, to assess their possible impact on the financial statements. We also assessed the adequacy of the disclosures relating the matter in Note 4(i) to the financial statements.

We discussed the status and potential results of the latest regulator's inspections with the Group's and the Bank's management and representatives of the regulator.</td></tr>
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Reporting on other information

Management is responsible for the other information. The other information comprises:

- the Management Report, as set out on pages 3 to 6 of the accompanying Annual Report;
- the Statement on Management Responsibility, as set out on page 7 of the accompanying Annual Report;

Other information does not include the financial statements and our auditors report thereon.

Our opinion on the financial statements does not cover the other information 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 section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Group and the Bank and their environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Regulation No. 113 "Regulation on the Preparation of Annual Accounts and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies" of the Financial and Capital Market Commission of the Republic of Latvia.

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

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Regulation No. 113 "Regulation on the Preparation of Annual Accounts and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies" of the Financial and Capital Market Commission of the Republic of Latvia.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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 Group's and the Bank'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 Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other reporting responsibilities and confirmations required by the legislation of the Republic of Latvia and European Union when providing audit services to public interest entities

We were first appointed as auditors of the Group and the Bank on 29th September 2017 by Shareholders of the Bank. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 6 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank;
- as stipulated in paragraph 37^6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Group and the Bank the prohibited non-audit services (NASs) referred to in EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

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

ERNST & YOUNG BALTIC SIA
License No. 17

Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Riga, 9 March 2023

Consolidated and Bank's Financial Statements

Consolidated and Bank's Statement of Comprehensive Income

	Notes	2022 Group EUR	2022 Bank EUR	2021 Group EUR (restated*)	2021 Bank EUR (restated*)
Interest revenue calculated using effective interest rate method	5	7,795,320	7,797,780	4,853,445	4,953,566
Interest expense	5	(795,972)	(795,972)	(1,351,444)	(1,351,444)
Net interest income	5	**6,999,348**	**7,001,808**	**3,502,001**	**3,602,122**
(Expenses)/Reversal of allowances for loan impairment	12,13,19,26	(2,452,959)	(2,452,959)	2,629,457	2,661,375
Net interest income after allowances for loan impairment		**4,546,389**	**4,548,849**	**6,131,458**	**6,263,497**
Fee and commission income	6	2,629,463	2,629,532	2,843,668	2,843,988
Fee and commission expense	6	(423,975)	(423,971)	(224,311)	(224,178)
Net fee and commission income	6	**2,205,488**	**2,205,561**	**2,619,357**	**2,619,810**
Profit/(loss) from sale of financial assets at fair value through profit or loss, net		-	-	(2,102)	(2,102)
Loss from revaluation of securities at fair value through profit or loss, net		(337,263)	(337,263)	(28,660)	(28,660)
Gain from trading in foreign currencies, net		508,954	508,954	175,123	175,123
Gain/(loss) from foreign exchange translation, net		93,109	93,109	72,966	72,966
Dividend income	16	10,337	566,736	8,043	10,008,043
Other operating income	8	277,913	278,337	289,197	286,917
Total operating income		**7,304,927**	**7,864,283**	**9,265,382**	**19,395,594**
Administrative expense	7	(6,450,861)	(6,448,223)	(7,093,961)	(6,911,151)
Amortization and depreciation charges	17,18	(374,826)	(374,826)	(378,233)	(378,233)
Other income	9	28,859	28,859	14,298,744	876,119
Other expense	9	(209,059)	(783,835)	(535,039)	(4,397,562)
Profit before corporate income tax		**299,040**	**286,258**	**15,556,893**	**8,584,767**
Corporate income tax	10	(200,138)	(61,038)	(2,622,278)	(134,276)
Net profit for the year attributable to:		**98,902**	**225,220**	**12,934,615**	**8,450,491**
shareholders of the Bank		98,902	225,220	12,884,981	8,450,491
non-controlling interest		-	-	49,634	-
Other comprehensive income					
Items that can be reclassified subsequently to profit or loss:					
Gain/(loss) on debt instruments at fair value through other comprehensive income		21,700	21,700	(1,945)	(1,945)
Other comprehensive income, total		**21,700**	**21,700**	**(1,945)**	**(1,945)**
Total comprehensive income for the year attributable to:		**120,602**	**246,920**	**12,932,670**	**8,448,546**
shareholders of the Bank		120,602	246,920	12,883,036	8,448,546
non-controlling interest		-	-	49,634	-

*For information on the correction of the previous period made in the reporting year, see Note 3.

The Consolidated and Bank's financial statements on pages 14 through 102 have been approved by the Council and Board of the Bank and signed on their behalf by:

Aleksandrs Jakovļevs
Chairman of the Board

Yuriy Rodin
Chairman of the Council

Riga, 9 March 2023

The accompanying notes on pages 19 through 102 form an integral part of these financial statements.

Consolidated and Bank's Statement of Financial Position

	Notes	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR (restated*)	31.12.2021 Bank EUR (restated*)	01.01.2021. Group EUR (restated*)	01.01.2021. Bank EUR (restated*)
Assets							
Cash and balances with the Bank of Latvia	11	141,138,313	141,138,313	82,900,231	82,900,231	67,749,254	67,749,254
Balances due from banks	12	1,159,012	1,159,012	38,393,662	38,393,662	40,859,902	40,859,902
Financial assets at fair value through profit or loss	14	190,001	190,001	1,842,928	1,842,928	13,616,624	13,616,624
Debt instruments at fair value through other comprehensive income	15	125,705,520	125,705,520	30,902,143	30,902,143	46,448,754	46,448,754
Loans and advances to customers	13	109,354,535	109,354,535	83,259,093	83,259,093	64,980,255	68,628,156
Other assets	19	2,940,697	2,940,697	4,792,557	4,776,631	17,210,951	4,991,082
Investment in subsidiary	16	-	-	-	583,972	-	6,100,000
Property and equipment, and right-of-use assets	18	12,750,274	12,750,274	12,872,931	12,872,931	13,092,753	13,092,753
Intangible assets	17	496,064	496,064	475,426	475,426	437,088	437,088
Prepaid expense		199,600	199,600	181,858	181,858	148,695	148,695
Total assets		**393,934,016**	**393,934,016**	**255,620,829**	**256,188,875**	**264,544,276**	**262,072,308**
Liabilities							
Balances due to banks		4,001,730	4,001,730	-	-	5,400	5,400
Deposits from customers	21	343,522,710	343,522,710	208,333,160	209,730,323	204,612,329	205,430,951
Other financial liabilities	22	154,982	154,982	405,450	295,321	239,278	236,988
Provisions	26	518,992	518,992	920,810	920,810	299,372	299,372
Debt securities		-	-	-	-	16,384,025	16,384,025
Subordinated loans		-	-	-	-	3,016,117	3,016,117
Deferred income and accrued expense	23	1,078,873	1,078,873	835,026	835,026	739,910	739,914
Current income tax liabilities		4,059	4,059	594,315	1,645	2,337	2,337
Total liabilities		**349,281,346**	**349,281,346**	**211,088,761**	**211,783,125**	**225,298,768**	**226,115,104**
Equity							
Share capital	25	32,334,756	32,334,756	32,334,756	32,334,756	32,334,756	32,334,756
Reserves		6	6	6	6	6	6
Revaluation reserve on debt instruments at fair value		25,372	25,372	3,672	3,672	5,617	5,617
Retained earnings		12,292,536	12,292,536	12,193,634	12,067,316	3,864,763	3,616,825
Equity attributable to equity holders of the parent		**44,652,670**	**44,652,670**	**44,532,068**	**44,405,750**	**36,205,142**	**35,957,204**
Non-controlling interest		-	-	-	-	3,040,366	-
Total equity		**44,652,670**	**44,652,670**	**44,532,068**	**44,405,750**	**39,245,508**	**35,957,204**
Total liabilities and equity		**393,934,016**	**393,934,016**	**255,620,829**	**256,188,875**	**264,544,276**	**262,072,308**
Off-balance sheet items							
Contingent liabilities	26	5,030,980	5,030,980	7,032,383	7,032,383	9,550,225	9,550,225
Financial commitments	26	20,902,674	20,902,674	45,541,858	45,541,858	13,722,190	13,722,190
Assets under management	33	66,753,087	66,753,087	64,832,077	64,832,077	54,707,966	54,707,966

*For information on the correction of the previous period made in the reporting year, see Note 3.

The Consolidated and Bank's financial statements on pages 14 through 102 have been approved by the Council and Board of the Bank and signed on their behalf by:

Aleksandrs Jakovlevs
Chairman of the Board

Yuriy Rodin
Chairman of the Council

Riga, 9 March 2023

The accompanying notes on pages 19 through 102 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Attributable to shareholders of the Bank							
	Share capital	Reserves	Retained earnings (restated***)	Revaluation reserve on debt instruments at fair value	Revaluation reserve on equity instruments at fair value (restated***)	Total	Non-controlling interest	Total equity
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 1 January 2021 (as reported)	**32,334,756**	**6**	**3,831,829**	**5,617**	**32,934**	**36,205,142**	**3,040,366**	**39,245,508**
Reclassification of revaluation reserve as a result of reclassifying financial instruments as fair value through other comprehensive income (FVOCI)	-	-	32,934	-	(32,934)	-	-	-
Balance as at 1 January 2021 (restated*)**	**32,334,756**	**6**	**3,864,763**	**5,617**	-	**36,205,142**	**3,040,366**	**39,245,508**
Profit for the year	-	-	12,884,981	-	-	12,884,981	49,634	12,934,615
Change in revaluation reserve	-	-	-	(1,945)	-	(1,945)	-	**(1,945)**
Total comprehensive income for the year	**-**	**-**	**12,884,981**	**(1,945)**	**-**	**12,883,036**	**49,634**	**12,932,670**
Decrease in subsidiary's capital *****	-	-	-	-	-	-	(3,086,910)	**(3,086,910)**
Mark-up from acquisition of investment in subsidiary**	-	-	(4,556,110)	-	-	(4,556,110)	-	**(4,556,110)**
Acquisition of non-controlling interest**	-	-	-	-	-	-	(3,090)	**(3,090)**
Balance as at 31 December 2021 (restated*)**	**32,334,756**	**6**	**12,193,634**	**3,672**	**-**	**44,532,068**	**-**	**44,532,068**
Profit for the year	-	-	98,902	-	-	**98,902**	**-**	**98,902**
Change in revaluation reserve	-	-	-	21,700	-	21 700	-	21 700
Total comprehensive income for the year	**-**	**-**	**98,902**	**21,700**	**-**	**120,602**	**-**	**120,602**
Balance as at 31 December 2022	**32,334,756**	**6**	**12,292,536**	**25,372**	**-**	**44,652,670**	**-**	**44,652,670**

***** A decrease in the capital of the subsidiary SIA Grunewald Residence and a payment made to the non-controlling interests for the amount of EUR 3,086,910 (see also Note 16).

** The acquisition of the non-controlling interest in the subsidiary SIA Grunewald Residence for the total amount of EUR 4,559,200 (33.62% of shares, which is EUR 3,090, and a mark-up from the acquisition of the investment amounting to EUR 4,556,110) (see also Note 16).

******* For information on the correction of the previous period made in the reporting year, see Note 3.

The accompanying notes on pages 19 through 102 form an integral part of these financial statements.

Bank's Statement of Changes in Equity

	Share capital	Reserves	Retained earnings (restated*)	Revaluation reserve on debt instruments at fair value	Revaluation reserve on equity instruments at fair value (restated*)	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 1 January 2021 (as reported)	**32,334,756**	**6**	**3,583,891**	**5,617**	**32,934**	**35,957,204**
Reclassification of revaluation reserve as a result of reclassifying financial instruments as FVOCI	-	-	32,934	-	(32,934)	-
Balance as at 1 January 2021 (restated*)	**32,334,756**	**6**	**3,616,825**	**5,617**	**-**	**35,957,204**
Profit for the year	-	-	8,450,491	-	-	8,450,491
Change in revaluation reserve	-	-	-	(1,945)	-	(1,945)
Total comprehensive income for the year	**-**	**-**	**8,450,491**	**(1,945)**	**-**	**8,448,546**
Balance as at 31 December 2021 (restated*)	**32,334,756**	**6**	**12,067,316**	**3,672**	**-**	**44,405,750**
Profit for the year	-	-	225,220	-	-	225,220
Change in revaluation reserve	-	-	-	21,700	-	21,700
Total comprehensive income for the year	**-**	**-**	**225,220**	**21,700**	**-**	**246,920**
Balance as at 31 December 2022	**32,334,756**	**6**	**12,292,536**	**25,372**	**-**	**44,652,670**

*For information on the correction of the previous period made in the reporting year, see Note 3.

The accompanying notes on pages 19 through 102 form an integral part of these financial statements.

Consolidated and Bank's Statement of Cash Flows

	Notes	2022 Group EUR	2022 Bank EUR	2021 Group EUR	2021 Bank EUR
Cash flows from/(used in) operating activities					
Interest received		7,466,170	7,468,630	4,967,879	5,068,000
Interest paid		(872,809)	(872,809)	(1,436,136)	(1,435,318)
Fees and commissions received	6	2,629,463	2,629,532	2,843,668	2,843,988
Fees and commissions paid	6	(423,975)	(423,971)	(224,311)	(224,178)
Profit/(loss) from sale of financial assets measured at fair value through profit or loss (FVPL)		-	-	(376)	(376)
Income received from foreign exchange		508,954	508,954	175,123	175,123
Other operating income received *		277,913	278,337	26,705,117	286,918
Personnel expense paid		(4,687,431)	(4,684,959)	(5,220,881)	(5,205,492)
Administrative and other operating expense paid		(2,047,757)	(1,937,466)	(2,109,382)	(1,839,581)
Income tax paid		(774,836)	(58,624)	(2,030,675)	(134,968)
Cash flows generated from operating activities before changes in operating assets and liabilities		**2,075,692**	**2,907,624**	**23,670,026**	**(465,884)**
Changes in operating assets and liabilities					
(Increase)/decrease in financial assets measured at FVPL		4,665,548	4,665,548	15,398,382	15,398,382
(Increase)/decrease in debt instruments measured at FVOCI		(94,567,759)	(94,567,759)	15,310,993	15,310,993
(Increase)/decrease in balances due from banks		34,992,567	34,992,567	1,135,825	1,135,825
(Increase) in loans and advances to customers, net		(26,936,255)	(26,936,255)	(9,581,631)	(5,902,631)
(Increase)/decrease in other assets		1,786,808	1,786,450	(280,263)	417,296
(Decrease)/increase in deposits from customers, net		121,400,954	120,003,791	(3,851,743)	(3,273,202)
(Decrease)/increase in balances due to banks		4,001,730	4,001,730	(5,400)	(5,400)
Increase/(decrease) in other liabilities, net		(275,880)	(275,880)	825,433	825,433
Net cash flows from/(used in) operating activities		**47,143,405**	**46,577,816**	**42,621,622**	**23,440,812**
Cash flows from/(used in) investing activities					
Purchase of shares in subsidiary	16	-	-	-	(4,559,200)
Dividends received	16	10,337	566,736	8,043	10,008,043
(Increase)/decrease in subsidiary's share capital**		-	9,190	(3,086,910)	6,093,900
Purchase of intangible assets	17	(163,515)	(163,515)	(199,159)	(199,159)
Purchase of property and equipment	18	(99,264)	(99,264)	(1,131)	(1,131)
Net cash flows from/(used in) investing activities		**(252,442)**	**313,147**	**(3,279,157)**	**11,342,453**
Cash flows from/(used in) financing activities					
Acquisition of non-controlling interest	16	-	-	(4,559,200)	-
Repayment of debt securities		-	-	(16,817,980)	(16,817,980)
Repayment of subordinated loans		-	-	(3,038,223)	(3,038,223)
Repayment of the principal amount of lease liabilities		(32,930)	(32,930)	(46,636)	(46,636)
Net cash flows from/(used in) financing activities		**(32,930)**	**(32,930)**	**(24,462,039)**	**(19,902,839)**
Effect of exchange rates on cash and cash equivalents		4,185,720	4,185,720	(3,037,703)	(3,037,703)
Net increase/(decrease) in cash and cash equivalents		**51,043,753**	**51,043,753**	**11,842,723**	**11,842,723**
Cash and cash equivalents at the beginning of the year	20	91,267,525	91,267,525	79,424,802	79,424,802
Cash and cash equivalents at the end of the year	**20**	**142,311,278**	**142,311,278**	**91,267,525**	**91,267,525**

* In 2021 the increase in other operating income received in the consolidated statement of cash flows represents the funds received as a result of the sale of the immovable property owned by the subsidiary company for EUR 26.5 million. For more detailed information, see Note 16.

** The shareholders of the Bank's subsidiary resolved to reduce the share capital of SIA Grunewald Residence from EUR 9,190,000 to EUR 9,190. On the basis of this decision, SIA Grunewald Residence repaid the shareholders' contribution of EUR 9,180,810, and based on the amount of owned shares,

The accompanying notes on pages 19 through 102 form an integral part of these financial statements.

EUR 6,093,900 was paid to the Bank and EUR 3,086,910 was paid to the non-controlling interests. For more detailed information, see Note 16.

Notes to the financial statements

1. Incorporation and principal activities

AS Reģionālā investīciju banka (hereinafter – the Bank) provides financial services to corporate customers and private individuals. In 2005, the Bank established a representative office in Odessa (Ukraine). In 2010, a representative office was established in Brussels, the capital of Belgium.

In August 2016, the Bank established a 100% subsidiary - the limited liability company *Grunewald Residence*, reg. No 40203014344, whose share capital was EUR 9,190. The Bank decided to liquidate the company in 2022, and SIA Grunewald Residence was removed from the register and liquidated on the basis of the decision of 15 July 2022.

The legal address of the Bank's principal place of business is:
J.Alunāna iela 2
LV-1010, Riga
Latvia

The Bank has no other representative offices, subsidiaries or other entities, except for the above mentioned.

These financial statements were approved for issue by the Bank's Council and Board on 9 March 2023.

2. Operating environment of the Group and the Bank

Following the improvement of the epidemiological situation and substantial government and EU funding support in 2021, the Latvian economy continued its relatively rapid recovery in early 2022. Russia's invasion of Ukraine, which began on 24 February 2022, worsened the geopolitical situation and economic prospects. Energy and food prices rose substantially, adding to inflationary pressures at a time when the cost of living around the world was already soaring, recovering from the pandemic. The global economy is also affected by disruptions in chains of the supply of raw materials due to the war. The Latvian economy started to feel the full impact of the war in the second quarter, when GDP growth decelerated to 2.7% yoy, while in the third quarter GDP fell 0.4% yoy. Turnover in the retail sector has slowed down in recent months. The sharp rise in costs is producing a negative impact on the construction sector, which is substantially driving down volumes in productive sectors. Trends in construction have a significant impact on investment dynamics, with investment in buildings and structures accounting for a large share of total investment. Foreign trade trends also have an impact on overall economic performance. Exports of goods continue to grow, but at a slower pace than in the past. Imports, on the other hand, are growing faster than exports, as businesses build up stocks in the context of both severely disrupted supply chains and concerns about possible future disruptions due to new sanctions. High energy prices have dampened the outlook for economic activity, but the high growth rate at the start of 2022 keeps the forecast for 2022 GDP growth at 2.1%.

A temporary and shallow recession of the Latvian economy is expected in the coming months. In the first half of 2023, the Latvian economy is expected to stagnate as the impact of adverse factors persists, and the 2023 GDP forecast has been downgraded to -0.3%. The Latvian economy is expected to recover from the second half of 2023 onwards as inflation returns to lower levels. Currently, the Bank of Latvia's inflation forecast is 17.3% for 2022 and 10.9% for 2023. However, there is still considerable uncertainty about the impact of the war and related sanctions on the future development of the Latvian economy.

In 2022, the Latvian banking sector saw a decline in the number of banks, both as a result of consolidation of smaller banks and as a result of decisions taken by the Regulator. At the same time, the performance of the operating banks remained stable: liquidity, capital adequacy and profitability ratios were at a high level, asset quality ratios continued to improve.

2. Operating environment of the Group and the Bank *(cont'd)*

The Bank's operations are influenced by trends and events in the Ukrainian market as the Bank cooperates closely with Pivdennij Bank, a Ukrainian public joint stock company. In addition, some of the Bank's loans are issued to companies whose business activities are related to Ukraine and some of deposits are attracted from the residents of Ukraine.

The table below presents the total assets and liabilities of the Bank and the Group subject to the Ukraine country risk as at 31 December 2022 and 31 December 2021:

	31.12.2022 Group EUR '000	31.12.2022 Bank EUR '000	31.12.2021 Group EUR '000	31.12.2021 Bank EUR '000
Assets subject to the Ukraine country risk:				
Balances due from banks	1,000	1,000	586	586
Loans issued and other receivables	21,003	21,003	30,643	30,643
Other assets	549	549	517	517
Total	**22,552**	**22,552**	**31,746**	**31,746**
Liabilities subject to the Ukraine country risk:				
Balances due to banks	4,002	4,002	-	-
Deposits from customers	82,444	82,444	41,784	41,784
Total	**86,446**	**86,446**	**41,784**	**41,784**
Off-balance sheet items subject to the Ukraine country risk:				
Financial commitments	1,226	1,226	112	112
Total	**1,226**	**1,226**	**112**	**112**

The Bank complies with the limit set by the Regulator on the concentration of exposures in Ukraine equal to the Bank's Tier 1 capital (Tier 1 capital is determined according to Article 25 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013) and is not actively granting loans subject to the Ukraine country risk on account of the geopolitical situation. In addition, the Bank sets limits on the concentration of assets by countries, counterparties and transaction types, sectors, and types of collateral.

According to current estimates, Ukraine's real GDP decreased by more than 30% in 2022. This is the worst result in the history of independent Ukraine, but it is still better than what was forecasted at the start of Russia's full-scale invasion, when analysts predicted at least a 40-50% drop in the Ukrainian economy. After a deep slump at the beginning of the war, with the liberation of Ukrainian territories, the adaptation of business to the new conditions and the opening of the "grain corridor", economic activity gradually recovered in the second and third quarters of 2022, making a positive contribution to GDP. However, ongoing logistics problems, a decline in production capacities and a fall in real personal income are holding back the economic recovery. A gradual recovery of the Ukrainian economy is now expected in 2023-2024. However, continued Russian missile attacks are causing significant damage, in particular to energy infrastructure, which in turn continues to put pressure on business sentiment and activity. In addition, there is a risk that hostilities could be prolonged, thus worsening the outlook for the near future. Taking into the account ECL downside scenario results that include the geopolitical aspect and other scenario results, which are described in more detail in Note 4(a), the Bank considers that the ECL amount calculated under the base case scenario is sufficient as at 31 December 2022 (however, there is still a lot of uncertainty involved and the ECL amount may change in the future depending on how the war, economic situation, etc. would develop).

3. Summary of significant accounting principles

(a) Going concern

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter - IFRS), on a going concern basis. In preparation of the financial statements on a going concern basis, the management considered the Group's and Bank's financial position, access to financial resources and analyzed the impact of the recent financial crisis and the geopolitical conflict between Russia and Ukraine on the future operations of the Group and the Bank.

As disclosed in Notes 4(f) and 27, the Group and the Bank observe and comply with the capital adequacy requirement set for 2022. Also, the Group and the Bank constantly maintain their liquidity ratio at a high level, which was 73.26% as at 31 December 2022 (see also Note 4(e)).

The Bank carefully evaluates the direct and indirect impact of the war between Russia and Ukraine on the loans in the Bank's credit portfolio, paying particular attention to borrowers from Ukraine, and responds to changes in the situation in a timely manner. Forecasting the development of the situation in 2023 and having into account standard requirements of IFRS 9, the Bank has listed loans with Ukrainian state risk on the Watch List, classified them in the respective credit grades and has increased day-to-day monitoring of the operational activities of Ukrainian clients and following the status of credit collateral.

In the spring of 2022, according to the decision of the Central Bank of Ukraine, it was forbidden to make international payments in order to prevent the outflow of funds from Ukraine. Later, at the second half of 2022, the Central Bank of Ukraine changed the restriction regime, allowing partial interest debt payments. Despite the mentioned restrictions, a greater part of the clients of the Ukrainian portfolio was able to make interest payments throughout 2022, using the funds of the owners or related companies outside Ukraine. The bank estimates that in 2023, functioning in a similar mode, the majority of customers will be able to repay interest payments according to the payment schedule. Regarding the principal payments, the Bank has coordinated individual solutions with each client, including deferring repayments of principal amounts. The Bank plans that the delay in interest payments provided for in the loan repayment schedules could make up no more than 20% of the total amount of interest income from the Ukrainian portfolio. Similar to 2022, also in 2023, the Bank predicts a partial reduction of Ukraine's risk exposure by clients repaying their loan principals by approximately 6.7 million. This reduction will mainly consist of loans for which the borrower's activity is not only related to Ukrainian risk and they are not affected by the Central Bank of Ukraine. The Bank's management believes that the quality of the credit portfolio with Ukrainian risk and the payment discipline of the customers in it do not show any significant uncertainty regarding the continuity of the Group's and the Bank's operations.

The bank expects that the number of deposits will decrease by 60.7 million euros in 2023. The decrease in the number of deposits is mainly explained by the confiscation of clients seized funds in the amount of EUR 33 million, for which a relevant court decision has been mad at the end of 2022, as well as the decrease in the balance of funds in the accounts of individual clients whose deposits were placed in the Bank in the spring of 2022 under the influence of the hostilities in Ukraine, with the recovery/activation of the clients' economic for operation. The Bank's management believes that the predicted changes in the volume of deposits do not indicate a significant uncertainty regarding the continuity of the Group's and the Bank's operations.

In 2022, the Bank was inspected by the Regulator regarding the compliance of the Bank's internal control system with the requirements of the regulatory acts governing the legalization of proceeds of crime and the prevention of terrorism and proliferation financing. During inspection, the Bank has

3. Summary of significant accounting principles *(cont'd)*

(a) Going concern *(cont'd)*

provided the responsible Regulator's members with all necessary explanations and documents, additionally at the end of the year, the Bank agreed with the Regulator that by the end of March 2023 Bank will implement a plan of measures to improve certain aspects of the internal control system. At the same time, the Regulator has started the administrative process with respect to this inspection, and the Bank is in the process of discussions with the Regulator the final evaluation of the inspection results and the format of the proposed termination of the process. Taking into account the experience of previous years, where fines have been applied to credit institutions after similar inspections, such a possibility cannot be completely excluded in relation to the Bank as well. According to the regulatory provisions, in case of credit institutions violations of anti-money laundering and countering the financing of terrorism and proliferation (AML/CFTP) field, the credit institution can receive a fine up to 10 percent from total annual turnover according to the last approved and audited financial statement. If 10 percent of total annual turnover is less than 5 million euro, fine can be applied up to 5 million.

The Bank's management is convinced that the Bank has established an AML/CFTP internal control system and sanctions risk management that meets the requirements of regulatory acts, as well as it strictly observes the binding laws and regulations, including those which are related to AML/CFTP and sanctions risk management. The Bank also continues to develop and improve the sanctions risk management, ensuring and promoting the use of technological solutions, as well as continuously monitoring of customers and customer transactions in accordance with the requirements of regulatory laws. Additionally in the sanctions risk management development process the results of each such external inspection are carefully evaluated and taken into account.

The Bank's management expects that the result of this inspection will not affect the Bank's ability to fulfill its obligations towards clients and partners.

(b) Correction of errors in comparative financial statements

As described in section "g" in the Summary of significant accounting principles, in 2022 the Bank established that shares of Visa Inc. did not meet the basic definition of equity instruments according to IAS 32 and the correction of error is required, and the shares had to be classified as financial instruments at fair value through profit or loss.
As a result, the error was corrected and it was changed from the item "Equity instruments at fair value after revaluation of other comprehensive income" to "Financial assets at fair value with revaluation of profit or loss" and "Reserve of equity instruments after revaluation at fair value" to 'Retained earnings' in the Consolidated and Bank's statement of financial position.

Correspondingly, a correction of error was also made in the Consolidated and Bank's Statement of Comprehensive Income position "Gain on equity instruments at fair value through other comprehensive income" to "Profit/(loss) from revaluation of securities at fair value through profit or loss, net.

Notes to the financial statements *(cont'd)*

3. Summary of significant accounting principles *(cont'd)*

(b) Correction of errors in comparative financial statements *(cont'd)*

The impact of the correction of errors in comparative financial statements is stated below:

	01.01.2021. (Annual report 2021 as previously reported) Group EUR	01.01.2021. (Annual report 2021 as previously reported) Bank EUR	Restated	01.01.2021. (Annual report 2022 restated) Group EUR	01.01.2021. (Annual report 2022 restated) Bank EUR
Assets					
Financial assets at fair value through profit or loss	13,394,913	13,394,913	221,711	13,616,624	13,616,624
Equity instruments at fair value through other comprehensive income	221,711	221,711	(221,711)	-	-
Equity					
Revaluation reserve on equity instruments at fair value	32,934	32,934	(32,934)	-	-
Retained earnings	3,831,829	3,583,891	32,934	3,864,763	3,616,825

	31.12.2021. Group EUR (Annual report 2021 as previously reported)	31.12.2021. Bank EUR (Annual report 2021 as previously reported)	Restated	31.12.2021. Group EUR (Annual report 2022 restated)	31.12.2021. Bank EUR (Annual report 2022 restated)
Assets					
Financial assets at fair value through profit or loss	1,607,310	1,607,310	235,618	1,842,928	1,842,928
Equity instruments at fair value through other comprehensive income	235,618	235,618	(235,618)	-	-
Equity					
Revaluation reserve on equity instruments at fair value	13,556	13,556	(13,556)	-	-
Retained earnings	12,871,425	8,436,935	13,556	12,884,981	8,450,491
Statement of Comprehensive Income					
Gain on equity instruments at fair value through other comprehensive income	13,556	13,556	(13,556)	-	-
Profit/(loss) from revaluation of securities at fair value through profit or loss, net	(42,216)	(42,216)	13,556	(28,660)	(28,660)

3. Summary of significant accounting principles *(cont'd)*

(c) Currency used in the preparation of the financial statements

The financial statements are prepared in the euros (EUR), rounded to the nearest euro, unless stated otherwise. The functional and presentation currency of the Group, the Bank and its subsidiary is the euro (EUR).

(d) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for the following:

- financial assets at fair value through profit or loss are stated at fair value;
- financial assets at fair value through other comprehensive income are stated at fair value;
- buildings and land are stated at revalued amounts being the fair value at the date of valuation less subsequent accumulated depreciation and any accumulated impairment losses;
- the repossessed real estate is stated at the lower of cost and net realizable value.

The preparation of financial statements in conformity with IFRS requires the 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, the actual results ultimately may differ from those estimates. The same accounting policies were used consistently in the preparation of the financial statements for the year 2022, if compared to those of 2021.

(e) Consolidation

Subsidiaries, namely, the companies in which the Bank directly or indirectly has the power to govern the financial and operating policies as well as the reallocation of income, are consolidated in the Group's financial statements. Investments in subsidiaries in the Bank's financial statements are stated at cost less impairment, if any.

Subsidiaries are consolidated from the date on which control is transferred to the Group and excluded from the consolidated financial statements from the date that control ceases. Acquisition of subsidiaries is accounted for using the purchase method. The acquisition cost comprises the assets transferred, shares issued or liabilities taken over at fair value as at the purchase date. Acquisition-related costs are expensed as incurred and included in administrative expenses. The excess of the net assets purchased over the purchase price is recorded as a goodwill. All intra-group transactions and balances and unrealized gains resulting from intra-group transactions are eliminated. Unrealized losses are also eliminated, except where costs cannot be recovered. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

(f) Fair value measurement

The Group and the Bank measure certain financial instruments at fair value through profit or loss (FVPL) and at fair value through other comprehensive income (FVOCI). This category includes debt instruments that do not meet the criteria to be classified according to the amortized cost method and this applies to the assets held for sale, or when the cash flows do not consist only of principal and interest payments. This category also includes capital instruments and such non-financial assets as the fixed assets group – land and buildings.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

3. Summary of significant accounting principles *(cont'd)*

(f) Fair value measurement *(cont'd)*

The principal or the most advantageous market must be accessible by the Group and the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group and the Bank use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Group and the Bank determine whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(g) Financial assets and liabilities –Initial recognition

Date of recognition

Regular way purchase or sale of financial assets or liabilities is recognized on a trade date, i.e., on the date when the Group and the Bank commit themselves to purchase an asset or liability. Regular way purchase or sale is a purchase or sale of a financial asset or liability under a contract whose terms require delivery of the asset or liability within the time frame established generally by regulation or convention in the marketplace concerned.

Initial measurement

The classification of financial instruments at initial recognition depends on the financial instrument's contractual terms and the business model selected for managing them. Financial instruments, except financial assets and financial liabilities stated at fair value through profit or loss, are initially measured at fair value plus or minus transaction costs.

Measurement categories of financial assets and liabilities

In accordance with IFRS 9, all debt-based financial assets which do not meet the 'solely payments of principal and interest' criterion, at initial recognition are measured at fair value through profit or loss. Under this criterion, the debt instruments which are not in line with 'basic lending arrangement', e.g., instruments which contain embedded conversion options or non-recourse loans, are measured at fair value through profit or loss.

Debt-based financial assets which do meet the 'solely payments of principal and interest' criterion, at initial recognition are measured on the basis of a business model under which the instruments are managed:

- instruments managed under the 'hold to collect' business model are measured at amortized cost;

3. Summary of significant accounting principles *(cont'd)*

(g) Financial assets and liabilities –Initial recognition *(cont'd)*

Measurement categories of financial assets and liabilities (cont'd)

- instruments managed under the 'hold to collect and sell' business model are measured at fair value through other comprehensive income (FVOCI);
- instruments managed under other business models, including financial assets held for trading, are measured at fair value through profit or loss (FVPL).

Equity instruments at initial recognition are measured at fair value through profit or loss, unless the financial asset not held for trading is irrevocably designated at fair value through other comprehensive income.

Regarding investment in equity instruments at fair value through other comprehensive income, all realized and unrealized gains and losses, excluding income from dividends, are recognized in other comprehensive income as items that cannot be reclassified subsequently to profit or loss.

The Group and the Bank classify all financial assets depending on the business model selected for managing assets and the asset's contractual terms, which are measured:

- at amortized cost;
- at fair value through other comprehensive income (FVOCI);
- at fair value through profit or loss (FVPL).

The Group and the Bank classify and measure derivative financial instruments and financial assets held for trading at FVPL. This category also includes instruments that would otherwise be classified at fair value through other comprehensive income or at amortized cost if they were initially recognized at fair value through profit or loss (using the fair value option). Under the fair value option The Group and the Bank may measure financial instruments at FVPL if such measurement eliminates or significantly reduces a measurement or recognition accounting mismatch. Debt instruments acquired in the liquidity portfolio and providing the Bank's liquidity reserve both by collecting contractual cash flows and selling them are classified and measured by the Group and the Bank at FVOCI. Financial liabilities, other than loans and borrowings and financial guarantees, are measured at amortized cost or at FVPL if held for trading or are derivative financial instruments.

Balances due from banks, loans to customers, investments in securities at amortized cost

The Group and the Bank only measure the balances due from banks, loans to customers and other financial investments at amortized cost when both of the following conditions are met:

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

A more detailed information on the above conditions is provided below.

Business model assessment

The Group and the Bank determine the business model at a level that reflects the way groups of financial assets are managed together to achieve a particular business objective.

The business model of the Group and the Bank is not determined on an instrument-by-instrument basis, rather it is assessed at a higher level of aggregated portfolios and is based on observable evidence, for example:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed;

3. Summary of significant accounting principles *(cont'd)*

(g) Financial assets and liabilities –Initial recognition *(cont'd)*

Business model assessment (cont'd)

- how managers of the business are compensated – e.g., whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- the expected frequency, volume and timing of sales also are significant aspects to be considered in the assessment carried out by the Group and the Bank.

The assessment of a business model is performed on the basis of scenarios that are reasonably expected to occur, excluding 'worst case' or 'stress case' scenarios. If cash flows, subsequent to initial recognition, are realized in a way that is different from the Group and Bank's initial expectations, the Group and the Bank do not change the classification of the remaining financial assets held in that business model, but consider this information in assessing the business model for newly generated or newly acquired financial assets.

SPPI test

As a second step in determining the appropriate classification category the Group and the Bank assess the financial asset's contractual terms in order to determine whether the financial asset meets the SPPI test. For the purpose of this test, a principal is defined as fair value of a financial asset at initial recognition, which may change over the life of a financial instrument (for example, if there are repayments of principal or amortization of premium/discount).

In a lending arrangement, most significant interest components usually are consideration for the time value of money and credit risk. For the SPPI test purposes, the Group and the Bank apply judgment and consider relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In such cases the financial asset is measured at FVPL.

Financial assets at fair value through profit or loss (FVPL)

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss. Financial assets at fair value through profit or loss comprise debt securities held by the Group and the Bank for trading purposes or if they do not meet the criteria to be classified under the amortized cost method.. They are accounted for at fair value with all gains and losses from revaluation and trading reported in the statement of comprehensive income. Interest earned while holding trading securities is reported as interest income.

By default, equity instruments are classified as financial assets at fair value through profit or loss. It is possible to make an irrevocable election, i.e. at the time of initial recognition, to classify equity instruments (not held for trading) as instruments measured at fair value through revaluation in other comprehensive income.

All regular way purchases and sales of financial assets held for trading are recognized on the trade date, which is the date that the Group and the Bank commit to purchase or sell the asset.

Debt instruments measured at fair value through other comprehensive income (FVOCI)

The Group and the Bank, in accordance with IFRS 9, apply a classification to debt instruments measured at FVOCI when both of the following conditions are met:

- an instrument is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and sell financial assets;
- the financial asset's contractual terms meet the SPPI test.

3. Summary of significant accounting principles *(cont'd)*

(g) Financial assets and liabilities –Initial recognition *(cont'd)*

Debt instruments measured at fair value through other comprehensive income (FVOCI) (cont'd)

Debt instruments designated at FVOCI are subsequently measured at fair value recognizing gain or loss resulting from changes in the fair value in other comprehensive income. For debt instruments at fair value through FVOCI, interest income and foreign exchange gain or loss are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

Expected credit loss (ECLs) on debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to an allowance, which would be established if the assets were measured at amortized cost, is recognized in other comprehensive income as 'accumulated impairment amount', with a corresponding amount debited to the statement of profit or loss. Total accumulated gains/losses recognized in other comprehensive income are recycled to the statement of profit or loss upon derecognition of the respective asset.

Equity instruments measured at FVOCI

The Group and the Bank, upon initial recognition, often elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group and the Bank benefit from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment. Upon disposal of these instruments, any remaining balance in the revaluation reserve relating to the asset disposed of is transferred directly to retained earnings.

In the reporting year, the Bank established that the shares of Visa Inc. did not meet the basic definition of equity instruments according to IAS 32 and correction of error by classifying shares as debt instruments at fair value through profit or loss was required. On 30 September 2022, the Bank reclassified the shares of Visa Inc. (355 Visa Inc. Series C Convertible Participating Preferred Stock and 35 VISA INC-CLASS A SHARES) from "Equity instruments at fair value through other comprehensive income (FVOCI)" to "Financial assets at fair value through profit or loss (FVPL)". For information on the prior period adjustment made in the reporting year, see Note 3 (b).

Financial guarantees, letters of credit and undrawn loan commitments

The Group and the Bank issue financial guarantees, letters of credit and loan commitments.

Financial guarantees represent irrevocable commitments to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees, namely, premiums received, are initially recognized in the financial statements at fair value. After initial recognition, the Group's and Bank's liabilities arising from guarantees are measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of profit or loss, and the ECL as defined under IFRS 9.

Undrawn loan commitments and letters of credit are liabilities whereby the Group and the Bank, during the commitment period, must issue a loan to the customer under agreed upon terms and are not recognized in the statement of financial position. However, in accordance with IFRS 9, the Group and the Bank calculate and recognize ECL on these exposures which are booked as a provision in the statement of financial position.

3. Summary of significant accounting principles *(cont'd)*

(g) Financial assets and liabilities –Initial recognition *(cont'd)*

Non-financial guarantees

Non-financial guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Non-financial guarantees do not transfer credit risk. The risk under non-financial guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, non-financial guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9, but in IAS 37.

(h) Income and expense recognition

Interest income and expense are recognized in the statement of comprehensive income for all interest-bearing instruments on an accrual basis using the effective interest method.

The effective interest method is a method for calculating the amortized cost of a financial asset or a financial liability based on the recognition of interest income or interest expense over the relevant period.

The Group and the Bank calculate interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired, the Group and the Bank calculate interest revenue by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cure and are no longer credit-impaired, the Group and the Bank revert to calculating interest revenue on a gross basis.

Commissions received or incurred in respect of origination of financial assets or funding are deferred and recognized as an adjustment to the effective interest rate applied to the asset or liability. Commissions on servicing of settlement accounts are recognized in the statement of comprehensive income on a regular basis throughout the duration of the customer contract. Other fees and commissions, including those related to trust activities, are credited and/or charged to the statement of comprehensive income as earned/incurred.

(i) Foreign currency revaluation

Functional and presentation currency

The functional currency of the Bank and the Group companies is the currency of the primary economic environment in which the Group and the Bank operate. The financial statements are presented in the euros (EUR), which is the Bank's functional and the Group's presentation currency.

Transactions and balances

Foreign currency transactions have been recalculated into the euro applying the rate determined by the concertation procedure between the European System of Central Banks and other central banks, which is published on the European Central Bank's website. For those foreign currencies, for which the ECB does not publish the EUR reference rate, the foreign currency exchange rates published by Bloomberg are applied. Any gain or loss resulting from a change in exchange rates is included in the statement of comprehensive income as profit or loss from revaluation of foreign currency positions.

During the preparation of the financial statements of the Group and the Bank, the most commonly used currency exchange rates (foreign currency units against EUR 1) were as follows:

Reporting date	USD
31 December 2022	1.0666
31 December 2021	1.1326

3. Summary of significant accounting principles *(cont'd)*

(j) Income taxes

Income taxes include current and deferred taxes.

Legal entities have not been required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions. Both distributed profits and deemed profit distributions are subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the consolidated statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

No provision is recognized for income tax payable on a dividend distribution before dividends are declared but information on contingent liabilities is disclosed in the notes to the consolidated financial statements.

(k) Deferred tax assets and liabilities

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying value for accounting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with the Bank of Latvia and other credit institutions, due to and from other credit institutions with an original maturity of three months or less.

(m) Balances due from other banks

Balances due from banks are recorded when the Group and the Bank advance money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Balances due from banks are carried at amortized cost.

(n) Loans and allowances for loan impairment

Overview

Impairment is determined using the expected credit loss model. The Group and the Bank group their loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1 applies to assets whose credit risk has not increased significantly since initial recognition.

Stage 2 applies to assets with a significant increase in credit risk since initial recognition and is not considered low, lifetime ECLs are recognised.

Stage 3 applies to assets which are credit impaired. Lifetime ECLs are recognised, as in Stage 2.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition.

3. Summary of significant accounting principles *(cont'd)*

(n) Loans and allowances for loan impairment *(cont'd)*

Significant increase in credit risk

At the end of each reporting period, the Group and the Bank determine whether there has been any significant increase in credit risk since initial recognition. In case of a significant increase, quantitative and qualitative indicators are analyzed. The assessment requires the use of both historical and forward-looking information.

Irrespective of the quantitative indicator, the following *backstop* indicators trigger a significant increase in credit risk:

- contractual payments are more than 30 days but less than 90 days past due;
- financial assets are included on the "List of Early Warning Signs of Deterioration in Credit Quality" (Watch List);
- forborne financial assets (modifications or concessions to the original terms of loans as a response to the borrower's financial difficulties have been granted). Prior *backstop* indicators usually overlap with the quantitative indicator of a significant increase in credit risk.

If credit risk has increased significantly since initial recognition, a lifetime ECL is recognized and the financial instrument is moved to Stage 2. If in subsequent reporting periods the credit quality of the financial instrument improves so that it is no longer credit-impaired, the financial asset is transferred back to Stage 1. In case of its continuous deterioration, it is moved to Stage 3.

Definition of default

Defaulted financial instruments are included in Stage 3. For accounting purposes, the Group and the Bank apply the definition of default in the Capital Requirements Regulation (Article 178 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012), i.e. financial assets that are past due for more than 90 days.

Forborne exposures

Forborne exposures are debt contracts regarding which forbearance measures have been applied. Forbearance measures consist of concessions to a debtor that is experiencing or about to experience difficulties in meeting its financial commitments ('financial difficulties'). Forborne exposures are classified under Stage 2 for the ECL assessment purposes unless they meet definition of default. The Group and the Bank derecognize a financial asset, e.g., a loan to customer, if a new agreement has been reached on such terms and conditions of the loan that it actually becomes a new.

Once an exposure has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The probation period of two years has passed from the date forborne contract was considered performing;
- Regular payments of more than insignificant amount of principal or interest have been made during all the probation period;
- The customer does not have any contracts that are more than 30 days past due.

In order to decide whether forborne loans are to be classified as Stage 3 assets for ECL assessment purposes, the Group and the Bank assess the following:

- The adequacy and observance of the loan payment schedule (initial and further payment schedules), which, inter alia, includes a repeated non-observance of the payment schedule, changes in the payment schedule in order to avoid any delays, or the payment schedule is based

3. Summary of significant accounting principles *(cont'd)*

(n) Loans and allowances for loan impairment *(cont'd)*

Forborne exposures (cont'd)

on forecasts which are not based on macroeconomic forecasts or realistic assumptions regarding the borrower's capability of repaying debt obligations;
- Whether the loan agreement includes terms which postpone the deadline of regular repayments in a way that hinders the assessment of conformity to the set classification, for example, if the repayment periods of the principal amount are postponed for more than two years.

Other criteria for forborne loans to be classified as Stage 3 assets are:

- Loan forbearance which will most likely diminish financial commitments;
- New forbearance measures are set for a forborne exposure;
- The number of days past due for a forborne exposure exceeds 30 days;
- An exposure has met any criteria of unlikely to pay list.

If there are changes which do not result in derecognition, the Group and the Bank also reassess whether there is no significant increase in credit risk and whether the assets should be classified as credit-impaired assets. If the assets are classified as credit-impaired assets, they will remain under Stage 3 at least for a 12-month trial period to be reclassified to Stage 2, and 24 months to be reclassified to Stage 1. The forborne exposure is reclassified from Stage 3 if, during the review period, the borrower has made regular payments to the amount equivalent to all previous arrears (if there were arrears at the time the relief was granted) or to that written off under the relief (if there were no arrears), or the borrower has otherwise demonstrated the ability to comply with the forbearance measures.

(o) Sale and repurchase agreements

Sale and repurchase agreements are accounted for as financing transactions. Under sale and repurchase agreements, where the Group and the Bank are transferors, assets transferred remain on the Group's and Bank's statement of financial position and are subject to the Group's and Bank's usual accounting policies, with the purchase price received included as a liability owed to the transferee. Where the Group and the Bank are a transferee, the assets are not included in the Group's and Bank's statement of financial position, but the purchase price paid by them to the transferor is included as an asset. Interest income or expense arising from outstanding sale and repurchase agreements is recognized in the statement of comprehensive income over the term of the agreement using the effective interest method.

(p) Derivative financial instruments

Derivative financial instruments comprise various derivatives, inter alia, options, forwards, futures and foreign currency and capital market transactions. Such financial instruments are held for trading and stated at fair value. Fair values are based on quoted market prices or pricing models where the actual market or contractual prices of the existing instruments as well as other factors are considered.

All derivatives are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative. Any gain or loss arising from these instruments is taken to the statement of profit or loss as net gain/(loss) from financial instruments designated at fair value through profit or loss or as net foreign currency exchange gain/(loss) depending on the nature of the respective instrument.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative cause some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a financial instrument but is

3. Summary of significant accounting principles *(cont'd)*

(p) Derivative financial instruments *(cont'd)*

contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

This is the way in which the Group and the Bank account for derivatives embedded in financial liabilities and non-derivative host contracts. The classification of financial assets is based on the business model and SPPI assessment, without separation of embedded derivatives (see also Note 3(f)).

(q) Repossessed collateral

Repossessed collateral represents real estate repossessed by the Group and the Bank for the purpose of selling as collateral for the outstanding loans and is disclosed under other non-financial assets. The repossessed real estate is stated as inventories at the lower of cost and net realizable value. Net realizable 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.

(r) Intangible assets

The acquired computer software licenses are recognized as intangible assets at cost, including any expenditure that is directly attributable to preparing the asset for its intended use. Intangible assets are amortized over their estimated useful lives, not exceeding five years, on a straight-line basis.

(s) Property and equipment

The items of property and equipment are stated at cost less accumulated depreciation and impairment, except buildings and land are measured at a revalued amount. The cost includes expenditure directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably.

Such costs are depreciated over the asset's remaining useful life. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset to write down the cost of property and equipment to their residual values at the end of the useful life, applying the following rates defined by the management:

Land	Not depreciated
Building	50 years
Office equipment	10 years
Computers	3 years
Vehicles	5 years

Buildings and land under the property and equipment category are measured at a revalued amount. The revalued amount is the fair value at the revaluation date less subsequent accumulated depreciation and impairment loss. The fair value of land and buildings is determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers at the end of the reporting year. Revaluation gains are recorded under the heading of revaluation surplus and recognized in other comprehensive income. A revaluation loss is initially taken to the revaluation surplus (and recorded in other comprehensive income) related to these assets, if any, and subsequently included in profit or loss for the reporting period (see also Note 18).

The carrying values of property and equipment (except for the buildings and land) are reviewed for

3. Summary of significant accounting principles *(cont'd)*

(s) Property and equipment *(cont'd)*

impairment on a periodical basis. Where the carrying value of an asset exceeds the estimated recoverable amount and the respective changes in the value are not considered to be temporary, the value of the corresponding asset is written down to its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income.

(t) Leases

The Group and the Bank as lessees

At the contract inception, the Group and the Bank assess whether it contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration

The Group and the Bank apply a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group and the Bank recognize lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group and the Bank recognize right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, which for the lease of premises is 3 to 5 years.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment (see Note 18).

Lease liabilities

At the commencement date of the lease, the Group and the Bank recognize lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and the Bank and payments of penalties for terminating the lease, if the lease term reflects the Group and the Bank exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group and the Bank use their incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the interest expense and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group and Bank's lease liabilities are disclosed under other financial liabilities (see Note 22).

3. Summary of significant accounting principles *(cont'd)*

(t) Leases *(cont'd)*

Short-term leases and leases of low-value assets

The Group and the Bank apply the short-term lease recognition exemption to their short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). They also apply the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The Group and the Bank as lessors

As lessors, the Group and the Bank determine at lease inception whether the lease is a finance lease or an operating lease. If the Group and the Bank determine that the lease transfers substantially all of the risks and rewards of ownership of the underlying asset, the lease is a finance lease. Leases in which the Group and the Bank do not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

(u) Derecognition of financial assets and liabilities

Financial assets (or, where applicable, a portion of a financial asset or a part of a group of similar assets) are recognized when:

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

Financial assets are written off, in full or in part, only when the Group and the Bank have no reasonable expectation of recovery. If the amount to be written off exceeds the cumulative loss amount, the difference is first considered as an increase in allowance which then is set off against the gross carrying amount. Any further recovery is included in credit loss expense. A write-off constitutes a derecognition event. Financial liabilities are derecognized when the obligation specified in the contract is either discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

(v) Deposits from customers

Deposits from customers are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

(w) Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost and any difference between net proceeds and the redemption

3. Summary of significant accounting principles *(cont'd)*

(w) Borrowings *(cont'd)*

value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

(x) Debt securities issued

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

(y) Provisions

Provisions are recognized when the Group and the Bank have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The assessment of provisions requires the application of management's judgment and assumptions on the probability of an outflow of resources, the probability of recovery of resources from related sources including collateral agreements, and the amounts and timing of such outflows.

(z) Dividends

Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the financial statements are authorized for issue are disclosed in the subsequent events note. Profit distribution and other appropriations are carried out according to the Group and Bank's financial statements. The legislation of the Republic of Latvia stipulates retained earnings to be the basis of dividend payment.

(aa) Employee benefits

The Group and the Bank make statutory social insurance contributions for state pension insurance and to the state funded pension scheme in accordance with the legislation of Latvia The state funded pension scheme is a defined contribution plan under which the Group and the Bank must pay fixed contributions determined by the law and will have no legal or constructive obligations to pay further contributions if the state pension insurance system or the state funded pension scheme is not able to settle the liabilities to employees. Short-term employee benefits, including salaries and statutory social insurance contributions, bonuses and paid vacation benefits, are included in administrative expense on an accrual basis.

(bb) Trust operations

Funds managed or held in custody by the Group and the Bank on behalf of individuals, trusts and other institutions are not regarded as assets of the Group and the Bank and, therefore, are disclosed as off-balance sheet items.

Accounting for trust operations is separated from the Group's and Bank's own accounting system, thus ensuring separate accounting in a separate trust balance sheet for assets of each customer, by customers and by types of assets under management.

(cc) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

3. Summary of significant accounting principles *(cont'd)*

(dd) Significant accounting estimates and assumptions

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities, as disclosed in the statement of financial position, cannot be established using quoted market prices in an active market, the fair value is estimated using various valuation techniques, including mathematical models. The data used in such models are obtained from observable markets, if possible, in case it is not possible a certain judgment is required for determining the fair value (see also Note 3(f)).

Impairment loss on financial instruments

The Group and the Bank assess their financial instruments for impairment on a regular basis. To estimate impairment loss in accordance with IFRS 9 only for financial instruments at amortized cost and FVOCI (except equity instruments at FVOIC), in determining the impairment loss and assessing significant increases in credit risk, the value and timing of future cash flows and collateral must be assessed (see also Note 3(n)).

Taking into account continues war in Ukraine and geopolitical situation in the world, the Group and the Bank have analyzed the year-end loan portfolio data. Taking into account that Bank and Group portfolio is divided in Latvian residents portfolio and other countries – Ukrainian subprime customers portfolio, the Bank has applied stricter monitoring to those Ukrainian subprime customers, which have been transferred from Stage 1 to Stage 2. Certain additional allowances were made where needed. The Bank has reviewed each customer ability to fulfill the obligation if there were no the National Bank of Ukraine (NBU) ban on international transactions. The Bank also reviewed how customer business has adopted to the economic situation during the war. It was taken into account if customer had good financial position (e.g. enough cash) to fulfill obligations but did not fulfill obligations due to the NBU ban on international transactions, and in such cases ECL was not affected. If there were modifications during the year, worsening financial situation of the customer and customer has been transferred to stage 2 or 3, ECL was amended where needed.

The quality of the resident loan portfolio has not been directly affected by the geopolitical crisis at this point of time. Thanks to a balanced credit risk financing policy, customers have been able to service their loan commitments in a timely manner. At the same time customers whose business was affected by energy resource price increase were added to the Watch list.

The impairment loss calculations for the Group's and Bank's assets are the result of the Bank's provisioning model, which is based on a number of assumptions regarding the range of variables and their interdependencies. The following estimates and judgements are used in determining impairment of financial assets:

- assessment of the criteria for a significant increase in credit risk and classification of loans in Stage 1 or Stage 2;
- identification of default criteria and reclassification of loans to Stage 3;
- information on forborne exposures and customers subject to watch list screening;
- interpretation of accounting and modelling assumptions to build the model, including various formulas and input data;
- modelling and calculation of key parameters, including probability of default (PD), loss given default (LGD), and exposure at default (EAD);
- identification of macroeconomic indicators and incorporating forward-looking information into the model;
- to assess the above indicators for the relevant future period, the weighted average of the corresponding macroeconomic indicator, taken separately for each group of countries, is obtained from two publicly available official data sources:
    - for Latvia, data is obtained from the Ministry of Finance of Latvia and the Bank of Latvia, updated twice a year;

3. Summary of significant accounting principles *(cont'd)*

(dd) Significant accounting estimates and assumptions *(cont'd)*

Impairment loss on financial instruments (cont'd)

    - for Ukraine, data is obtained from the National Bank of Ukraine and the Ministry of Finance of Ukraine, updated twice a year or in force majeure circumstances, like war even day by day, when the required data is available ;
- assessing individual impairment losses of Stage 3 assets, the Bank determining the weighted average probability of two scenarios assessing the probability for base case and downside scenarios;
- assessing individual impairment losses of purchased or originated credit-impaired (POCI) assets under four scenarios and determining the probability of those scenarios.

Grouping financial assets measured on a collective basis

Depending on the factors below, the Group and the Bank calculate ECLs either on a collective or on an individual basis. Asset classes where the Group and the Bank calculate ECL on an individual basis include:

- all Stage 3 assets;
- amounts due from banks;
- liquidity portfolio exposures.

The Bank's provisioning model was changed on 15 April 2021. Taking into account the specific nature and structure of the Bank's loan portfolio, the approach to the probability of default (PD) calculation methodology was changed, the loan portfolio was split according to country risk groups, macroeconomic indicators and forward-looking information were incorporated into the provisioning model.

Grouping financial assets measured on a collective basis (cont'd)

Whenever impairment of financial assets is recalculated, the inputs and parameters are reviewed and, if necessary, changed, taking into account the macroeconomic situation, etc.

The Bank is calculating provisions according to the Weibull model approach:

1) the Bank loan portfolio is divided into two groups by country, PD has been calculated separately for each out of two portfolios;
2) PD is calculated based on 10-year history and adjusted by macro-economic situation accordingly to country macro situation and forward looking information;
3) LGD is calculated based on 10-year history accordingly to each group of loan.

Impairment of investments in subsidiaries (the Bank)

In the Bank's financial statements, investments in subsidiaries are stated at cost. The Bank compares the cost of the investment with the carrying amount of the subsidiary's net assets on a regular basis to ascertain whether there are no indications of impairment. If any indications of impairment are identified, the recoverable amount of the investment is calculated on the basis of the estimated future free cash flows of the subsidiary to equity. The future cash flows are based on the budgets and forecasts of the subsidiary the reliability of which is assessed. Impairment loss is recognized when the decrease in the value of the investment in the subsidiary is substantial and prolonged.

Impairment of non-financial assets

An assessment of any possible indicators of impairment of non-financial assets is done at each reporting date or more frequently if events or changes in circumstances indicate to feasible impairment of a non-financial asset. If any such indication exists, an estimate of the asset's recoverable amount is made. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that

3. Summary of significant accounting principles *(cont'd)*

(dd) Significant accounting estimates and assumptions *(cont'd)*

Impairment of non-financial assets (cont'd)

is the case, the carrying amount of the asset is increased to its recoverable amount. The increase will effectively be the reversal of an impairment loss.

Determining the lease term of contracts with renewal and termination options – the Group and the Bank as lessees

The Group and the Bank determine the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group and the Bank have several lease contracts that include extension and termination options. The Group and the Bank apply judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, they consider all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group and the Bank reassess the lease term if there is a significant event or change in circumstances that is within their control and affects their ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Group and the Bank included the renewal period as part of the lease term for leases of premises with shorter non-cancellable periods (i.e., three to five years). The Group and the Bank typically exercise the option to renew for these leases because there will be a significant negative effect on operations if a replacement asset is not readily available. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Leases – Estimating the incremental borrowing rate

The Group and the Bank cannot readily determine the interest rate implicit in the lease, therefore, they use their incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group and the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group and the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).

The Group and the Bank estimate the IBR using observable inputs (such as market interest rates) when available and are required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

(ee) Adoption of new or revised standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS amendments which have been adopted by the Group/Bank as of 1 January 2022:

The amendments are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

IFRS 3 Business Combinations (Amendments)
The amendments update a reference in IFRS 3 to the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.

IAS 16 Property, Plant and Equipment (Amendments)
The amendments prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition

3. Summary of significant accounting principles *(cont'd)*

(ee) Adoption of new or revised standards and interpretations *(cont'd)*

IAS 16 Property, Plant and Equipment (Amendments) (cont'd)
necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes such sales proceeds and related cost in profit or loss.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)
The amendments specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.

Annual Improvements 2018-2020
The improvements make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

The management has assessed that there is no impact on the Group and Bank's financial statements.

IFRS 16 Leases: Covid-19 Related Rent Concessions beyond 30 June 2021 (Amendment)

The amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the Covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The Group and the Bank have assessed that there is no material effect on the financial statements.

Standards issued but not yet effective and not early adopted

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2023, with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts.

IFRS 17, with the objective to provide an accounting model for insurance contracts that is more useful and consistent for insurers, establishes principles for the recognition, measurement, presentation and disclosure of all types of insurance contracts, as well as of certain guarantees and financial instruments with discretionary participation features. The accounting model is supplemented by a specific adaptation for contracts with direct participation features (the variable fee approach) and by a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model include the measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows). Also, the model includes a Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognized in profit or loss based on insurance contract services provided over the coverage period. Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining coverage

3. Summary of significant accounting principles *(cont'd)*

(ee) Adoption of new or revised standards and interpretations *(cont'd)*

Standards issued but not yet effective and not early adopted (cont'd)

IFRS 17: Insurance Contracts (cont'd)

period. Amounts that are paid to a policyholder in all circumstances, regardless of whether an insured event occurs (non-distinct investment components) are not presented in the income statement but are recognized directly on the statement of financial position.

Furthermore, the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income will be based on the concept of services provided during the period. Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense. In the statement of financial position, the carrying amounts of portfolios of insurance contracts issued that are assets and those that are liabilities, with the same requirement applying to portfolios of reinsurance contracts held, are presented separately. Finally, IFRS 17 requires extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

Regarding the transition, the Board decided on a retrospective approach for estimating the CSM on the transition date. However, if full retrospective application, as defined by IAS 8, for a group of insurance contracts, is impracticable, an entity is required to choose either the modified retrospective approach or fair value approach. Both provide transitional reliefs.

Finally, in December 2021, the IASB issued amendments to IFRS 17 to add a transition option for a 'classification overlay' to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 17. An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. The Group and the Bank have assessed that there is no material effect on the financial statements.

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Group and the Bank have assessed that there is no material effect on the financial statements.

IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)

The amendments become effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted, and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result to a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Group and the Bank have assessed that there is no material effect on the financial statements.

3. Summary of significant accounting principles *(cont'd)*

(ee) Adoption of new or revised standards and interpretations *(cont'd)*

Standards issued but not yet effective and not early adopted (cont'd)

IAS 12 Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Group and the Bank have assessed that there is no material effect on the financial statements.

Standards issued but not yet effective and not early adopted and not yet been endorsed by the EU

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU.

IFRS 16 Leases: Lease Liability in a Sale and Leaseback (Amendments)

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognizing, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments have not yet been endorsed by the EU.

3. Summary of significant accounting principles *(cont'd)*

(ee) Adoption of new or revised standards and interpretations *(cont'd)*

Standards issued but not yet effective and not early adopted and not yet been endorsed by the EU (cont'd)

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

4. Financial and other risk management

Risk management

Risk management is one of the Group's and the Bank's strategic tasks. The Risk Management Strategy has been developed for the Group's and the Bank's risk management, which covers management of the following key risks: credit risk, market risk, operational risk, interest rate risk, foreign currency risk, liquidity risk, concentration risk, country risk, money laundering and terrorism financing risk and other risks.

For the purpose of managing these risks, internal risk management policies and procedures have been developed, which are approved by the Council and/or Board of the Bank and implemented by the responsible units of the Group and the Bank.

The Board of the Bank is responsible for the development and effective functioning of the risk management system as well as ensuring the identification and management of the Group's and the Bank's risks, including risk estimation, evaluation, oversight and preparation of reports through implementing the risk identification and management policy set by the Council of the Bank and other documents relating to risk management.

The Risk Director is responsible for the risk control function in the Group and the Bank, oversees the risk management system and co-ordinates actions of all structural units of the Group and the Bank related to risk management. The main unit responsible for determination, evaluation and oversight of risks is the Risk Management Department, which is an independent unit whose functions are separated from the functions of the business units.

The risk management system is being constantly improved in accordance with changes in the Group's and the Bank's activities and external conditions influencing these activities. The regular oversight of this process is performed by the Internal Audit Department.

(a) Credit risk

Credit risk is the risk of incurring losses in the event that a borrower (debtor) or a business partner is unable to fulfil its obligations to the Group and the Bank in accordance with the provisions of the contract. Credit risk is present in the Group's and the Bank's operations where the Group and the Bank make claims against another person and which are reflected in the Group's and the Bank's statement of financial position and under off-balance sheet items.

The Group's and the Bank's principles for evaluation, oversight and acceptance of credit risk are described and approved in their Credit Risk Management Strategy, Loan Policy, Business Partner Risk Policy and Investment Portfolio Policy.

Notes to the financial statements *(cont'd)*

4. Financial and other risk management *(cont'd)*

Risk management *(cont'd)*

(a) Credit risk *(cont'd)*

The Group and the Bank divide up and oversee their credit risk by setting limits of various types and categories: acceptable risk limits for each borrower, a group of related borrowers, geographical regions, business sectors, type and value of collateral, currency, term and ratings granted by international agencies.

Credit risk exposures are monitored on a continuous basis through regular assessments of borrowers' ability to meet interest and principal maturities and limits are adjusted as appropriate. The Group's and the Bank's exposure to credit risk is managed and minimized by obtaining collateral and guarantees against credit exposures that are registered in the name of the Bank. The fair values of both collateral and guarantees are also reviewed on a regular basis.

Credit–related commitments risks

The table below presents credit risk exposures relating to assets and off-balance sheet items:

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR (restated)	31.12.2021 Bank EUR (restated)
Assets subject to credit risk:				
Balances with the Bank of Latvia	141,138,313	141,138,313	82,900,231	82,900,231
Balances due from banks	1,159,012	1,159,012	38,393,662	38,393,662
Financial assets at FVPL	190,001	190,001	1,842,928	1,842,928
Debt instruments at FVOCI	125,705,520	125,705,520	30,902,143	30,902,143
Loans to customers	109,354,535	109,354,535	83,259,093	83,259,093
Other financial assets	1,430,832	1,430,832	2,383,901	2,367,975
Total	**378,978,213**	**378,978,213**	**239,681,958**	**239,666,032**
Off-balance sheet items subject to credit risk:				
Contingent liabilities	5,030,980	5,030,980	7,032,383	7,032,383
Financial commitments	20,902,674	20,902,674	45,541,858	45,541,858
Total	**25,933,654**	**25,933,654**	**52,574,241**	**52,574,241**

The Group and the Bank estimate expected credit losses (ECL) as valuation the expected present value of the cash shortfalls discounted with the EIR. Cash shortfall is the difference between the cash flows that are due to the entity in accordance with the contractual terms of a financial instrument and the cash flows that the entity expects to receive.

ECL calculation techniques and key elements are provided below:

PD *Probability of Default*. This is an estimate of the likelihood of default over a given time horizon.

EAD *Exposure at Default*. This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, notwithstanding whether based on a contract or otherwise, and expected drawdowns on committed facilities.

LGD *Loss Given Default*. This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the estimate of losses that result from all possible default events over the period of 12 months (12m ECL), unless credit risk has increased significantly since the initial recognition of exposure, in which case the allowance is based on the risk of default over lifetime (lifetime ECL). 12-month ECLs are the portion of the lifetime ECLs that represent the ECLs resulting from default events on a financial instrument that are possible within 12 months after the reporting date.

Credit–related commitments risks (cont'd)

Both lifetime ECLs and 12-month ECLs are measured on an individual or collective basis depending on the type of underlying portfolios of financial instruments. The Group and the Bank reflect the potential future use of undrawn loan and credit card balances by applying the credit conversion factor of 75% which corresponds to the size of the currently unused facilities, which will be used over a certain period. The credit conversion factor is determined using relevant historical information and forecasts.

The Group and the Bank have established a policy for assessing at the end of each reporting period whether there has been a significant increase in credit risk since initial recognition, considering the change in the risk of default occurring over the expected life of the financial instrument.

Impairment assessment

The Group and the Bank are continuously monitoring all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12m ECL or lifetime ECL, the Group and the Bank assess whether there has been a significant increase in credit risk since initial recognition.

At every reporting date, the Group and the Bank assess whether credit risk with regard to an exposure has increased significantly since initial recognition. The assessment of a significant increase in the Group and the Bank's credit risk is based on the following elements:

- quantitative element;
- qualitative element.

The main quantitative criterion is the number of days past due (hard criteria of 30 days past due) and significant deterioration of the internal creditworthiness of the Customer/borrower.

Other quantitative criteria that signal about an increase in credit risk can be used, if these criteria are applicable and significant with regard to the borrower.

The Group and the Bank use quantitative information in 12mPD or LTPD measurement models and include it in the quantitative measurement. In cases when quantitative information cannot be included in the quantitative measurement, qualitative factors are examined individually to determine whether credit risk has increased significantly since initial recognition.

The Group and the Bank determine the following absolute and relative limits, for significant PD changes, it shall be the grounds to transfer an exposure at least to Stage 2:

- If the 12-month PD exceeds 20% for a financial asset on the reporting date, the asset is automatically transferred to Stage 2 (absolute criterion) or
- If the increase of the lifetime PD has been doubled for a financial asset on the reporting date since initial recognition, the asset is automatically reclassified to Stage 2 (relative PD SICR criterion).

The list of indicators and indices, deterioration in which signals about an increase in credit risk, if it is applicable and topical for the borrower:

- the exposure is included on the "List of Early Warning Signs of Deterioration in Credit Quality" of the Group and the Bank (Watch List);
- the terms of the contracts have been amended to improve debt recovery, which will not reduce significantly the amount of financial commitments;
- the Group and the Bank consider the factors which might suggest potential violations of terms even if the borrower is formally observing these terms;
- overdue payments or other type of default in other banks (verification of the Credit Register data);
- assigned external rating and trends;
- other negative information regarding the key customers/counterparties/area of activity of the borrower/suppliers.

4. Financial and other risk management *(cont'd)*

(a) Credit risk *(cont'd)*

Impairment assessment (cont'd)

When estimating ECLs on a collective basis for a group of similar assets, the Group and the Bank apply the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Asset classes where the Group and the Bank calculate ECL on a collective basis include all Stage 1 and 2 assets.

Under the above procedure, the Group and the Bank organize their loans as Stage 1, Stage 2, Stage 3 and POCI as described below:

Stage 1: Upon initial recognition of a loan, the Group and the Bank recognize loss allowance based on 12-month ECLs. Stage 1 can also include exposures moved from Stage 2 if seeing a decrease in the respective credit risk.

Stage 2: Assets with a significant increase in credit risk since initial recognition. For these assets the Group and the Bank recognize loss allowance based on lifetime ECL. Stage 2 can also include exposures moved from Stage 3 if seeing a decrease in the respective credit risk.

Stage 3: Financial assets that have objective evidence of impairment at the reporting date. For these assets the Group and the Bank recognize loss allowance based on lifetime ECL.

POCI: Purchased or originated as credit-impaired financial instruments. The classification of POCI assets remains unchanged, i.e., a financial asset that is classified as POCI remains in that group until the asset is derecognized. The classification as POCI is determined at the level of the financial instrument.

Event of default and cure

The Group and the Bank consider a financial instrument in default and, accordingly, Stage 3 (credit-impaired financial asset) for ECL calculations, when contractual payments are 90 days past due. The Group and the Bank consider the amounts due from banks in default and act, without delay, if the demanded daily payments are not settled by the end of the business day as specified in individual contracts. In performing a qualitative assessment as to whether a customer complies with their obligations, the Group and the Bank also consider various events that can indicate an inability to pay (default events). In such cases, the Group and the Bank carefully consider whether it can be deemed that the customer does not comply with their obligations and whether the respective exposure should be classified in Stage 3 or Stage 2.

Such events are:

- internal rating of the borrower indicating default or partial default;
- a borrower asks an emergency funding from the Group and the Bank;
- significant decrease in the value of underlying collateral if recovery of the loan is expected from collateral;
- significant decrease in the borrower's turnover or loss of their key customer;
- breach of the contractual terms not repudiated by the Group and the Bank;
- a debtor (or any legal entity of the debtor's group) files for bankruptcy;
- debtor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties.

The policy of the Group and the Bank is to consider a financial instrument as 'cured' (it no longer meets any of the default criteria) and, accordingly, to move it from Stage 3 if any of the default criteria other than restructuring has not been in force at least for a consecutive period of 12 months to be reclassified to Stage 2, and at least 24 months to be reclassified from Stage 3 to Stage 1. A decision on whether the cured asset should be classified as Stage 1 or Stage 2 asset depends on the updated credit category

4. Financial and other risk management *(cont'd)*

(a) Credit risk *(cont'd)*

Event of default and cure (cont'd)

over the cure period and whether it indicates a significant increase in credit risk in comparison with initial recognition.

Internal rating and PD estimation including forward-looking information (FLI)

The number of days past due is used as the principal indicator for calculating PD and the internal credit rating for calculating provisions. The PD rates are calculated for each of the following groups of delay:

- past due for less than 30 days;
- past due for 31-60 days;
- past due for 61-90 days.

Taking into account the specific nature, size, geographic and geopolitical risks of the Group and Bank's portfolio, PDs are calculated separately for each group of loans using an adjustment factor. It is done to replicate the cumulative default curve based on historically observed defaults in each period since the financial instrument was issued with the objective of obtaining the best possible curve fit to historically observed defaults with the fewest possible number of parameters/observations.

Taking into account the Group and the Bank's historical data and them to be representative and reliable, the Group and the Bank divide the loan portfolio into two groups, each having its own PD:

- private individuals and legal entities – residents of Latvia;
- private individuals and legal entities – residents of other countries (Ukraine is designated as the base country).

The PD ratios are recalculated at least quarterly for each group separately.
The PD calculation is based on data for at least the last 10 years before the end of the reporting period.

Depending on the stage of the financial asset, the PD rate is calculated as the difference between the cumulative PD rate at maturity of the asset and the one attributable to the period for which the asset has been in the portfolio:

- for Stage 1 financial assets, a cumulative PD rate that applies no more than 12 months ahead for the relevant period of time that the asset has already been held in the portfolio;
- for Stage 2 financial assets, the PD rate is calculated as the difference between the cumulative PD rate at maturity of the asset and the one attributable to the period for which the asset has been in the portfolio;
- for Stage 2 forborne financial assets, the PD rate is calculated as the difference between the cumulative PD rate at maturity of the asset and the cumulative original PD rate attributable to that period of time assuming that the asset has started its life cycle in the portfolio.

Exposure at default

An exposure at default (EAD) equals the gross carrying amount of the financial instruments subject to impairment assessment, and it refers both to the customer's ability to increase risk, while approximating to a default event, and to the potential early repayment. In order to measure EAD for Stage 1 exposure, the Group and the Bank assess the possible defaults over 12 months to calculate 12m ECL. For Stage 2 and Stage 3, in case of default, events over the lifetime of the respective instruments are considered.

For POCI assets, losses are calculated over the life of the asset. Losses expected at initial recognition are referred to as initial impairment. In successive periods, only the cumulative change in the lifetime ECL of the asset since initial recognition is recognized in profit or loss.

The Group and the Bank determine EAD by modeling the range of possible outcomes over various horizons in several scenarios. Subsequently, PD, as defined in IFRS 9, is assigned to each economic scenario on the basis of the outcomes of the model used by the Group and the Bank.

4. Financial and other risk management *(cont'd)*

(a) Credit risk *(cont'd)*

Loss given default

The Group and the Bank assess the LGD values at least quarterly as well as whenever the Group and the Bank become aware of information indicating significant deterioration in the quality of an asset or contingent liability, and they are subject to review and approval by the Bank's Asset and Liability Committee.

The credit risk assessment is based on a standardized LGD assessment approach as a result of which a certain LGD rate is obtained. Such LGD rates consider the expected EAD in comparison with the amount expected to be recovered or obtained from collateral discounted at the original effective interest rate.

Forward-looking information

For determining the PD, and hence for the ECL modeling, the Group and the Bank consider for each group macroeconomic indicators from two publicly available official data sources in each country. The Group and Bank use the weighted average of the corresponding macroeconomic indicator, taken separately for each group of countries.

The historically calculated PD for each group is correlated with key macroeconomic indicators, such as GDP at real prices, GDP at constant prices, inflation rate, unemployment rate, gross average wages, net average wages, and consumer price index. The Group and the Bank apply to each group those macroeconomic indicators whose quarterly growth relative to the previous period correlates better with the historically calculated PD. Given the correlation of historical PD data with macroeconomic data, the Group and the Bank use the inflation rate and the unemployment rate for the *group of legal entities and private individuals - residents of Latvia* and GDP and the average gross monthly wage growth for the *group of legal entities and private individuals* non-residents. At least annually, the Group and the Bank review the correlation with key macroeconomic indicators on a group-by-group basis and assesses whether to use the same indicators for future ECL calculations or change them.

The Group and the Bank assess:

- every sector of economy, in which the Bank has significant credit risk exposures;
- macroeconomic data at a national level in every region, in which the Bank has significant credit risk exposures;
- relevant trends on real estate market;
- other relevant information.

While in early 2022 the economy recovered rapidly from the repercussions of the COVID-19 pandemic with GDP growth the 2022 half-year results were significantly affected by the impact of the war and the rise in energy prices, which also triggered record high inflation. Taking into account the probability of the loan portfolio deteriorating due to the impacts of the war and rising energy prices, the Group and the Bank have reviewed and analyzed it to determine the most exposed customer loan liabilities and the probability of default, considering the industry and solvency of each individual borrower. Concerning their loan portfolio, the Group and the Bank have identified as vulnerable to the effects of the war the following sectors: trade, real estate operations and construction, accommodation and catering services.

The Group and the Bank have analyzed the year-end loan portfolio data, applying stricter monitoring to Ukrainian subprime customers, which have been transferred from Stage 1 to Stage 2, with additional allowances made. The Bank has reviewed each client ability to fulfill the obligation, if there were no the National Bank of Ukraine (NBU) ban on international transactions and how the Clients business has adopted to the economical situation during the war. The quality of the resident loan portfolio has not been directly affected by the geopolitical crisis at this point of time, thanks to a balanced credit risk financing policy, customers have been able to service their loan commitments in a timely manner but clients which business could be affected by energy resource price rising was added to the Watch list.

4. Financial and other risk management *(cont'd)*

(a) Credit risk *(cont'd)*

Forward-looking information (cont'd)

The Group and the Bank are constantly monitoring the current global economic situation in order to identify potential risks and assess the impact of risks on the loan portfolio in a timely manner.

Key macroeconomic variable assumptions for the ECL measurement

The Group and the Bank use publicly available current macroeconomic forecasts from various official data sources as forward-looking information included in the ECL measurement. To provide an objective ECL estimate under IFRS 9, the Group and the Bank use at least three scenarios. One is the base case scenario, which describes the most likely outcome, and it is applied in the Bank's strategy planning and is based on up-to-date forecasts. The other scenarios predict optimistic and pessimistic outcomes (upside and downside scenarios). Each scenario is assigned a probability weight based on expert judgement.

The assumptions regarding macroeconomic variables for the base case used as at 31 December 2022 are set out below.

	2023	2024	2025
Latvian portfolio:			
Inflation rate	9.70%	2.70%	2.50%
Unemployment rate	7.55%	7.25%	6.90%
Other countries' portfolio (based on macroeconomic forecasts for Ukraine)			
GDP (gross domestic product)	3.65%	4.65%	-
Nominal gross wage (annual changes, %)	16.40%	14.15%	-

Source: *Macroeconomic forecasts in the base case scenario are expressed as the average of publicly available data sources: forecasts of the Bank of Latvia and the Ministry of Finance are used for the Latvian portfolio, while forecasts for the other countries' portfolio are based on publicly available data of the National Bank of Ukraine and the Ministry of Finance of Ukraine, which have been adjusted by an expert opinion due to data availability quality.*

The upside scenario assumes that the economic recovery from the aftermath of the Ukraine crisis will be faster, the macroeconomic outlook still remains cautious over uncertainty of external geopolitical factors.

The downside scenario foresees a significant impact of geopolitical risks, macroeconomic forecasts are made in the context of high uncertainty, and the specific economic impact of the settlement of the Ukrainian conflict cannot be predicted. Uncertain gas price forecasts, and hence overall energy price forecasts, could lead to a less sharp decline in inflation than projected in the base case scenario. Private consumption growth will be constrained, with expenditure growth largely driven by inflation.

In measuring ECL as at 31 December 2022, the probability of the base case scenario is estimated at 60%, the probability of the upside scenario at 15% and that of the downside scenario at 25%.

4. Financial and other risk management *(cont'd)*

(a) Credit risk *(cont'd)*

Key macroeconomic variable assumptions for the ECL measurement (cont'd)

	LV portfolio EUR '000	Other countries' portfolio EUR '000	Total EUR '000
ECL			
Base case scenario (100%)	1,205.61	1,263.52	2,469.13
Base case scenario (60%)	723.37	758.11	1'481.48
Upside scenario (15%)	180.59	188.96	369.54
Downside scenario (25%)	303.77	318.20	621.97
Total	**1,207.73**	**1,265.27**	**2,472.99**

Based on the results of the scenarios, the Bank's ECL model shows low sensitivity to changes in macroeconomic indicators. The base case scenario is aligned with and is used for strategic planning and budgeting process of the Group and the Bank.

(b) Market risk

The Group and the Bank manage market risks by diversifying the financial instruments portfolio, setting limits on different types of financial instruments and applying sensitivity tests which show the impact of particular risks on the Group and Bank's assets and equity. Basis of the market risk management:

- assessment and analysis of securities portfolio;
- analysis and monitoring of issuers' financial position;
- establishing internal limits/diversification (stop-loss to issuers, countries, regions, terms, credit rating categories);
- monitoring of compliance with internal limits.

(c) Currency risk

The Group and the Bank are exposed to the risk of changing foreign currency exchange rates, which impacts both the financial performance and the cash flows of the Group and the Bank. The Group and the Bank control assets and liabilities denominated in foreign currencies to avoid unreasonable foreign currency risk. Currency risk is calculated for each currency separately, taking into account the amount of liabilities and assets of the Group and the Bank. The Board determines the Group and Bank's open position limits on certain currencies, which are monitored daily. The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Group's and Bank's equity but the total foreign currency open position may not exceed 20% of the equity. In 2022 and 2021, the Group and the Bank complied with these limits (see Note 28). The Group and the Bank have no significant open positions in 'exotic' currencies.

The Group and Bank's foreign currency risk assessment is based on the following main principles:

- assessment is made of changes in the Group's and Bank's assets, liabilities and off-balance sheet items as a result of exchange rate fluctuations;
- how the Group's and Bank's revenue/costs change with exchange rate fluctuations;
- currency risk stress tests are performed.

Notes to the financial statements *(cont'd)*

4. Financial and other risk management *(cont'd)*

(c) Currency risk *(cont'd)*

Basis of the currency risk management:
- assessing currency risk;
- setting limits and restrictions;
- monitoring of adherence to internal limits;
- performing exchange rate stress tests and analyzing the obtained results;
- entering into hedge relationships, if necessary.

The Group and the Bank define and control daily and weekly maximum loss limits via involving in currency trading.

As part of a quarterly currency risk management process, assessment of foreign currency risk is performed (assessment of how the Bank's assets, liabilities and off-balance sheet items change as a result of exchange rate fluctuations; how the Group's and Bank's revenue/costs change with exchange rate fluctuations) and the results of such evaluation are submitted to the management of the Group and the Bank. Once a year a currency risk stress testing and the analysis of its results are performed, serving as the basis of proposals for changes in the foreign currency risk management policy which are made to the management of the Group and the Bank, if necessary.

The table below presents the sensitivity of the Group and Bank's profit/loss to currency exchange rate fluctuations at the end of the reporting period with all other variables held constant (in thousand EUR):

31.12.2022	Effect on net profit/loss and equity		31.12.2021	Effect on net profit/loss and equity	
	+10%	-10%		+10%	-10%
USD	(102)	102	USD	(3)	3
Total	**(102)**	**102**	**Total**	**(3)**	**3**

(d) Interest rate risk

Interest rate risk is the sensitivity of the Group's and Bank's financial position to a change in market interest rates. In the normal course of business, the Group and the Bank encounter interest rate risk as a result of differences within maturities or interest re-fixing dates of respective interest-sensitive assets and liabilities. The risk is controlled by the Bank's Asset and Liability Committee, which sets limits on the level of mismatch of interest rate repricing and evaluates interest rate risk undertaken by the Group and the Bank (see Note 30).

Basis of the interest rate risk management:
- assessing sensitivity of interest rate risk;
- setting internal limits (limit on impairment of economic value and for total duration of the securities portfolio);
- monitoring of adherence to internal limits;
- performing interest rate stress tests and analyzing the obtained results;
- entering into hedge relationships, if necessary.

Interest rate risk identification and assessment are made in a way as to further examine all types of interest rate risks. To limit the interest rate risk, limits are set to both impairment of economic value and the modified duration of the securities portfolio.

As part of interest rate risk assessment, impact of interest rate changes on the economic value of the Group and the Bank is performed regularly, including interest rate risk assessment from income perspective and interest rate risk assessment from the perspective of economic value, and on that basis, follow-up control of the set limits is carried out. Moreover, interest rate risk stress testing is performed, based on which changes are proposed in the interest rate risk management policies, if needed. Results of interest rate risk assessment are reported to the management of the Group and the Bank.

4. Financial and other risk management *(cont'd)*

(d) Interest rate risk *(cont'd)*

Assets/liabilities/off-balance sheet items with specified maturities are split into maturity groups as follows:

- shorter of the remaining repayment/settlement/maturity term – for financial instruments with fixed interest rates;
- for a period until the next interest rate change date or interest repricing date – for financial instruments with variable interest rates;
- maturity of deposits is shown as being not longer than five years.

Assets/liabilities/off-balance sheet items with no specified maturity are split into maturity groups as follows:

- settlement accounts for which interest is paid are classified as sensitive to changes in interest rates and presented as 'on demand';
- derivatives are presented under both long off-balance-sheet position and short off-balance-sheet position.

The following changes in interest rates are applied to the sensitivity analysis: all items except for deposits are subject to rate changes of +/-100 base points , while deposits are subject to rate changes of +/-50 base points.

The table below presents sensitivity of the Group's profit/loss to interest rate fluctuations as described above with all other variables held constant (in thousand EUR):

31.12.2022	Effect on net profit/loss and equity		31.12.2021	Effect on net profit/loss and equity	
	+100 bps/+50 bps	-100 bps/ -50 bps		+100 bps/ +50 bps	-100 bps/ -50 bps
USD	(139)	139	USD	(271)	271
EUR	(191)	191	EUR	(135)	135
Total	**(330)**	**330**	**Total**	**(406)**	**406**

The table below presents sensitivity of the Bank's profit/loss to interest rate fluctuations as described above with all other variables held constant (in thousand EUR):

31.12.2022	Effect on net profit/loss and equity		31.12.2021	Effect on net profit/loss and equity	
	+100 bps /+50 bps	-100 bps/ - 50 bps		+100 bps /+50 bps	-100 bps/ -50 bps
USD	(139)	139	USD	(271)	271
EUR	(191)	191	EUR	(135)	135
Total	**(330)**	**330**	**Total**	**(406)**	**406**

(e) Liquidity risk

The Group and the Bank are exposed to daily calls on their available cash resources from short-term liquid investments. The relationship between the maturity of assets, liabilities and off-balance sheet items is indicative of liquidity risk and the extent to which it may be necessary to raise funds to meet outstanding obligations.

The Group and the Bank do not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Board sets limits on the minimum proportion of maturing funds available to meet such calls and the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types (see Note 29). An unmatched position potentially enhances profitability, but also increases the risk of losses.

4. Financial and other risk management *(cont'd)*

(e) Liquidity risk *(cont'd)*

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Group and the Bank and their exposure to changes in interest rates and exchange rates.

The matching and controlled mismatching of the maturities of assets and liabilities are fundamental to the daily liquidity management of the Group and the Bank.

The Group and the Bank use the following methods for evaluation of liquidity risk:

- preparation of maturity analysis (for all currencies and separately for individual currencies);
- calculation of the liquidity ratio, monitoring of adherence to liquidity ratio regulations;
- stress testing.

Basis of the liquidity risk management:

- being in compliance with liquidity ratio regulations;
- setting the liquidity net position limit;
- setting restrictions on attracting deposits;
- monitoring of adherence to liquidity limits;
- conducting liquidity stress tests and analysis of the obtained results;
- recommendations for resolving liquidity problems.

To manage and control the funding structure (positions), the Bank:

- regularly assesses its funding structure, i.e., the Bank's dependence on certain types of borrowed resources, in particular on borrowings on interbank lending, money and capital markets;
- evaluates funding sources and its ability to quickly raise funds from respective sources;
- ensures efficient diversification of funding sources and their maturities, incl. sets concentration limits.

In accordance with the Regulator's individual requirements, the Bank maintains sufficient liquid assets to meet its liabilities for an amount which is not less than 40% of the Bank's current liabilities.

On a daily basis, the Bank monitors both the deposit structure to ensure a high liquidity ratio and changes in its deposits. The Bank assesses the deposit situation as stable. As a result, as at 31 December 2022, the Bank maintained above the regulatory minimum liquidity ratio of 73.26% (31 December 2021: 62.28%). The liquidity ratio is calculated in accordance with the Regulator's Regulation No 195 and is the ratio of liquid assets to current liabilities (with a remaining maturity of 30 days or less).

(f) Capital adequacy

Capital adequacy refers to the sufficiency of the Group's and Bank's own funds to cover credit and market risks related to assets and off-balance sheet items.

To calculate the capital amount for covering the risks for which the minimum capital requirements are set by the Regulator, the following approaches and methods are used:

- credit risk capital requirements are calculated using the standardized approach;
- the Financial Collateral Simple Method is used in order to decrease credit risk;
- the Group and the Bank calculate the own funds requirements for CVA risk applying the standardized method specified in Article 384 of EU Regulation No 575/2013;
- foreign currency risk capital requirements, commodities risk capital requirements and capital requirements for position risk of debt securities and equities are calculated using the standardized approach;
- capital requirements for general risk of debt securities are calculated using the maturity method;
- capital requirements for operational risk are calculated using the basic indicator approach.

4. Financial and other risk management *(cont'd)*

(f) Capital adequacy *(cont'd)*

The Group and the Bank also evaluate whether compliance with the minimal capital requirements ensures that the capital of the Group and the Bank is sufficient to cover all possible losses associated with all of the above mentioned risks.

Moreover, the Group and the Bank have developed internal documentation and regulations according to which they determine the amount of necessary capital for substantial risks for which minimal capital requirements are not set (e.g., interest rate risk, liquidity risk, concentration risk, and other substantial risks).

On 2 November 2021, the Regulator recalculated the minimum capital requirement, determining it to the Group and Bank at 10.90%, which is expressed as a percentage of the Bank's risk-weighted assets amounting to three per cent of the leverage ratio exposure measure, and capital conservation buffer at 2.5%. On December 28, 2021, the Regulator set the required capital adequacy requirement to cover all risks of the Group and the Bank in the amount of 11.1%. Calculated in accordance with Regulation (EU) 575/2013 of the European Parliament and of the Council, the Group's and Bank's capital adequacy ratio as at December 2022 was 27.82% and 27.82% (31 December 2021: 27.69% and 27.58%) respectively, which exceed the requirements the Regulator (11.1%) (see also Note 29). The Group and the Bank also comply with Regulation (EU) No 575/2013 of the European Parliament and of the Council with the established leverage ratio requirement of 3%. The Group's and Bank's leverage ratio as at 31 December 2022 was 11.26%. The leverage ratio provides an indication of the Group's and Bank's solvency based on a simple non-risk-weighted ratio. A detailed calculation of the leverage ratio can be found in Regulation (EU) No 575/2013 of the European Parliament and of the Council.

(g) Operational risk

Operational risk is the possibility of incurring losses as a result of inadequate or unsuccessful developments in the Group's and Bank's internal processes, human and systemic actions, or influence of external conditions. Operational risk is defined as the risk of a reduction in the Group's and Bank's revenue/of additional costs incurred (and a resulting reduction of the equity) due to erroneous transactions with customers/business partners, information processing, adoption of ineffective decisions, insufficient human resources or insufficient planning for the influence of external conditions.

The Group and the Bank have established and maintain an Operational Risk Event and Loss database, in which internal data on operational risk events and associated losses are collected, processed and organized.

Basis of the operational risk management:

- monitoring of operational risk;
- management and minimizing of operational risk:
- development of internal regulations which eliminate/reduce the possibility of operational risk events;
- compliance with the principle of separation of duties;
- monitoring of compliance with internal limits;
- compliance with the procedure for using IT and other resources of the bank;
- adequate staff training;
- review of transactions and account documentation on a regular basis.

(h) Concentration risk

Transaction concentration risk

Transaction concentration risk is any risk transaction or group of risk transactions that could cause the Group and the Bank to suffer such losses that may endanger the liquidity of the Group and the Bank or their ability to continue as a going concern. Concentration risk arises from significant risk transactions

4. Financial and other risk management *(cont'd)*

(h) Concentration risk *(cont'd)*

Transaction concentration risk

Transaction concentration risk is any risk transaction or group of risk transactions that could cause the Group and the Bank to suffer such losses that may endanger the liquidity of the Group and the Bank or their ability to continue as a going concern. Concentration risk arises from significant risk transactions with customers or groups of inter-related customers or risk transactions with customers with common risk factors (e.g., economy sector, geographical region, currency, the instrument used for decreasing credit risk (one type of collateral or one provider of collateral, etc.).

In order to control transaction concentration risk, the Group and the Bank have set limits on investments into various types of assets, instruments, markets, etc. Limit is a numerical threshold applied to various types of investments serving as an instrument for limiting and controlling the risk.

Country risk

Country risk is one of significant transaction concentration risks. Country risk – country partner risk – is the possibility of incurring losses if the Group's and Bank's assets are located in a country where, due to changes in its economic and political factors, the Group and the Bank may experience problems in recovering their assets within the agreed time and amount.

The reasons of default by partners and issuers are primarily currency devaluation, unfavorable legislative changes, creation of new restrictions and barriers as well as other factors, including force majeure.

In order to manage concentration risk, the Group and the Bank set the following internal limits:

- country risk limits;
- credit rating group limits;
- financial market operations risk limits;
- limits on open currency positions and cash, limits on allowable loss on trading with foreign currencies;
- limits on allowable loss from trading with financial instruments portfolios;
- limits on large exposures;
- limits on transactions with parent bank;
- limits on lending programs.

Control, analysis and review of fulfilment of these limits are performed. Basis of the risk management:

- setting internal limits by regions, countries, and by transaction types in individual countries;
- monitoring of adherence to internal limits;
- analysis and monitoring of country risk;
- review of internal limits.

Asset, liability and off-balance sheet country risk applies to the country which is considered to be the primary country where the customer conducts its business activities. If a loan is granted to a resident of another country using collateral which is physically located in a country other than the resident country of the legal entity, the country risk is transferred to the country where the loan collateral is actually located.

International rating agency data (including credit ratings and their dynamics), economic indicators of the country and other relevant information sources are used for country risk analysis.

Notes to the financial statements *(cont'd)*

4. Financial and other risk management *(cont'd)*

(h) Concentration risk *(cont'd)*

Country risk (cont'd)

The table below reflects composite ratings of Latvia, TOP3 OECD countries, and TOP3 non-OECD countries.

Latvia – Composite rating (Moody's/Fitch and S&P)		OECD – Composite rating (Moody's/Fitch and S&P)		Non-OECD – Composite rating (Moody's/Fitch and S&P)	
Country	Rating	Country	Rating	Country	Rating
Latvia	A3/A-	USA	Aaa/AAA	Ukraine	Caa3/CCC-
-	-	Lithuania	A2/A	Georgia	Ba2/BB
-	-	Switzerland	Aaa/AAA	China	A1/A+

TOP countries have been selected taking into account the volume of transferred exposures.

The table below shows the breakdown of financial assets and liabilities by groups of countries as at 31 December 2022.

	Latvia		OECD		Non-OECD		31.12.2022	31.12.2022
	Group	Bank	Group	Bank	Group	Bank	Group	Bank
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Financial assets								
Cash and balances with the Bank of Latvia	141,138,313	141,138,313	-	-	-	-	141,138,313	141,138,313
Balances due from banks	-	-	70,620	70,620	1,088,392	1,088,392	1,159,012	1,159,012
Loans and advances to customers	62,334,738	62,334,738	17,480,265	17,480,265	29,539,532	29,539,532	109,354,535	109,354,535
Financial assets at FVPL	-	-	132,172	132,172	57,829	57,829	190,001	190,001
Debt instruments at FVOCI	-	-	125,705,520	125,705,520	-	-	125,705,520	125,705,520
Other financial assets	130,979	130,979	1,259,780	1,259,780	40,073	40,073	1,430,832	1,430,832
Total financial assets	**203,604,030**	**203,604,030**	**144,648,357**	**144,648,357**	**30,725,826**	**30,725,826**	**378,978,213**	**378,978,213**

	Latvia		OECD		Non-OECD		31.12.2022	31.12.2022
	Group	Bank	Group	Bank	Group	Bank	Group	Bank
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Liabilities								
Balances due to banks	-	-	-	-	4,001,730	4,001,730	4,001,730	4,001,730
Deposits from customers	123,809,972	123,809,972	86,397,577	86,397,577	133,315,161	133,315,161	343,522,710	343,522,710
Other financial liabilities	140,110	140,110	10,342	10,342	4,530	4,530	154,982	154,982
Provisions	298,172	298,172	68,611	68,611	152,209	152,209	518,992	518,992
Deferred income and accrued expense	1,043,736	1,043,736	11,778	11,778	27,418	27,418	1,082,932	1,082,932
Total liabilities	**125,291,990**	**125,291,990**	**86,488,308**	**86,488,308**	**137,501,048**	**137,501,048**	**349,281,346**	**349,281,346**

Notes to the financial statements *(cont'd)*

4. Financial and other risk management *(cont'd)*

(h) Concentration risk *(cont'd)*

Country risk (cont'd)

The table below shows the breakdown of financial assets and liabilities by groups of countries as at 31 December 2021.

	Latvia		OECD		Non-OECD		31.12.2021	31.12.2021
	Group	Bank	Group	Bank	Group	Bank	Group	Bank
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Financial assets								
Cash and balances with the Bank of Latvia	82,900,231	82,900,231	-	-	-	-	82,900,231	82,900,231
Balances due from banks	-	-	30,037,043	30,037,043	8,356,619	8,356,619	38,393,662	38,393,662
Loans and advances to customers	30,661,192	30,661,192	20,367,093	20,367,093	32,230,808	32,230,808	83,259,093	83,259,093
Financial assets at FVPL	375,058	375,058	1,459,976	1,459,976	7,894	7,894	1,842,928	1,842,928
Debt instruments at FVOCI	-	-	30,902,143	30,902,143	-	-	30,902,143	30,902,143
Other financial assets	707,415	691,809	1,630,292	1,629,972	4,872	4,872	2,342,579	2,326,653
Total financial assets	**114,643,896**	**114,628,290**	**84,396,547**	**84,396,227**	**40,600,193**	**40,600,193**	**239,640,636**	**239,624,710**

	Latvia		OECD		Non-OECD		31.12.2021	31.12.2021
	Group	Bank	Group	Bank	Group	Bank	Group	Bank
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Liabilities								
Deposits from customers	60,725,358	62,122,521	76,614,138	76,614,138	70,993,664	70,993,664	208,333,160	209,730,323
Other financial liabilities	290,390	290,390	22,050	4,671	93,010	260	405,450	295,321
Provisions	645,958	645,958	55,686	55,686	219,166	219,166	920,810	920,810
Deferred income and accrued expense	1,397,296	804,626	1,707	1,707	30,338	30,338	1,429,341	836,671
Total liabilities	**63,059,002**	**63,863,495**	**76,693,581**	**76,676,202**	**71,336,178**	**71,243,428**	**211,088,761**	**211,783,125**

(i) Money laundering and financing of terrorism and proliferation risk

The Group and the Bank place a high priority on maintaining and continuously developing an effective system of anti-money laundering and countering the financing of terrorism and proliferation (AML/CFTP), creating an internal risk management culture with zero tolerance for intentional violations of AML/CFTP laws and regulations, and compliance with international and national sanctions.

To ensure the functioning of a comprehensive and effective internal control system for managing AML/CFTP/sanctions risk (hereinafter - ICS), the Group and the Bank have established and continuously

4. Financial and other risk management *(cont'd)*

(i) Money laundering and financing of terrorism and proliferation risk *(cont'd)*

improve documented internal policies and procedures, ensuring compliance with the constantly changing requirements of the laws and regulations of the Republic of Latvia and the European Union, recommendations of international competent organizations and industry best practice.

For the functioning of a comprehensive and effective ICS the Group and the Bank have created and are constantly improving a documented internal policy and procedural environment, ensuring compliance with the ever-changing requirements of the laws and regulations of the Republic of Latvia and the European Union, the recommendations of international competent organizations and the industry for best practice. Clear risk management mechanisms are defined in internal regulatory documents for all ICS elements - AML/CFTP and Sanctions Risk Management Strategy 2022-2024, as well as its implementation policies and procedures, which define the structure and operational organization of the Group's and the Bank's AML/CFTP risk management, the distribution of management and employee responsibility and authority for AML/CFTP risk management in the field of AML/CFTP risk identification and management, including measurement, evaluation, control, preparation and submission of reports to the Bank's management, accounting and documentation of customer information and transactions, etc.

The bank has updated the AML/CFTP and Sanctions risk management strategy 2023-2025 during the reporting period. There have been no significant changes in the limit values of risk exposure compared to the previous period, but limits have been introduced not only for the proportion of indicators in percentage terms, but also for the amount of indicators in numerical terms. In addition, it is defined that the Bank individually evaluates cases where exposure indicators have been affected by individual operations of one or a few clients, when making decisions on deviations. In the customer research process, the Bank follows a risk based approach – the depth and scope of the research depends on the client's risk level, as well as its impact on the Bank's total AML/CFTP risk exposure, which it considers possible to undertake (risk appetite).

The bank ensures its obligation to justify and document that the customer research measures it has taken are in accordance with the risks inherent in cooperation with customers. The bank provides an independent assessment of the effectiveness of multi-level ICS in the area of sanctions - an independent assessment by an external auditor once every 18 months, Internal Audit inspections at least once a year, as well as a regular Quality Assurance process. In the 1st quarter of 2022, the Bank has carried out the periodic independent evaluation of ICS. The Bank conducted an audit of all basic elements of the AML/CTPF/EU program, as well as a special independent audit of AML/CFT IT applications in the 3rd quarter of 2022. The inspections carried out in 2022 allow us to gain confidence that the processes of customer monitoring, research and in-depth customer research taking place in the Bank are carried out in accordance with the regulatory requirements of AML/CFTP, as well as the procedures and requirements specified in the Bank's internal regulatory documents, i.e. in the course of inspections, no significant deficiencies were found, individual action plans for the improvement and development of the Bank's ICS have been drawn up.

During the reporting period, much attention was paid to identifying and observing the sanctions regimes, which were significantly expanded in response to Russia's military aggression against Ukraine. As part of economic sanctions, the EU, OFAC have imposed several import and export restrictions on Russia and Belarus. Throughout the period, the Bank took proactive steps in the creation and improvement of sanctions regime monitoring mechanisms, adapting to existing requirements in the changing environment in the field of sanctions, in order to strictly comply with sanctions restrictions and reduce the risks of sanctions related to them, including:

- the Bank's inherent sanctions risk and the Sanctions risk management policy were reviewed;
- ceased cooperation with Russian and Belarusian banks correspondents: Prominvestbank, Novikombank, Sberbank, BelinvestBank, Transkapitalbank;

4. Financial and other risk management *(cont'd)*

(i) Money laundering and financing of terrorism and proliferation risk *(cont'd)*

- the territories and regions that pose an increased risk of sanctions have been reviewed several times, including the countries friendly to Russia and Belarus, determined according to FINCEN and Latvian FIU materials, included in the list of countries with an increased risk of sanctions; - additional research requirements have been introduced for the Bank's clients who are engaged in economic activity with an increased risk of sanctions or operate in regions with an increased risk of sanctions;
- created additional monitoring mechanisms for payments in online mode; - supplemented control lists with additional elements (key words) in relation to goods of strategic importance, strengthening the sensitivity of elements of control lists to sectoral sanctions, etc.;
- a new database - coordinated by the Ministry of Justice - connection of the database on the applied sanctions in state-maintained registers to the Bank's IT systems and monitoring processes.

During the reporting period, the Bank started using a new record keeping system, which, among other things, is also used in the field of AML/CFTP /Sanctions monitoring and processes, such as:

- submission, processing and storage of suspicious transactions;
- acceptance of a potential client, acceptance of changes in the data of existing Bank clients (RBO, Autorized persons, change of economic activity, etc.).
- acceptance of payment limits,
- increased acceptance of high-risk products,
- acceptance of the start of cooperation with the Bank's potential partners.

The new system ensures an even more transparent flow of work processes, decision-making procedures, information exchange between participating structural units, and more convenient data presentation for audit purposes. In 2022, the Financial Industry Association has launched a project for the creation of an AML/CFT information exchange system, within the framework of which Latvian credit institutions will mutually exchange information in order to reduce the risk of entering into business relations with persons who may be related to money laundering, terrorism or proliferation financing, fraud or circumvention of sanctions, violation. The bank actively participates in the working group for the creation and implementation of the AML/CFT information exchange system established by the FNA for the development of usage requirements and concept, and also plans to implement and start using this system in the second half of 2023.

On 30.12.2022 normative regulations of the Regulator's No. 235 "Normative regulations on the management of the risk of money laundering and terrorism and proliferation financing", which replaced the regulatory provisions of the Regulator's No. 101 "Normative regulations for the management of the risk of money laundering and terrorism and proliferation financing" entered into force. Regulation No. 235 provides for changes in the structure and cut of the NILLTPF risk exposure characteristics, which the Bank plans to introduce in the 1st quarter of 2023, by revising the NILLTPF risk strategy, as well as submitting the NILLTPF risk exposure characteristics to the Bank of Latvia in accordance with regulation No. 235 for the 1st and 2nd quarters of 2023 until 31 July 2023.

The Bank continues to constantly improve IT systems that provide automated NILLTPF and Sanctions risk management processes (customer information processing and management, numerical evaluation of the customer's NILLTPF and sanctions risk level, verification of compliance with sanctions requirements, monitoring of transactions, identification of suspicious transactions, automated filling of customer basic data in the Bank's system and their validation, digitization of customer files and continuous development and supplementation of this system with supporting documentation of Bank services and transactions used by the customer, so that information about the customer is unified, etc.). During the reporting period, certain sections of the NILLTPFN IT systems used by the Bank have been improved, ensuring that they contain up-to-date, detailed structured and accurate data, thus achieving full-value information storage and automatic availability for scoring purposes. Work continues on individual IT projects with an implementation deadline of 2023 for the digitization of AML/KYC (Know Your Customer) data, receiving

4. Financial and other risk management *(cont'd)*

(i) Money laundering and financing of terrorism and proliferation risk *(cont'd)*

customer data from various sources and collecting it qualitatively in the most convenient format possible, as well as analysing and documenting the decisions made.

The aforementioned risk management elements of the NILLTPF, the Bank's investment in the creation of the internal control system and its continuous improvement: increasing the competence of employees, regular updating of the NILLTPF and sanctions risk assessment and the corresponding improvement of the systems, as well as periodic external and internal audits, incl. the implementation of the quality monitoring function in daily mode confirms the Bank's ability to assume and manage the Bank's inherent risks.

(j) Strategic and business risk

Strategic and business risk is the risk of loss arising from errors in decisions that affect the Group's and Bank's strategic operations and development (strategic, business management), namely:

- failure of taking into account or incomplete identification of potential hazards to the Group's and Bank's business;
- incorrect or insufficiently substantiated identification of prospective areas of activity in which the Group and the Bank may have an advantage over competitors;
- lack of or insufficient resources (financial, material, human) and organizational arrangements (management decisions) necessary to ensure achieving the Group's and Bank's strategic objectives.

Within the Group and the Bank, strategic and business risk is managed within the framework of the Bank's Development Strategy 2021-2025 and the budget. Strategic and business risk is mitigated by continuously monitoring the current performance against the Bank's strategic development plan and budget, and by updating the Bank's strategic development plans. The Finance and Resources Department and the Board of the Bank monitor the actual performance against the plan.

One of the key elements of the Bank's Development Strategy 2021-2025 is to increase the volume and share of transactions (dealings) with customers – residents of Latvia – by gradually diversifying the Bank's sources of profit and its own resources and reducing the share of transactions (dealings) with non-residential customers. In 2022, the Bank focused on reaching the strategic objective. There was an increase in the amount of deposits held by Latvian residents, increase in the loan amount issued to Latvian residents and in the share of income from Latvian residents, which grew from 24% in 2021 to 34% in 2022. As at 31 December 2022, the share of loans issued to Latvian residents in the total Bank's loan portfolio was 55%, having increased by EUR 28.1 million compared to December 2021.

Based on unaudited information, the result of the Bank's operational activity in January 2023 is in accordance with the planned budget, which confirms the Bank's ability to operate stably within the framework of the selected Development Strategy and to continue developing its priority line of activity, financing of Republic of Latvia (LR) business projects and servicing EU/LR residents.

5. Interest income and expense

	2022 Group EUR	2022 Bank EUR	2021 Group EUR	2021 Bank EUR
Interest income at effective interest rate:				
Loans and advances to legal entities	5,090,660	5,093,120	4,540,718	4,640,839
Loans and advances to private individuals	135,104	135,104	148,215	148,215
Balances due from banks	906,509	906,509	104,803	104,803
Debt securities held for trading	1,650,748	1,650,748	48,740	48,740
Debt instruments at fair value through other comprehensive income	12,299	12,299	10,969	10,969
Total interest income	**7,795,320**	**7,797,780**	**4,853,445**	**4,953,566**
Interest expense:				
Due to private individuals	(50,396)	(50,396)	(130,234)	(130,234)
Due to legal entities	(31,171)	(31,171)	(102,514)	(102,514)
Subordinated loans	-	-	(104,031)	(104,031)
Debt securities issued	-	-	(351,843)	(351,843)
Other interest and related expense	(713,813)	(713,813)	(662,530)	(662,530)
Interest expense on lease liabilities (see also Note 18)	(592)	(592)	(292)	(292)
Total interest expense	**(795,972)**	**(795,972)**	**(1,351,444)**	**(1,351,444)**
Net interest income	**6,999,348**	**7,001,808**	**3,502,001**	**3,602,122**

Other interest and related expense include payments to the deposit guarantee fund of EUR 103,768 (2021: EUR 118,735), which are calculated by the Bank and attributed to the period when they are made in accordance with the Deposit Guarantee Law and the Regulator's Regulation on preparing guaranteed deposit reports and determining the adjustment ratio to be applied to the payments into the deposit guarantee fund, and a financial stability fee of EUR 222,147 (2021: EUR 123,807), a negative interest rate applied to correspondent accounts of EUR 387,898 (2021: EUR 392,150) and a deposit referral fee of EUR 0 (2021: EUR 27,838).

6. Fee and commission income and expense

	2022 Group EUR	2022 Bank EUR	2021 Group EUR	2021 Bank EUR
Fee and commission income:				
Account servicing	905,790	905,790	978,154	978,154
Money transfers	504,162	504,231	584,340	584,660
Commission income on asset management	339,642	339,642	613,972	613,972
Commissions on letters of credit	217,064	217,064	194,836	194,836
Commissions on transactions with settlement cards	190,437	190,437	219,622	219,622
Income from general services	133,185	133,185	38,438	38,438
Interbank commission income	126,930	126,930	94,150	94,150
Commission income on escrow accounts servicing	90,450	90,450	53,325	53,325
Fees on registration of changes in loan agreements	66,181	66,181	21,340	21,340
Other commissions (DIGIPAS)	26,928	26,928	17,388	17,388
Commission income on transactions with securities	16,978	16,978	23,211	23,211
Other income	11,716	11,716	4,892	4,892
Total fee and commission income	**2,629,463**	**2,629,532**	**2,843,668**	**2,843,988**
Fee and commission expense:				
Money transfers	(234,488)	(234,484)	(195,602)	(195,469)
Commissions on transactions with settlement cards	(139,607)	(139,607)	(17,564)	(17,564)
Other expense	(49,880)	(49,880)	(11,145)	(11,145)
Total fee and commission expense	**(423,975)**	**(423,971)**	**(224,311)**	**(224,178)**
Net fee and commission income	**2,205,488**	**2,205,561**	**2,619,357**	**2,619,810**

7. Administrative expense

	2022 Group EUR	2022 Bank EUR	2021 Group EUR	2021 Bank EUR
Remuneration paid to personnel	(3,123,990)	(3,123,990)	(3,409,119)	(3,409,119)
Statutory social insurance contributions	(863,449)	(862,977)	(986,394)	(983,456)
Remuneration paid to the Members of the Council and the Board	(699,991)	(697,991)	(825,368)	(812,917)
Communications expense	(351,209)	(351,209)	(388,725)	(388,725)
Set-up and maintenance costs of information systems	(441,200)	(441,200)	(323,077)	(323,077)
Fee paid to the certified auditor*	(205,330)	(205,330)	(194,500)	(194,500)
Public utilities	(174,234)	(174,234)	(110,818)	(110,818)
Non-deductible VAT	(171,488)	(171,488)	(101,123)	(98,118)
Consulting and professional fees	(92,587)	(92,471)	(189,087)	(50,704)
Real estate tax	(52,877)	(52,877)	(82,077)	(77,700)
Business trips	(18,086)	(18,086)	(36,270)	(35,068)
Health insurance	(31,494)	(31,494)	(31,066)	(31,066)
Office and equipment maintenance	(13,992)	(13,992)	(20,559)	(20,559)
Postal charges	(19,023)	(19,023)	(19,419)	(19,419)
Stationery	(11,142)	(11,142)	(10,713)	(10,713)
Advertising and marketing	(9,308)	(9,308)	(10,643)	(10,643)
Transport expense	(9,812)	(9,812)	(6,144)	(6,144)
Security	(1,444)	(1,444)	(1,234)	(1,234)
Other administrative expense	(160,205)	(160,155)	(347,625)	(327,171)
Total administrative expense	**(6,450,861)**	**(6,448,223)**	**(7,093,961)**	**(6,911,151)**

The average number of staff employed by the Group and the Bank in 2022 was 126, including 5 Members of the Board, 5 Members of the Council and 116 other employees (2021: 134, including 5 Members of the Board, 5 Members of the Council and 124 other employees). The remuneration paid to the Members of the Council and the Board is disclosed in Note 31.

* The total fee paid to the certified auditor by the types of services provided by the auditor was as follows: statutory annual audit of consolidated and separate financial statements – EUR 172,630 (2021: EUR 176,500), other audit tasks – EUR 27,700 (2021: EUR 18,000); other specialists' tasks – EUR 5,000 (2021: EUR 0,00).

8. Other operating income

	2022 Group EUR	2022 Bank EUR	2021 Group EUR	2021 Bank EUR
Rentals	260,484	260,484	250,603	247,723
Penalties	14,476	14,476	8,075	8,075
Other income	2,953	3,377	30,519	31,119
Total other operating income	**277,913**	**278,337**	**289,197**	**286,917**

9. Other income and expense

	2022 Group EUR	2022 Bank EUR	2021 Group EUR	2021 Bank EUR
Income from recovery of written-off loans	25,159	25,159	2,735	2,735
Profit from the sale of foreclosed assets	3,700	3,700	13,940,818	518,193
Profit from loan assignment transactions	-	-	355,191	355,191
Total other income	**28,859**	**28,859**	**14,298,744**	**876,119**
Loss on revaluation of the investment in the subsidiary *	-	(574,782)	-	(3,981,328)
Impairment of repossessed collateral	(35,443)	(35,443)	(282,184)	(282,184)
Payments to funds and membership fees	(173,607)	(173,607)	(134,030)	(134,030)
Other taxes	-	-	(104,075)	-
Other expense	(6)	-	(14,662)	-
Penalties	(3)	(3)	(88)	(20)
Total other expense	**(209,059)**	**(783,835)**	**(535,039)**	**(4,397,562)**

*In 2021the increase in the Group's profit from the sale of foreclosed assets represents a profit of EUR 13,422,625 earned as a result of the sale of the immovable property owned by the subsidiary. For more detailed information, see Note 16.

** The loss on revaluation of the investment in the subsidiary, as the entire profit was distributed and paid in dividends because of the profit distribution to recognize impairment of the investment in the subsidiary of EUR 574,782 (2021: EUR 3,981,328). For more detailed information, see Note 16.

10. Corporate income tax

	2022 Group EUR	2022 Bank EUR	2021 Group EUR	2021 Bank EUR
Corporate income tax for the reporting year *	(151,991)	(12,891)	(2,499,637)	(11,635)
Amount of tax paid abroad**	(48,147)	(48,147)	(122,641)	(122,641)
Total corporate income tax	**(200,138)**	**(61,038)**	**(2,622,278)**	**(134,276)**

* In 2021 the increase in the Group's corporate income tax charge for the reporting year represents the pay-out of SIA Grunewald Residence dividends, whereon corporate income tax of EUR 139,100 (2021: EUR 2,488,002) was calculated. According to the German laws, relief was granted to SIA Grunewald Residence in December 2021 for the tax paid in Germany for the amount of EUR 1,892,281. For more detailed information, see Note 16.

** The amount of tax paid abroad represents withholding tax paid in Ukraine. Corporate income tax from dividends calculated in Latvia can be reduced to the extent of tax paid abroad, if the payment is certified by documents approved by a foreign tax authority, stating the amount of taxable income and the amount of tax withheld abroad. Tax can be reduced to the extent of tax withheld abroad, which is, however, limited to the amount that would be payable in Latvia on the revenue generated abroad. Amounts of withholding tax exceeding the tax calculated in Latvia cannot be carried forward and, therefore, are recognized as tax expense in the current period.

11. Cash and balances with the Bank of Latvia

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
Cash	1,346,003	1,346,003	961,118	961,118
Demand deposits with the Bank of Latvia	139,806,292	139,806,292	81,947,374	81,947,374
ECL allowances	(13,982)	(13,982)	(8,261)	(8,261)
Cash and balances with the Bank of Latvia, net	**141,138,313**	**141,138,313**	**82,900,231**	**82,900,231**

Demand deposits with the Bank of Latvia represent the Group's and Bank's correspondent account balance.

All cash balances are allocated to Stage 1. Changes in ECL allowances for the year can be specified as follows:

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
Allowances for demand deposits with the Bank of Latvia at the beginning of the year	8,261	8,261	67	67
Increase in the reporting year	1,130,378	1,130,378	22,493	22,493
Decrease in the reporting year	(1,124,657)	(1,124,657)	(14,298)	(14,298)
Change in methodology	-	-	(1)	(1)
Allowances for demand deposits with the Bank of Latvia at the end of the year	13,982	13,982	8,261	8,261

Demand deposits with the Bank of Latvia include reserves, which are held in accordance with the regulation of the Bank of Latvia. This regulation prescribes the minimum level of the Bank's average correspondent account balance per month, while at any given day these funds can be freely accessed and used by the Bank.

The minimum level of the Bank's average correspondent account for the period from 21 December 2022 to 7 February 2023 was set at EUR 3,486,212 (2021: EUR 2,051,898). The Bank was in compliance with the reserve requirement of the Bank of Latvia in 2022 and 2021.

12. Balances due from banks

The table below discloses balances due from banks by their type:

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
On demand	1,072,747	1,072,747	8,359,033	8,359,033
Balances with maturity of three months or less	86,381	86,381	30,021,002	30,021,002
Other balances due from banks	-	-	14,501	14,501
Balances due from banks, gross	**1,159,128**	**1,159,128**	**38,394,536**	**38,394,536**
ECL allowances	(116)	(116)	(874)	(874)
Balances due from banks, net	**1,159,012**	**1,159,012**	**38,393,662**	**38,393,662**

12. Balances due from banks *(cont'd)*

The table below discloses an analysis of changes in the gross carrying amount and corresponding ECL allowances on balances due from banks for the year ended 31 December 2022:

Balances due from banks	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2022	**38,394,536**	**-**	**-**	**38,394,536**
New assets originated or purchased	27,509,323	-	-	27,509,323
Assets repaid	(67,618,148)	-	-	(67,618,148)
Interest accrued	(1,432)	-	-	(1,432)
Foreign exchange adjustments	2,874,849	-	-	2,874,849
Gross carrying amount as at 31.12.2022	**1,159,128**	**-**	**-**	**1,159,128**

Balances due from banks	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2022	**874**	**-**	**-**	**874**
New assets originated or purchased	14,241	-	-	14,241
Assets repaid	(14,975)	-	-	(14,975)
Foreign exchange adjustments	(24)	-	-	(24)
ECL allowances as at 31.12.2022	**116**	**-**	**-**	**116**

The table below discloses an analysis of changes in the gross carrying amount and corresponding ECL allowances on balances due from banks for the year ended 31 December 2021:

Balances due from banks	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2021	**40,861,393**	**-**	**-**	**40,861,393**
New assets originated or purchased	98,739,797	-	-	98,739,797
Assets repaid	(104,212,752)	-	-	(104,212,752)
Interest accrued	1,578	-	-	1,578
Foreign exchange adjustments	3,004,520	-	-	3,004,520
Gross carrying amount as at 31.12.2021	**38,394,536**	**-**	**-**	**38,394,536**

Balances due from banks	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2021	**1,491**	**-**	**-**	**1,491**
New assets originated or purchased	138,847	-	-	138,847
Assets repaid	(139,482)	-	-	(139,482)
Change in methodology	2	-	-	2
Foreign exchange adjustments	16	-	-	16
ECL allowances as at 31.12.2021	**874**	**-**	**-**	**874**

The table below discloses the Group's and Bank's balances due from banks by their ratings:

Ratings	**31.12.2022 Due from banks**		**31.12.2021 Due from banks**	
	EUR	%	EUR	%
Aa1 to Aa3	-	-	-	-
A1 to A3	101,666	8.77%	30,038,839	78.24%
Baa1 to Baa3	-	-	7,173,999	18.68%
Ba1 to Ba3	-	-	620	0.00%
B1 to B3	-	-	1,166,577	3.04%
Caa1 to Caa3	1,000,468	86.32%	-	-
	1,102,134	**95.09%**	**38,380,035**	**99.96%**
Without rating	56,994	4.91%	14,501	0.04%
ECL allowances	(116)	-	(874)	-
Balances due from banks, net	**1,159,012**	**100%**	**38,393,662**	**100%**

13. Loans and advances to customers

Analysis of loans by customer profile and type of loans:

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
Loans to legal entities	111,610,386	111,610,386	87,616,675	87,616,675
Loans to private individuals, except for mortgages	2,843,402	2,843,402	1,503,831	1,503,831
Mortgages	124,352	124,352	126,678	126,678
Total loans and advances to customers, gross	**114,578,140**	**114,578,140**	**89,247,184**	**89,247,184**
Allowances for loan impairment	(5,223,605)	(5,223,605)	(5,988,091)	(5,988,091)
Total loans and advances to customers, net	**109,354,535**	**109,354,535**	**83,259,093**	**83,259,093**

The table below discloses an analysis of changes in the gross carrying amount and corresponding ECL allowances on balances of the Group's and Bank's loans and advances to customers for the year ended 31 December 2022.

Loans to legal entities	Stage 1	Stage 2	Stage 3	POCI*	Total
Gross carrying amount as at 01.01.2022	**76,748,281**	**28,596**	**7,011,654**	**3,828,144**	**87,616,675**
New assets originated or purchased	44,352,984	-	-	1,600,000	45,952,984
Assets increase[1]	116,300,141	1,258,317	89,900	74,898	117,723,256
Assets repaid	(129,793,556)	(1,861,478)	(1,255,815)	-	(132,910,849)
Assets sold	-	-	-	(5,503,042)	(5,503,042)
Transfers to Stage 2	(21,881,588)	23,570,999	(1,689,411)	-	-
Transfers to Stage 3		(8,723,140)	8,723,140	-	-
Amounts written off	(17)	-	(3,635,576)	-	(3,635,593)
Accrued interest	329,396	19,873	-	-	349,269
Foreign exchange adjustments	2,414,153	(463,885)	67,418	-	2,017,686
Gross carrying amount as at 31.12.2022	**88,469,794**	**13,829,282**	**9,311,310**	**-**	**111,610,386**

Loans to legal entities	Stage 1	Stage 2	Stage 3	POCI*	Total
ECL allowances as at 01.01.2022	**1,434,772**	**1,285**	**4,026,645**	**-**	**5,462,702**
New assets originated or purchased	729,390	-	-	-	729,390
Assets increase[1]	2,901,585	431,304	1,946,716	24,583	5,304,188
Assets repaid	(3,229,080)	(234,489)	(901,376)	-	(4,364,945)
Assets sold	-	-	-	(24,583)	(24,583)
Transfers to Stage 2	(405,202)	579,813	(174,611)	-	-
Transfers to Stage 3	-	(485,530)	485,530	-	-
Impact on ECL of transfers	-	348,128	868,259	-	1,216,387
Amounts written off	(17)	-	(3,635,576)	-	(3,635,593)
Foreign exchange adjustments	45,419	(17,968)	137,346	-	164,797
ECL allowances as at 31.12.2022	**1,476,867**	**622,543**	**2,752,933**	**-**	**4,852,343**

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2022	**734,863**	**-**	**768,967**	**-**	**1,503,830**
New assets originated or purchased	1,667,744	-	-	-	1,667,744
Assets increase[1]	528,582	608	57,538	-	586,728
Assets repaid	(712,926)	(53)	(58,283)	-	(771,262)
Transfers to Stage 2	(8,080)	8,080	-	-	-
Amounts written off	(278)	-	(147,073)	-	(147,351)
Accrued interest	3,278	-	-	-	3,278
Foreign exchange adjustments	670	(235)	-	-	435
Gross carrying amount as at 31.12.2022	**2,213,853**	**8,400**	**621,149**	**-**	**2,843,402**

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

13. Loans and advances to customers *(cont'd)*

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2022	**15,786**	**-**	**507,889**	**-**	**523,675**
New assets originated or purchased	4,133	-	-	-	4,133
Assets increase[1]	16,294	21	175	-	16,490
Assets repaid	(26,052)	-	(986)	-	(27,038)
Transfers to Stage 2	(148)	148	-	-	-
Impact on ECL of transfers	-	2	-	-	2
Amounts written off	(278)	-	(147,074)	-	(147,352)
Foreign exchange adjustments	10	(10)	-	-	-
ECL allowances as at 31.12.2022	**9,745**	**161**	**360,004**	**-**	**369,910**

Mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2022	**126,678**	**-**	**-**	**-**	**126,678**
Assets increase[1]	7,723	558	-	-	8,281
Assets repaid	(14,453)	(3,776)	-	-	(18,229)
Transfers to Stage 2	(73,147)	73,147	-	-	-
Accrued interest	(91)	3,786	-	-	3,695
Foreign exchange adjustments	5,989	(2,062)	-	-	3,927
Gross carrying amount as at 31.12.2022	**52,699**	**71,653**	**-**	**-**	**124,352**

Mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2022	**1,714**	**-**	**-**	**-**	**1,714**
Assets increase[1]	358	6	-	-	364
Assets repaid	(1,010)	(154)	-	-	(1,164)
Transfers to Stage 2	(354)	354	-	-	-
Impact on ECL of transfers	-	431	-	-	431
Foreign exchange adjustments	29	(22)	-	-	7
ECL allowances as at 31.12.2022	**737**	**615**	**-**	**-**	**1,352**

The table below discloses an analysis of changes in the gross carrying amount and corresponding ECL allowances on balances of the Group's loans and advances to customers for the year ended 31 December 2021.

Loans to legal entities	Stage 1	Stage 2	Stage 3	POCI*	Total
Gross carrying amount as at 01.01.2021	**56,385,366**	**2,501,486**	**14,105,779**	**-**	**72,992,631**
New assets originated or purchased	40,317,081	850,000	-	4,465,845	45,632,926
Assets increase[2]	91,657,469	47,456	1,013,783	238,123	92,956,831
Assets repaid	(112,777,367)	(323,004)	(7,613,808)	(875,824)	(121,590,003)
Assets sold	(1,289,675)	-	(2,523,114)	-	(3,812,789)
Transfers to Stage 1	131,812	(131,812)	-	-	-
Transfers to Stage 3	-	(2,915,613)	2,915,613	-	-
Amounts written off	(86)	-	(1,144,731)	-	(1,144,817)
Accrued interest	42,933	83	-	-	43,016
Foreign exchange adjustments	2,280,748	-	258,132	-	2,538,880
Gross carrying amount as at 31.12.2021	**76,748,281**	**28,596**	**7,011,654**	**3,828,144**	**87,616,675**

* POCI – In November 2021, the Bank together with related to the Bank parties acquired a credit-impaired asset, the Bank's share amounted to 4,465,845 EUR (effective interest rate 6%) or 33.6% of the transaction amount. POCI transactions is fulfilled under a limit which is subject to Ukrainian risk exposure. Acquired POCI is fully secured with real estate.

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[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

[2] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

13. Loans and advances to customers *(cont'd)*

Loans to legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2021	**2,296,172**	**258,997**	**6,555,392**	**-**	**9,110,561**
New assets originated or purchased	633,057	309,361	-	-	942,418
Assets increase[1]	2,431,530	19,609	547,881	-	2,999,020
Assets repaid	(3,262,113)	(30,715)	(2,136,829)	-	(5,429,657)
Assets sold	(10,772)	-	(529,887)	-	(540,659)
Transfers to Stage 1	10,540	(10,540)	-	-	-
Transfers to Stage 3	-	(513,797)	513,797	-	-
Impact on ECL of transfers	(5,755)	-	15,982	-	10,227
Change in methodology	(722,568)	(31,630)	-	-	(754,198)
Amounts written off	(86)	-	(1,144,731)	-	(1,144,817)
Foreign exchange adjustments	64,767	-	205,040	-	269,807
ECL allowances as at 31.12.2021	**1,434,772**	**1,285**	**4,026,645**	**-**	**5,462,702**

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2021	**387,327**	**-**	**1,633,635**	**-**	**2,020,962**
New assets originated or purchased	775,055	-	-	-	775,055
Assets increase[1]	463,953	-	104,511	-	568,464
Assets repaid	(892,373)	-	(969,166)	-	(1,861,539)
Amounts written off	(309)	-	-	-	(309)
Accrued interest	551	-	-	-	551
Foreign exchange adjustments	659	-	(13)	-	646
Gross carrying amount as at 31.12.2021	**734,863**	**-**	**768,967**	**-**	**1,503,830**

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2021	**20,371**	**-**	**981,900**		**1,002,271**
New assets originated or purchased	18,239	-	-	-	18,239
Assets increase[1]	29,354	-	155	-	29,509
Assets repaid	(49,858)	-	(474,014)	-	(523,872)
Change in methodology	(2,040)	-	(153)	-	(2,193)
Amounts written off	(309)	-	-	-	(309)
Foreign exchange adjustments	29	-	1	-	30
ECL allowances as at 31.12.2021	**15,786**	**-**	**507,889**	**-**	**523,675**

Mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2021	**81,053**	**-**	**-**	**-**	**81,053**
Assets increase[1]	108,964	-	-	-	108,964
Assets repaid	(65,643)	-	-	-	(65,643)
Accrued interest	236	-	-	-	236
Foreign exchange adjustments	2,068	-	-	-	2,068
Gross carrying amount as at 31.12.2021	**126,678**	**-**	**-**	**-**	**126,678**

Mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2021	**1,029**	**-**	**-**	**-**	**1,029**
Assets increase[1]	1,510	-	-	-	1,510
Assets repaid	(413)	-	-	-	(413)
Change in methodology	(422)	-	-	-	(422)
Foreign exchange adjustments	10	-	-	-	10
ECL allowances as at 31.12.2021	**1,714**	**-**	**-**	**-**	**1,714**

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

13. Loans and advances to customers *(cont'd)*

The table below discloses an analysis of changes in the gross carrying amount and corresponding ECL allowances on balances of the Bank's loans and advances to customers for the year ended 31 December 2021:

Loans to legal entities	Stage 1	Stage 2	Stage 3	POCI*	Total
Gross carrying amount as at 01.01.2021	**60,065,184**	**2,501,486**	**14,105,779**	**-**	**76,672,449**
New assets originated or purchased	40,317,081	850,000	-	4,465,845	45,632,926
Assets increase[1]	91,657,469	47,456	1,013,783	238,123	92,956,831
Assets repaid	(116,510,734)	(323,004)	(7,613,808)	(875,824)	(125,323,370)
Assets sold	(1,289,675)	-	(2,523,114)	-	(3,812,789)
Transfers to Stage 1	131,812	(131,812)	-	-	-
Transfers to Stage 3	-	(2,915,613)	2,915,613	-	-
Amounts written off	(86)	-	(1,144,731)	-	(1,144,817)
Accrued interest	96,482	83	-	-	96,565
Foreign exchange adjustments	2,280,748	-	258,132	-	2,538,880
Gross carrying amount as at 31.12.2021	**76,748,281**	**28,596**	**7,011,654**	**3,828,144**	**87,616,675**

* POCI – In November 2021, the Bank together with its related parties acquired a credit-impaired asset, the Bank's share amounted to EUR 4,465,845 (the effective interest rate of 6%), or 33.6% of the transaction amount. POCI transactions are subject to the limit set for the Ukrainian risk exposure. Acquired POCI are fully secured with real estate.

Loans to legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2021	**2,328,088**	**258,997**	**6,555,923**	**-**	**9,143,008**
New assets originated or purchased	633,057	309,361	-	-	942,418
Assets increase[1]	2,431,898	19,609	547,881	-	2,999,388
Assets repaid	(3,285,193)	(30,715)	(2,137,360)	-	(5,453,268)
Assets sold	(10,772)	-	(529,887)	-	(540,659)
Transfers to Stage 1	10,540	(10,540)	-	-	-
Transfers to Stage 3	-	(513,797)	513,797	-	-
Impact on ECL of transfers	(5,755)	-	15,982	-	10,227
Change in methodology	(731,775)	(31,630)	-	-	(763,405)
Amounts written off	(86)	-	(1,144,731)	-	(1,144,817)
Foreign exchange adjustments	64,770	-	205,040	-	269,810
ECL allowances as at 31.12.2021	**1,434,772**	**1,285**	**4,026,645**	**-**	**5,462,702**

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2021	**387,327**	**-**	**1,633,635**	**-**	**2,020,962**
New assets originated or purchased	775,055	-	-	-	775,055
Assets increase[1]	463,953	-	104,511	-	568,464
Assets repaid	(892,373)	-	(969,166)	-	(1,861,539)
Amounts written off	(309)	-	-	-	(309)
Accrued interest	551	-	-	-	551
Foreign exchange adjustments	659	-	(13)	-	646
Gross carrying amount as at 31.12.2021	**734,863**	**-**	**768,967**	**-**	**1,503,830**

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2021	**20,371**	**-**	**981,900**	**-**	**1,002,271**
New assets originated or purchased	18,239	-	-	-	18,239
Assets increase[1]	29,354	-	155	-	29,509
Assets repaid	(49,858)	-	(474,014)	-	(523,872)
Change in methodology	(2,040)	-	(153)	-	(2,193)
Amounts written off	(309)	-	-	-	(309)
Foreign exchange adjustments	29	-	1	-	30
ECL allowances as at 31.12.2021	**15,786**	**-**	**507,889**	**-**	**523,675**

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

13. Loans and advances to customers *(cont'd)*

Mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2021	**81,053**	**-**	**-**	**-**	**81,053**
Assets increase[1]	108,964	-	-	-	108,964
Assets repaid	(65,643)	-	-	-	(65,643)
Interest accrued	236	-	-	-	236
Foreign exchange adjustments	2,068	-	-	-	2,068
Gross carrying amount as at 31.12.2021	**126,678**	**-**	**-**	**-**	**126,678**

Mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2021	**1,029**	**-**	**-**	**-**	**1,029**
Assets increase[1]	1,510	-	-	-	1,510
Assets repaid	(413)	-	-	-	(413)
Change in methodology	(422)	-	-	-	(422)
Foreign exchange adjustments	10	-	-	-	10
ECL allowances as at 31.12.2021	**1,714**	**-**	**-**	**-**	**1,714**

The Bank's independent Risk Managment Department operates its internal rating models in which its customers in its loan portfolio are rated from A (high quality loans) to F (bad quality laons, mostly 3 stage loans internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour.

The table below analyzes the changes in the gross balance sheet value and the relevant provisions for the Bank's loans and advances in the year ending on December 31, 2022.

	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers, gross	**90,736,345**	**13,909,335**	**9,932,460**	**-**	**114,578,140**
A	10,191,545	-	-	-	10,191,545
B	47,573,531	2,178,447	-	-	49,751,978
C	32,970,269	3,731,617	-	-	36,701,886
D	-	7,999,271	-	-	7,999,271
E	-	-	-	-	-
F	-	-	9,932,448	-	9,932,448
Bez reitinga	1,000	-	12	-	1,012
Allowances for loan impairment	**1,487,348**	**623,320**	**1,675,677**	**-**	**3,786,345**
A	121,345	-	-	-	121,345
B	847,186	31,874	-	-	879,060
C	518,777	178,899	-	-	697,676
D	-	412,547	-	-	412,547
E	-	-	-	-	-
F	-	-	1,675,665	-	1,675,665
Bez reitinga	40	-	12	-	52

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

Notes to the financial statements *(cont'd)*

13. Loans and advances to customers *(cont'd)*

The table below analyzes the changes in the gross balance sheet value and the corresponding provisions for the Bank's loans and advances in the year that ended on December 31, 2021.

	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers, gross	**77,609,823**	**28,596**	**7,780,621**	**3,828,144**	**89,247,184**
A	11,443,613	-	-	-	11,443,613
B	27,366,518	28,596	-	-	27,395,114
C	38,799,670	-	-	-	38,799,670
D	-	-	-	-	-
E	-	-	-	-	-
F	-	-	7,780,621	-	7,780,621
Bez reitinga	22	-	-	3,828,144	3,828,166
Allowances for loan impairment	**1,452,273**	**1,285**	**4,534,533**	**-**	**5,988,091**
A	164,887	-	-	-	164,887
B	613,568	1,285	-	-	614,853
C	673,817	-	-	-	673,817
D	-	-	-	-	-
E	-	-	-	-	-
F	-	-	4,534,533	-	4,534,533
Bez reitinga	1	-	-	-	1

Risk concentration in the loan portfolio by industry profile:

	31.12.2022 Group EUR	%	31.12.2022 Bank EUR	%	31.12.2021 Group EUR	%	31.12.2021 Bank EUR	%
Construction and transactions with real estate	52,142,292	45,51	52,142,292	45,51	27,665,247	31,00	27,665,247	31,00
Trade and commercial activities	28,203,549	24,60	28,203,549	24,60	25,965,698	29,09	25,965,698	29,09
Other	10,409,982	9,09	10,409,982	9,09	9,353,581	10,48	9,353,581	10,48
Transport and communications	6,056,302	5,30	6,056,302	5,30	14,328,439	16,05	14,328,439	16,05
Financial services	6,390,862	5,58	6,390,862	5,58	6,953,492	7,79	6,953,492	7,79
Tourism and hotel services, restaurant business	3,725,700	3,25	3,725,700	3,25	2,640,415	2,96	2,640,415	2,96
Manufacturing	2,816,515	2,46	2,816,515	2,46	607,462	0,68	607,462	0,68
Forestry and logging	2,383,595	2,08	2,383,595	2,08	224,775	0,25	224,775	0,25
Private individuals	1,814,434	1,58	1,814,434	1,58	420,241	0,47	420,241	0,47
Agriculture and food industry	634,909	0,55	634,909	0,55	1,073,730	1,20	1,073,730	1,20
Information and communications services	-	-	-	-	14,104	0,03	14,104	0,03
Total loans and advances to customers (gross)	**114,578,140**	**100,00**	**114,578,140**	**100,00**	**89,247,184**	**100,00**	**89,247,184**	**100,00**
Allowances for loan impairment	(5,223,605)	-	(5,223,605)	-	(5,988,091)	-	(5,988,091)	-
Total loans and advances to customers, net	**109,354,535**	**-**	**109,354,535**	**-**	**83,259,093**	**-**	**83,259,093**	**-**

As at 31 December 2022, the total amount of loans issued to top 10 Group's and Bank's customers was EUR 63,823,433 (2021: EUR 46,895,769), which formed 57.61% of the total loan portfolio (2021: 52.55%).

13. Loans and advances to customers *(cont'd)*

The analysis of the Group's and Bank's collateral as at 31 December 2022:

	Assets with collateral value exceeding the loan balance		Assets with insufficient collateral	
	Carrying amount (gross)	Recoverable amount of collateral	Carrying amount (gross)	Recoverable amount of collateral
	EUR	EUR	EUR	EUR
Loans to legal entities	102,657,341	182,863,195	8,953,047	4,279,171
Loans to individuals – consumer loans	2,753,096	12,974,233	90,306	-
Mortgages	124,352	256,648	-	-
Total	**105,534,789**	**196,094,076**	**9,043,353**	**4,279,171**

The analysis of the Group's and Bank's collateral as at 31 December 2021:

	Assets with collateral value exceeding the loan balance		Assets with insufficient collateral	
	Carrying amount (gross)	Recoverable amount of collateral	Carrying amount (gross)	Recoverable amount of collateral
	EUR	EUR	EUR	EUR
Loans to legal entities	84,162,461	163,561,649	3,454,213	3,275,759
Loans to individuals – consumer loans	1,275,503	10,857,101	81,254	-
Mortgages	126,678	234,481	147,074	-
Total	**85,564,642**	**174,653,231**	**3,682,541**	**3,275,759**

14. Financial assets at fair value through profit or loss

	31.12.2022	31.12.2022	31.12.2021	31.12.2021
	Group	Bank	Group	Bank
	EUR	EUR	EUR (restated)	EUR(restated)
Latvian government bonds	-	-	375,058	375,058
Non-OECD government bonds	49,447	49,447	-	-
OECD corporate bonds	-	-	1,224,358	1,224,358
Quoted shares	6,820	6,820	4,617	4,617
Unquoted shares	133,734	133,734	238,895	238,895
	190,001	**190,001**	**1,842,928**	**1,842,928**

On 30 September 2022, the Bank made a correction of error and reclassified Visa Inc. Series C Convertible Participating Preferred Stock with the carrying amount of EUR 188,972 and VISA INC-CLASS A SHARES with the carrying amount of EUR 0.00 from financial assets at fair value through other comprehensive income (FVOCI) to financial assets at fair value through profit or loss (FVPL) (see also Note 3(b)).

The analysis of the Group's and Bank's securities by issuers' ratings:

Ratings	31.12.2022 Securities		31.12.2021 Securities	
	EUR	%	EUR (restated)	%
Aaa to Aa3	132,172	69.57%	545,163	29.58%
A1 to A3	-	-	1,289,871	69.99%
Ba1 to Ba3	8,382	4.41%	-	-
B1 to B3	-	-	7,894	0.43%
Caa1 to Caa3	49,447	26.02%	-	-
	190,001	**100%**	**1,842,928**	**100%**

15. Debt instruments at fair value through other comprehensive income

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
OECD government bonds	125,705,520	125,705,520	30,902,143	30,902,143
	125,705,520	**125,705,520**	**30,902,143**	**30,902,143**

The analysis of the Group's and Bank's securities by issuers' ratings:

Ratings	31.12.2022 Securities EUR	%	31.12.2021 Securities EUR	%
Aaa to Aa3	125,705,520	100%	30,902,143	100%
	125,705,520	**100%**	**30,902,143**	**100%**

The table below shows changes in the carrying amounts of the Group's and Bank's debt instruments designated at fair value through other comprehensive income in the year ended 31 December 2022:

	Stage 1	Stage 2	Stage 3	Total
Fair value at 1 January 2022	**30,902,143**	**-**	**-**	**30,902,143**
New assets originated or purchased	419,038,965	-	-	419,038,965
Assets repaid	(330,975,282)	-	-	(330,975,282)
Changes in fair value	12,244	-	-	12,244
Foreign exchange adjustments	6,727,450	-	-	6,727,450
Fair value at 31 December 2022	**125,705,520**	**-**	**-**	**125,705,520**

The table below shows changes in the ECL allowances for the Group's and Bank's debt instruments designated at fair value through other comprehensive income in the year ended 31 December 2022:

	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 1 January 2022	**3,090**	**-**	**-**	**3,090**
New assets originated or purchased	42,197	-	-	42,197
Assets repaid	(33,422)	-	-	(33,422)
Foreign exchange adjustments	681	-	-	682
ECL allowances as at 31 December 2022	**12,546**	**-**	**-**	**12,546**

The table below shows changes in the carrying amounts of the Group's and Bank's debt instruments designated at fair value through other comprehensive income in the year ended 31 December 2021:

	Stage 1	Stage 2	Stage 3	Total
Fair value at 1 January 2021	**46,448,754**	**-**	**-**	**46,448,754**
New assets originated or purchased	120,078,897	-	-	120,078,897
Assets repaid	(137,218,273)	-	-	(137,218,273)
Changes in fair value	(391)	-	-	(391)
Foreign exchange adjustments	1,593,156	-	-	1,593,156
Fair value at 31 December 2021	**30,902,143**	**-**	**-**	**30,902,143**

The table below shows changes in the ECL allowances for the Group's and Bank's debt instruments designated at fair value through other comprehensive income in the year ended 31 December 2021:

	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 1 January 2021	**4,644**	**-**	**-**	**4,644**
New assets originated or purchased	12,006	-	-	12,006
Assets repaid	(13,732)	-	-	(13,732)
Foreign exchange adjustments	172	-	-	172
ECL allowances as at 31 December 2021	**3,090**	**-**	**-**	**3,090**

16. Investment in subsidiary

SIA Grunewald Residence

At the end of 2017, within the framework of the debt recovery procedure against a Bank's borrower, the subsidiary SIA Grunewald Residence acquired real estate, namely a land plot with buildings in an exclusive district of Berlin, Germany. The acquisition was carried out with a view to developing and selling the property. The property was encumbered with lease agreements; moreover, individual lessees had entered into sub-lease agreements. All litigations ended in favor of the subsidiary and the property had been taken over before April 2021. On 6 April 2021, the said property was sold for EUR 26,500,000, thus leaving an impact on the Group's cash flows from other operating income (see also the consolidated statement of cash flows). As a result, SIA Grunewald Residence gained a profit of EUR 13,422,625, thus leaving an impact on the Group's profit from the sale of foreclosed assets (see also Note 9). According to the German laws, SIA Grunewald Residence paid tax of EUR 1,892,281 for the said transaction in Germany in December 2021 (see also Note 10).

On 9 June 2021, the shareholders of the Bank's subsidiary resolved to reduce the share capital of SIA Grunewald Residence from EUR 9,190,000 to EUR 9,190. On 12 August 2021, the said reduction was registered with the Enterprise Register of the Republic of Latvia. On the basis of this decision, SIA Grunewald Residence repaid the shareholders' contribution of EUR 9,180,810, and based on the amount of owned shares, EUR 6,093,900 was paid to the Bank and EUR 3,086,910 was paid to the non-controlling interests, thus leaving an impact on the Group's and Bank's cash flows from investing activities (see also the consolidated and Bank's statement of cash flows).

In September 2021, the non-controlling interests of SIA Grunewald Residence expressed their wish to receive proceeds due to them from the sale of the real estate as soon as possible. Consequently, an agreement was reached and the Bank acquired the shares from both companies for EUR 4,559,200 (EUR 3,090 in total), thereby obtaining the 100% equity interest in SIA Grunewald Residence and, accordingly, the full right to distributable profits of the company, thus leaving an impact on the Group's and Bank's cash flows from financing activities (see also the consolidated and Bank's statement of cash flows).

On 22 December 2021, the Bank as the sole shareholder of the subsidiary resolved to pay extraordinary dividends of EUR 10,000,000 from the profit of SIA Grunewald Residence, thus leaving an impact on Bank's cash flows from investing activities (see also the Bank's statement of cash flows). As a result of the profit distribution, impairment of the investment in the subsidiary amounting to EUR 3,981,328 was recognized by the Bank, thus leaving an impact on the Group's and Bank's other expense (see also Note 9).

By the end of the year 2021, SIA Grunewald Residence had paid out the entire retained earnings and extraordinary dividends to the Bank as its sole shareholder. As a result of the dividend payment, SIA Grunewald Residence calculated corporate income tax of EUR 2,488,002, whereto relief was applied for the tax of EUR 1,892,281 paid in Germany, with the corporate income tax liability of EUR 595,721 recognized at the year end. This affected the Group's corporate income tax (see also Note 10).

On 16 May 2022, the Bank decided to initiate liquidation of SIA Grunewald Residence, which was therefore liquidated and removed from the commercial register based on the decision of 15 July 2022.

SIA Grunewald Residence paid a liquidation quota of EUR 556,399 to the Bank as its sole shareholder, and the payment was recognized by the Bank as dividend income, which affected the Group's corporate income tax (see also Note 10). As a result of the liquidation of the company, impairment of the investment in the subsidiary amounting to EUR 574,782 has been recognized by the Bank and the investment has been derecognized (see also Note 9).

16. Investment in subsidiary *(cont'd)*

The table below discloses the Bank's investment in its subsidiary as at 31 December 2021.

Company	Address	Share capital	Bank's interest	Equity	Assets as at 31.12.2021	Profit for the reporting year
Grunewald Residence SIA	Jura Alunāna iela 2, Riga, LV-1010	9,190	100.00%	710,290	1,413,089	701,100

17. Intangible assets

Changes in the Group's and Bank's intangible assets in 2022 and 2021 can be specified as follows:

	Software 2022 EUR	Pre-payments 2022 EUR	Total software 2022 EUR	Software 2021 EUR	Pre-payments 2021 EUR	Total software 2021 EUR
Cost						
At the beginning of the year	2,514,737	122,674	2,637,411	2,328,633	109,619	2,438,252
Additions	193,595	-	193,595	186,104	13,055	199,159
Disposals	-	(30,081)	(30,081)	-	-	-
At the end of the year	**2,708,332**	**92,593**	**2,800,925**	**2,514,737**	**122,674**	**2,637,411**
Amortization						
Accumulated amortization at the beginning of the year	2,161,985	-	2,161,985	2,001,164	-	2,001,164
Charge for the year	142,876	-	142,876	160,821	-	160,821
Disposals	-	-	-	-	-	-
Accumulated amortization at the end of the year	**2,304,861**	**-**	**2,304,861**	**2,161,985**	**-**	**2,161,985**
Net carrying amount at the beginning of the year	**352,752**	**122,674**	**475,426**	**327,469**	**109,619**	**437,088**
Net carrying amount at the end of the year	**403,471**	**92,593**	**496,064**	**352,752**	**122,674**	**475,426**

As at 31 December 2022, a number of assets that had been fully amortized were still in active use. The original cost value of these assets was EUR 2,097,587 (31 December 2021: EUR 1,699,979).

Intangible assets are amortized over their estimated useful lives, not exceeding five years, on a straight-line basis and disclosed under the amortization and depreciation caption of the statement of comprehensive income.

18. Property and equipment, and right-of-use assets

Changes in the Group's and Bank's property and equipment in 2022 can be specified as follows:

	Land and building EUR	Vehicles EUR	Computers EUR	Office equipment EUR	Other assets EUR	Total EUR
Cost or revalued amount as at 31.12.2021	**13,335,000**	**65,179**	**1,082,195**	**650,125**	**100,927**	**15,233,426**
Additions	-	31,050	67,097	1,119	-	99,266
Disposals	-	-	-	-	-	-
As at 31.12.2022	**13,335,000**	**96,229**	**1,149,292**	**651,244**	**100,927**	**15,332,692**
Depreciation as at 31.12.2021	**603,596**	**65,179**	**1,061,139**	**601,241**	**79,512**	**2,410,667**
Disposals	-	-	-	-	-	-
Charge for 2022	150,899	1,553	25,891	14,859	6,116	199,318
As at 31.12.2022	**754,495**	**66,732**	**1,087,030**	**616,100**	**85,628**	**2,609,985**
Net carrying amount as at 31.12.2021	**12,731,404**	**-**	**21,056**	**48,884**	**21,415**	**12,822,759**
Net carrying amount as at 31.12.2022	**12,580,505**	**29,497**	**62,262**	**35,144**	**15,299**	**12,722,707**

As at 31 December 2022, a number of assets that had been fully depreciated were still in active use. The total original cost value of these assets as at the end of the year was EUR 1,679,922 (31 December 2021: EUR 1,670,844).

Depreciation is calculated on a straight-line basis over the estimated useful life of a respective asset category applying depreciation rates established by the management and disclosed under the amortization and depreciation caption of the statement of comprehensive income.

The Bank updated the value of the building on the basis of the opinion drawn up by an independent certified valuator in accordance with international standards. The fair value was determined on the basis of the valuation of 22 November 2021, which used the comparable sales approach and the income approach for defining the market value. Under the income approach, cash flows were discounted and the capitalization rate of 5.7% was used. The forecasts were based on rental income. As a result of the revaluation, the Bank's building value was set at EUR 12.848 million. The independent certified valuator confirmed that the value of the property had neither decreased nor increased at the end of 2022 and value was set at EUR 12.848 million (cost of acquisition in 2015 was 14,825 milj. EUR).

The Group and the Bank have entered into lease agreements on premises that are used in their business activities. The leases term is three to five years. The Group's and Bank's liabilities are secured with the leased assets (see also Note 22). The Group has also several car lease agreements for 12 months or less and low-value office equipment lease agreements. The Group applies the short-term lease and low-value asset lease recognition exemption to the said lease agreements.

The carrying amounts of right-of-use assets recognized and their movements:

	Premises EUR	Total EUR
Right-of-use assets as at 31 December 2021	**50,172**	**50,172**
Additions	11,088	11,088
Decrease		
Depreciation expense	(32,632)	(32,632)
Foreign exchange adjustments	(1,062)	(1,062)
Right-of-use assets as at 31 December 2022	**27,566**	**27,566**

18. Property and equipment, and right-of-use assets *(cont'd)*

Changes in the Group's and Bank's property and equipment in 2021 can be specified as follows:

	Land and building EUR	Vehicles EUR	Computers EUR	Office equipment EUR	Other assets EUR	Pre-payments EUR	Total EUR
Cost as at 31.12.2020	**13,335,000**	**65,179**	**1,059,562**	**658,499**	**100,927**	**23,900**	**15,243,067**
Additions	-	-	24,875	156	-	-	25,031
Disposals	-	-	(2,242)	(8,530)	-	-	(10,772)
Reclassified	-	-	-	-	-	(23,900)	(23,900)
As at 31.12.2021	**13,335,000**	**65,179**	**1,082,195**	**650,125**	**100,927**	**-**	**15,233,426**
Depreciation as at 31.12.2020	**452,697**	**65,179**	**1,050,504**	**594,252**	**73,396**	**-**	**2,236,028**
Disposals	-	-	(1,821)	(8,530)	-	-	(10,351)
Charge for 2021	150,899	-	12,456	15,519	6,116	-	184,990
As at 31.12.2021	**603,596**	**65,179**	**1,061,139**	**601,241**	**79,512**	**-**	**2,410,667**
Net carrying amount as at 31.12.2020	**12,882,303**	**-**	**9,058**	**64,247**	**27,531**	**23,900**	**13,007,039**
Net carrying amount as at 31.12.2021	**12,731,404**	**-**	**21,056**	**48,884**	**21,415**	**-**	**12,822,759**

As at 31 December 2021, a number of assets that had been fully depreciated were still in active use. The total original cost value of these assets as at the end of the year was EUR 1,670,844 (31 December 2020: EUR 1,709,491).

Depreciation is calculated on a straight-line basis over the estimated useful life of a respective asset category applying depreciation rates established by the management and disclosed under the amortization and depreciation caption of the statement of comprehensive income.

At the end of the year 2021, the Bank revaluated the building on the basis of a valuation carried out by an independent certified valuator in accordance with international standards. The fair value of the building was determined using the comparable sales approach and the income approach. Under the income approach, the direct capitalization rate of 5.7% was used. The forecasts were based on rental income. As a result of the revaluation, the Bank's building value was set at EUR 12.848 million. Given that the difference between the carrying amount and the determined market value is insignificant, the Bank's management decided not to revalue the property.

The Group and the Bank have entered into lease agreements on premises that are used in their business activities. The leases term is three to five years. The Group's and Bank's liabilities are secured with the leased assets (see also Note 22). The Group has also several car lease agreements for 12 months or less and low-value office equipment lease agreements. The Group applies the short-term lease and low-value asset lease recognition exemption to the said lease agreements.

Set out below are the carrying amounts of right-of-use assets recognized and their movements:

	Premises EUR	Total EUR
Right-of-use assets as at 31 December 2020	**85,714**	**85,714**
Additions	-	-
Decrease	(3,607)	(3,607)
Depreciation expense	(32,422)	(32,422)
Foreign exchange adjustments	487	487
Right-of-use assets as at 31 December 2021	**50,172**	**50,172**

Notes to the financial statements *(cont'd)*

18. Property and equipment, and right-of-use assets *(cont'd)*

The amounts recognized in the statement of comprehensive income in 2022 and 2021:

	2022	2021
	EUR	EUR
Depreciation expense of right-of-use assets	(32,632)	(32,422)
Interest expense on lease liabilities	(592)	(292)
Total amount recognized in the statement of comprehensive income	**(33,224)**	**(32,714)**

In 2022, the Group and the Bank had total cash outflows for leases of EUR 33,643 (2021: EUR 36,661).

19. Other assets

Other assets in breakdown between financial assets and non-financial assets can be specified as follows:

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
Financial assets, incl.:	1,465,579	1,465,579	2,383,901	2,367,975
– security deposits	1,295,484	1,295,484	1,191,610	1,191,610
– accounts receivable	60,064	60,064	700,710	700,710
– interbank settlements in progress	-	-	440,960	440,960
– other financial assets	110,031	110,031	50,621	34,695
Non-financial assets	1,509,865	1,509,865	2,449,979	2,449,979
– repossessed collateral	476,784	476,784	686,526	686,526
– investment gold	1,033,081	1,033,081	1,763,453	1,763,453
Total other assets, gross	**2,975,444**	**2,975,444**	**4,833,880**	**4,817,954**
Impairment allowances for other financial assets	(34,747)	(34,747)	(41,323)	(41,323)
Total other assets, net:	**2,940,697**	**2,940,697**	**4,792,557**	**4,776,631**

The analysis of the Group's changes in other financial assets as at 31 December 2022:

	Stage 1	Stage 2	Stage 3	Total
Financial assets as at 01.01.2022	**2,348,191**	**-**	**35,710**	**2,383,901**
New assets originated or purchased	1,648,085	-	-	1,648,085
Assets repaid	(2,216,127)	-	(367,294)	(2,583,421)
Transfers to Stage 3	(367,781)	-	367,781	-
Amounts written off	-	-	(2,325)	(2,325)
Foreign exchange adjustments	18,033	-	1,306	19,339
Financial assets as at 31.12.2022	**1,430,401**	**-**	**35,178**	**1,465,579**

The analysis of the Bank's changes in other financial assets as at 31 December 2022:

	Stage 1	Stage 2	Stage 3	Total
Financial assets as at 01.01.2022	**2,332,265**	**-**	**35,710**	**2,367,975**
New assets originated or purchased	1,648,085	-	-	1,648,085
Assets repaid	(2,200,201)	-	(367,294)	(2,567,495)
Transfers to Stage 3	(367,781)	-	367,781	-
Amounts written off	-	-	(2,325)	(2,325)
Foreign exchange adjustments	18,033	-	1,306	19,339
Financial assets as at 31.12.2022	**1,430,401**	**-**	**35,178**	**1,465,579**

19. Other assets *(cont'd)*

The analysis of changes in ECL allowances for other financial assets in the year ended 31 December 2022:

	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 1 January 2022	**5,613**	**-**	**35,710**	**41,323**
New assets originated or purchased	-	-	375,132	375,132
Assets repaid	(5,490)	-	(375,344)	(380,834)
Amounts written off	-	-	(2,325)	(2,325)
Foreign exchange adjustments	2	-	1,449	1,451
ECL allowances as at 31 December 2022	**125**	**-**	**34,622**	**34,747**

Notes to the financial statements *(cont'd)*

The analysis of the Group's changes in other financial assets as at 31 December 2021:

	Stage 1	Stage 2	Stage 3	Total
Financial assets as at 01.01.2021	**2,097,116**	**1,277**	**44,955**	**2,143,348**
New assets originated or purchased	2,674,613	2,490	347,276	3,024,379
Assets repaid	(2,511,442)	(3,203)	(352,260)	(2,866,905)
Transfers to Stage 3	(4,647)	(564)	5,211	-
Amounts written off			(10,941)	
Foreign exchange adjustments	92,551	-	1,469	94,020
Financial assets as at 31.12.2021	**2,348,191**	**-**	**35,710**	**2,394,842**

The analysis of the Bank's changes in other financial assets as at 31 December 2021:

	Stage 1	Stage 2	Stage 3	Total
Financial assets as at 01.01.2021	**1,745,481**	**1,277**	**44,955**	**1,791,713**
New assets originated or purchased	2,674,613	2,490	347,276	3,024,379
Assets repaid	(2,175,733)	(3,203)	(352,260)	(2,531,196)
Transfers to Stage 3	(4,647)	(564)	5,211	-
Amounts written off			(10,941)	(10,941)
Foreign exchange adjustments	92,551	-	1,469	94,020
Financial assets as at 31.12.2021	**2,332,265**	**-**	**35,710**	**2,367,975**

The analysis of changes in ECL allowances for other financial assets in the year ended 31 December 2021:

	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 1 January 2021	**22,327**	**-**	**29,357**	**51,684**
New assets originated or purchased	313,425	-	-	313,425
Assets repaid	(313,791)	-	(322)	(314,113)
Transfers to Stage 3	(16,464)	-	16,464	-
Amounts written off	-	-	(10,941)	(10,941)
Foreign exchange adjustments	116	-	1,152	1,268
ECL allowances as at 31 December 2021	**5,613**	**-**	**35,710**	**41,323**

The Group and the Bank treat as non-financial those assets which have been obtained through repossessing collateral that has served as security for loans and is intended for sale. The repossessed assets include private properties in Ukraine. Non-financial assets are stated as inventories at the lower of cost and net realizable value, which is determined on the basis of the valuation carried out by an independent certified valuator in accordance with international standards. According to opinions issued by independent certified valuators, the net realizable value of repossessed collateral exceeds their carrying amount.

19. Other assets *(cont'd)*

The table below summarizes methods used by the Group and the Bank in determining the net realizable value of non-financial assets in 2022.

No	Property	Municipality	City	Carrying amount EUR	Methods used in net realizable value measurement
1	Office	Odessa	Odessa	476,784	Market (comparables) approach
Total assets repossessed by the Bank and the Group				476,784	

The table below summarizes methods used by the Group and the Bank in determining the net realizable value of non-financial assets in 2021.

No	Property	Municipality	City	Carrying amount EUR	Methods used in net realizable value measurement
1	Apartment	Riga	Riga	174,300	Market (comparables) approach
2	Office	Odessa	Odessa	512,226	Market (comparables) approach
Total assets repossessed by the Bank and the Group				686,526	

20. Cash and cash equivalents

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
Cash and balances with the Bank of Latvia (see Note 11)	141,152,295	141,152,295	82,908,492	82,908,492
Balances due from other banks with an original maturity of three months or less	1,158,983	1,158,983	8,359,033	8,359,033
Total	**142,311,278**	**142,311,278**	**91,267,525**	**91,267,525**

21. Deposits from customers

(a) Analysis of deposits by customer profile

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
Legal entities				
– current/settlement accounts	226,541,604	226,541,604	133,383,379	134,780,542
– term deposits	6,081,172	6,081,172	10,025,208	10,025,208
Private individuals				
– current/settlement accounts	108,328,893	108,328,893	54,425,974	54,425,974
– term deposits	2,571,041	2,571,041	10,498,599	10,498,599
Total deposits from customers:	**343,522,710**	**343,522,710**	**208,333,160**	**209,730,323**
Sector:				
Private companies	177,839,307	177,839,307	110,081,620	111,478,783
Private individuals	110,899,934	110,899,934	64,924,573	64,924,573
Financial institutions	35,920,064	35,920,064	32,925,913	32,925,913
Captive financial institutions and money lenders	18,509,006	18,509,006	94,464	94,464
Non-profit organizations	354,399	354,399	306,590	306,590
Total deposits from customers:	**343,522,710**	**343,522,710**	**208,333,160**	**209,730,323**

21. Deposits from customers *(cont'd)*

(b) Analysis of deposits by place of residence

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
Residents	123,809,972	123,809,972	60,718,350	62,115,513
Non-residents	219,712,738	219,712,738	147,614,810	147,614,810
Total deposits from customers:	**343,522,710**	**343,522,710**	**208,333,160**	**209,730,323**

In 2022, the average interest rate on term deposits was 0.41% (2021: 1.22%) and the average interest rate on demand deposits was -0.09% (2021: -0.08%). All deposits bear a fixed interest rate.

Deposits from customers by industry can be specified as follows:

	31.12.2022 Group EUR	%	31.12.2022 Bank EUR	%	31.12.2021 Group EUR	%	31.12.2021 Bank EUR	%
Financial and insurance services	126,307,699	36.77	126,307,699	36.77	77,325,367	37.12	77,325,367	36.87
Private individuals	110,899,934	32.28	110,899,934	32.28	64,924,573	31.16	64,924,573	30.96
Trade and commercial activities	55,947,425	16.29	55,947,425	16.29	44,905,992	21.55	44,905,992	21.41
Construction and real estate	18,933,701	5.51	18,933,701	5.51	14,611,309	7.02	16,008,472	7.63
Other	15,370,928	4.47	15,370,928	4.47	1,665,458	0.80	1,665,458	0.79
Transport and communications	8,105,379	2.36	8,105,379	2.36	4,108,245	1.97	4,108,245	1.96
Manufacturing	4,697,613	1.37	4,697,613	1.37	479,737	0.23	479,737	0.23
Agriculture and food industry	3,260,031	0.95	3,260,031	0.95	312,479	0.15	312,479	0.15
Total deposits from customers	**343,522,710**	**100**	**343,522,710**	**100**	**208,333,160**	**100**	**209,730,323**	**100**

As at 31 December 2022, the total amount of deposits attributable to top 20 depositors was EUR 239,866,062 (31 December 2021: EUR 145,334,195), constituting 69.83% of the Bank's portfolio (31 December 2021: 69.30%).

22. Other financial liabilities

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
Liability suspense account*	3,217	3,217	199,839	199,839
Settlements on behalf of a closed bank	16,585	16,585	16,585	16,585
Accounts payable	107,331	107,331	138,741	28,612
Lease liabilities	27,849	27,849	50,285	50,285
	154,982	**154,982**	**405,450**	**295,321**

* The liability suspense account as at 31 December 2022 and 31 December 2021 includes the amounts erroneously transferred to the Bank, which were returned to the senders at the beginning of 2023 and 2022 respectively.

22. Other financial liabilities *(cont'd)*

Set out below are the carrying amounts of lease liabilities and their movements:

	2022 Premises EUR	2022 Total EUR	2021 Premises EUR	2021 Total EUR
Lease liabilities as at 1 January	**50,285**	**50,285**	**86,266**	**86,266**
Increase	11,088	11,088	-	-
Payments	(33,643)	(33,643)	(36,661)	(36,661)
Foreign exchange adjustments	119	119	680	680
Lease liabilities as at 31 December	**27,849**	**27,849**	**50,285**	**50,285**

23. Deferred income and accrued expense

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
Vacation pay reserve	560,882	560,882	544,150	544,150
Accrual for the guarantee fund and Regulator's financing	186,101	186,101	87,281	87,281
Statutory social insurance contributions	126,337	126,337	121,752	121,752
Deferred income	10,289	10,289	36,202	36,202
Other accrued expense	195,264	195,264	45,641	45,641
	1,078,873	**1,078,873**	**835,026**	**835,026**

24. Derivative financial instruments

The Group and the Bank use the following derivative financial instruments: currency forwards – agreements on currency acquisition in the future, currency swaps – commitments to exchange one set of cash flow for another. The Group and Bank's credit risk represents the potential cost to replace forward contracts if the counterparties fail to perform their obligations. To control the level of credit risk taken, the Group and the Bank assess counterparty risk using the same techniques as for their lending activities.

The notional amounts of financial instruments provide a basis for comparison with instruments recognized on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, therefore, they cannot be used for determining the level of the Group and Bank's exposure to credit risk or market risk. Derivative financial instruments become favorable or unfavorable as a result of fluctuations in market interest rates or foreign exchange rates.

As at 31 December 2022 and 31 December 2021, the Group and the Bank had no derivative financial instruments.

25. Share capital

As at 31 December 2022, the Bank's issued and fully paid share capital was EUR 32,334,756 (31 December 2021: EUR 32,334,756). The nominal value of one share is EUR 1.00 (31 December 2021: EUR 1.00). All shares are ordinary registered shares with voting rights. One share is one vote.

On 27 April 2016, the denomination of the share capital from the lats to the euro was registered. As a result of the denomination, a difference of EUR 6 was included in equity under reserves.

25. Share capital *(cont'd)*

The shareholders of the Bank as at 31 December 2022 and 31 December 2021:

	31.12.2022 EUR	%	31.12.2021 EUR	%
SIA SKY Investment Holding	14,228,717	44.00	14,228,717	44.00
Yuriy Rodin	10,915,756	33.76	6,466,198	20.00
AB Pivdenny	-	-	4,449,558	13.76
Mark Bekker	3,418,808	10.57	3,418,808	10,57
Other shareholders (with less than 10% of shares)	3,771,475	11.67	3,771,475	11,67
Total paid share capital	**32,334,756**	**100%**	**32,334,756**	**100%**

26. Off-balance items and encumbered assets

Contingent liabilities

Contingent liabilities can be specified as follows:

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
Financial guarantees	4,769,891	4,769,891	6,438,144	6,438,144
Irrevocable letters of credit	176,573	176,573	485,621	485,621
Non-financial guarantees	84,516	84,516	108,618	108,618
Total contingent liabilities	**5,030,980**	**5,030,980**	**7,032,383**	**7,032,383**

Financial guarantees are contracts that provide for compensation in the event of a default by another party. Such contracts involve credit risk of default. Financial guarantees are subject to an assessment of expected credit losses. For financial guarantee contracts, the Group and the Bank take into account changes in the risk that the particular debtor might default on its contractual obligations.

The analysis of changes in financial guarantees in the year ended 31 December 2022:

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
Financial guarantees as at 01.01.2022	**6,438,144**	**-**	**-**	**6,438,144**
New assets originated or purchased	5,390,746	-	-	5,390,746
Decrease	(6,475,097)	(583,902)	-	(7,058,999)
Transfers to Stage 2	(2,624,893)	2,624,893	-	-
Financial guarantees as at 31.12.2022	**2,728,900**	**2,040,991**	**-**	**4,769,891**

The analysis of changes in ECL in the year ended 31 December 2022:

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
ECL as at 01.01.2022	**189,505**	**-**	**-**	**189,505**
New assets originated or purchased	77,990	-	-	77,990
Decrease	(203,833)	(3,933)	-	(207,766)
Transfers to Stage 2	(17,680)	17,680	-	-
Impact on ECL of transfers	-	117,798	-	117,798
ECL as at 31.12.2022	**45,982**	**131,545**	**-**	**177,527**

26. Off-balance items and encumbered assets *(cont'd)*

The analysis of changes in financial guarantees in the year ended 31 December 2021:

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
Financial guarantees as at 01.01.2021	**8,915,845**	**-**	**-**	**8,915,845**
New assets originated or purchased	6,642,117	-	-	6,642,117
Decrease	(9,119,818)	-	-	(9,119,818)
Financial guarantees as at 31.12.2021	**6,438,144**	**-**	**-**	**6,438,144**

The analysis of changes in ECL in the year ended 31 December 2021:

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
ECL as at 01.01.2021	**76,203**	**-**	**-**	**76,203**
New assets originated or purchased	314,590	-	-	314,590
Decrease	(201,288)	-	-	(201,288)
ECL as at 31.12.2021	**189,505**	**-**	**-**	**189,505**

Non-financial guarantees are secured by cash or loans which are blocked or reserved by the Group and the Bank and secure the Group's and Bank's balances due from customers if the guarantee conditions are met.

	31.12.2022. Group EUR	31.12.2022. Bank EUR	31.12.2021. Group EUR	31.12.2021. Bank EUR
Non-financial guarantees as at 01.01.	**108,618**	**108,618**	**634,380**	**634,380**
New assets originated or purchased	-	-	-	-
Decrease	(25,000)	(25,000)	(525,762)	(525,762)
Foreign exchange adjustments	898	898	-	-
Non-financial guarantees as at 31.12.	**84,516**	**84,516**	**108,618**	**108,618**

Financial commitments

The outstanding loan commitments can be specified as follows:

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
Loan commitments	5,600,658	5,600,658	23,279,170	23,279,170
Undrawn credit lines	15,302,016	15,302,016	22,262,688	22,262,688
Total financial commitments	**20,902,674**	**20,902,674**	**45,541,858**	**45,541,858**

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being actually funded.

The loan commitments are denominated in the following currencies:

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
EUR	5,600,658	5,600,658	23,177,100	23,177,100
USD	-	-	102,070	102,070
Total loan commitments	**5,600,658**	**5,600,658**	**23,279,170**	**23,279,170**

26. Off-balance items and encumbered assets *(cont'd)*

The undrawn credit lines are denominated in the following currencies:

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
EUR	12,428,827	12,428,827	13,062,994	13,062,994
USD	2,873,189	2,873,189	9,199,694	9,199,694
Total undrawn credit lines	**15,302,016**	**15,302,016**	**22,262,688**	**22,262,688**

Financial commitments	Stage 1	Stage 2	Stage 3	Total
Financial commitments as at 01.01.2022	**45,449,151**	**-**	**92,707**	**45,541,858**
New assets originated or purchased	61,101,132	-	-	61,101,132
Increase[1]	126,537,828	502,381	247	127,040,456
Decrease	(211,156,598)	(1,927,369)	(258)	(213,084,225)
Transfers to Stage 2	(2,640,375)	2,732,902	(92,527)	-
Foreign exchange adjustments	303,130	492	(169)	303,453
Financial commitments as at 31.12.2022	**19,594,268**	**1,308,406**	**-**	**20,902,674**

The analysis of changes in ECL in the year ended 31 December 2022 can be specified as follows:

Financial commitments	Stage 1	Stage 2	Stage 3	Total
ECL as at 01.01.2022	**725,559**	**-**	**5,747**	**731,306**
New assets originated or purchased	1,106,033	-	-	1,106,033
Increase[1]	1,723,023	58,710	-	1,781,733
Decrease	(3,257,810)	(70,850)	-	(3,328,660)
Transfers to Stage 2	(24,594)	30,330	(5,736)	-
Impact on ECL of transfers	-	52,770	-	52,770
Foreign exchange adjustments	(1,731)	25	(11)	(1,717)
ECL as at 31.12.2022	**270,480**	**70,985**	**-**	**341,465**

Financial commitments	Stage 1	Stage 2	Stage 3	Total
Financial commitments as at 01.01.2021	**13,690,059**	**-**	**32,131**	**13,722,190**
New assets originated or purchased	72,591,719	850,000	-	73,441,719
Increase[2]	125,700,762	-	2,166,479	127,867,241
Decrease	(166,938,179)	-	(2,959,223)	(169,897,402)
Transfers to Stage 3	-	(850,000)	850,000	-
Foreign exchange adjustments	404,790	-	3,320	408,110
Financial commitments as at 31.12.2021	**45,449,151**	**-**	**92,707**	**45,541,858**

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

[2] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

26. Off-balance items and encumbered assets *(cont'd)*

The analysis of changes in ECL in the year ended 31 December 2021 can be specified as follows:

Financial commitments	Stage 1	Stage 2	Stage 3	Total
ECL as at 01.01.2021	**219,495**	**-**	**3,674**	**223,169**
New assets originated or purchased	713,920	309.361	-	1,023,281
Increase[1]	1,639,464	-	76,321	1,715,785
Decrease	(1,830,415)	-	(383,969)	(2,214,384)
Transfers to Stage 3	-	(309,361)	309,361	-
Change in methodology	(23,444)	-	153	(23,291)
Foreign exchange adjustments	6,539	-	207	6,746
ECL as at 31.12.2021	**725,559**	**-**	**5,747**	**731,306**

Encumbered assets

The pledged and restricted assets can be specified as follows:

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
Balances due from banks	-	-	14,501	14,501
Other assets	1,274,988	1,274,988	1,186,195	1,186,195
Total	**1,274,988**	**1,274,988**	**1,200,696**	**1,200,696**

All encumbered assets serve as security for the Group's and Bank's financial liabilities as at 31 December 2022 and 31 December 2021. The carrying amount of encumbered assets approximates to their fair value as at both 31 December 2022 and 31 December 2021.

As at 31 December 2022, the encumbered assets of the Group and the Bank consisted of the following:

- security deposits of EUR 1,259,589 (31 December 2021: EUR 1,186,195) for potential claims from MasterCard Europe SPRL (2021: also Visa Inc.). The agreement with this organization requires ensuring a sufficient amount of resources available in a deposit account with U.S Bank (MasterCard Europe Sprl), (2021: also Lloyds TSB Bank plc (Visa Inc)), which could cover all potential expenses related to the Bank's participation in this organization. The total amount of these encumbered assets was included in other assets;
- security deposits of EUR 15,398 in other assets (31 December 2021: EUR 14,501 in balances due from banks) for letters of credit issued.

27. Capital adequacy

The Group's capital adequacy ratio according to the requirements of the Regulator is calculated as follows:

Description	31.12.2022 EUR	31.12.2021 EUR
Total own funds	**45,488,974**	**46,940,426**
– Tier 1 capital	45,488,974	46,940,426
– Common equity Tier 1 capital	45,488,974	46,940,426
– Tier 2 capital	-	-
Total risk exposure amount	**163,531,982**	**169,545,135**
– Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	146,133,551	147,260,321
– Total risk exposure amount for position, foreign exchange and commodities risks	1,980,874	2,010,051
– Total risk exposure amount for operational risk	15,417,557	20,274,763
– Total exposure amounts for credit valuation adjustment	-	-
Capital adequacy ratios		
– Common equity Tier 1 capital ratio	27.82%	27.69%
– Surplus (+) / Deficit (-) of common equity Tier 1 capital (4.5%)	38,130,035	39,310,895
– Tier 1 capital ratio	27.82%	27.69%
– Surplus (+) / Deficit (-) of Tier 1 capital (6%)	35,677,055	36,767,718
– Total capital ratio	27.82%	27.69%
– Surplus (+) / Deficit (-) of total capital (8%)	32,406,415	33,376,815
– Capital conservation buffer (%)	2.5%	2.5%
– Capital conservation buffer	4,088,300	4,238,628

The Bank's capital adequacy ratio according to the requirements of the Regulator is calculated as follows:

Description	31.12.2022 EUR	31.12.2021 EUR
Total own funds	**45,488,974**	**46,813,524**
– Tier 1 capital	45,488,974	46,813,524
– Common equity Tier 1 capital	45,488,974	46,813,524
– Tier 2 capital	-	-
Total risk exposure amount	**163,531,982**	**169,731,381**
– Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	146,133,551	147,828,367
– Total risk exposure amount for position, foreign exchange and commodities risks	1,980,874	2,010,051
– Total risk exposure amount for operational risk	15,417,557	19,892,963
– Total exposure amounts for credit valuation adjustment	-	-
Capital adequacy ratios		
– Common equity Tier 1 capital ratio	27.82%	27.58%
– Surplus (+) / Deficit (-) of common equity Tier 1 capital (4.5%)	38,130,035	39,175,612
– Tier 1 capital ratio	27.82%	27.58%
– Surplus (+) / Deficit (-) of Tier 1 capital (6%)	35,677,055	36,629,641
– Total capital ratio	27.82%	27.58%
– Surplus (+) / Deficit (-) of total capital (8%)	32,406,415	33,235,014
– Capital conservation buffer (%)	2.5%	2.5%
– Capital conservation buffer	4,088,300	4,243,285

On 28 December 2021, the Regulator recalculated the capital adequacy requirement applicable both individually to the Bank and collectively at the Group level and assessed the total own funds requirement to cover risks at 11.1 per cent, which is the 8 per cent requirement defined in Article 92(1) of EU Regulation No 575/2013 plus 3.1 per cent prescribed by the Regulator for covering P2R, which must constantly be maintained on an individual and consolidated basis. According to paragraph (7) of

27. Capital adequacy *(cont'd)*

Article 101[16] of the Credit Institutions Law, the own funds requirement for covering P2R must be at least 56.25 per cent to be met with common equity Tier 1 capital and 75 per cent to be met with Tier 1 capital. The required capital conservation buffer is 2.5%. The Group and the Bank observed and complied with the capital adequacy requirements set for 2022.

The Group's and Bank's equity ratio and capital adequacy ratio are calculated applying the transitional arrangements to lessen the impact of IFRS 9 on capital ratios according to Regulation No 2017/2395 of the European Parliament and of the Council. Had the transitional arrangements not been applied, the Group's and Bank's capital adequacy ratio as at 31 December 2022 would have been 27.12% un 27.12% (31 December 2021: 26.41% and 26.31%) respectively.

28. Analysis of assets and liabilities by currency profile

The table below provides the analysis of the Group's and Bank's financial assets and liabilities as at 31 December 2022:

	USD EUR	EUR EUR	Other EUR	Total EUR
Financial assets				
Cash and balances with the Bank of Latvia	695,409	140,442,904	-	141,138,313
Balances due from banks	995,590	145,179	18,243	1,159,012
Financial assets at FVPL	64,650	125,351	-	190,001
Debt instruments at FVOCI	125,705,520	-	-	125,705,520
Loans and advances to customers	12,089,325	97,265,210	-	109,354,535
Other financial assets	1,275,100	155,732	-	1,430,832
Prepaid expense	2,161	197,090	349	199,600
Total financial assets	**140,827,755**	**238,331,466**	**18,592**	**379,177,813**
Liabilities				
Balances due to banks	-	4,001,730	-	4,001,730
Deposits from customers	142,526,123	200,946,762	49,825	343,522,710
Other financial liabilities	2,506	152,476	-	154,982
Provisions	73,058	445,934	-	518,992
Deferred income and accrued expense	-	1,051,455	27,418	1,078,873
Current income tax liabilities	-	4,059	-	4,059
Total liabilities	**142,601,687**	**206,602,416**	**77,243**	**349,281,346**
Net long / (short) position for statement of financial position items	*(1,773,932)*	*31,729,050*	*(58,651)*	*29,896,467*
Off-balance sheet receivables arising from foreign exchange contracts	-	-	-	-
Off-balance sheet liabilities arising from foreign exchange contracts	-	-	-	-
Net long / (short) position on foreign exchange	-	-	-	-
Net long / (short) position	**(1,773,932)**	**31,729,050**	**(58,651)**	**29,896,467**
As at 31 December 2021				
Total financial assets	**95,353,797**	**144,020,821**	**431,950**	**239,806,568**
Total liabilities	**95,318,400**	**116,311,940**	**152,785**	**211,783,125**
Net long / (short) position for statement of financial position items	*35,397*	*27,708,881*	*279,165*	*28,023,443*
Off-balance sheet receivables arising from foreign exchange contracts	-	-	-	-
Off-balance sheet liabilities arising from foreign exchange contracts	-	-	-	-
Net long / (short) position on foreign exchange	-	-	-	-
Net long / (short) position	**35,397**	**27,708,881**	**279,165**	**28,023,443**

28. Analysis of assets and liabilities by currency profile *(cont'd)*

The table below provides the analysis of the Group's financial assets and liabilities as at 31 December 2021:

	USD EUR	EUR EUR	Other EUR	Total EUR
Financial assets				
Cash and balances with the Bank of Latvia	506,779	82,393,452	-	82,900,231
Balances due from banks	38,033,154	110,416	250,092	38,393,662
Financial assets at FVPL	627,296	980,014	-	1,607,310
Debt instruments at FVOCI	30,902,143	-	-	30,902,143
Equity instruments at FVOCI	4,617	231,001	-	235,618
Loans and advances to customers	23,650,271	59,608,822	-	83,259,093
Other financial assets	1,629,537	713,042	-	2,342,579
Prepaid expense	-	-	181,858	181,858
Total financial assets	**95,353,797**	**144,036,747**	**431,950**	**239,822,494**
Liabilities				
Deposits from customers	94,985,745	113,225,964	121,451	208,333,160
Other financial liabilities	199,182	206,008	260	405,450
Provisions	133,429	787,381		920,810
Deferred income and accrued expense	44	803,908	31,074	835,026
Current income tax liabilities	-	594,315	-	594,315
Total liabilities	**95,318,400**	**115,617,576**	**152,785**	**211,088,761**
Net long / (short) position for statement of financial position items	*35,397*	*28,419,171*	*279,165*	*28,733,733*
Off-balance sheet receivables arising from foreign exchange contracts	-	-	-	-
Off-balance sheet liabilities arising from foreign exchange contracts	-	-	-	-
Net long / (short) position on foreign exchange	-	-	-	-
Net long / (short) position	**35,397**	**28,419,171**	**279,165**	**28,733,733**
As at 31 December 2020				
Total financial assets	**113,901,744**	**148,450,833**	**2,191,699**	**264,544,276**
Total liabilities	**114,057,119**	**150,008,094**	**479,063**	**264,544,276**
Net long / (short) position for statement of financial position items	*(155,375)*	*(1,557,261)*	*1,712,636*	-
Off-balance sheet receivables arising from foreign exchange contracts	-	-	-	-
Off-balance sheet liabilities arising from foreign exchange contracts	-	-	-	-
Net long / (short) position on foreign exchange	-	-	-	-
Net long / (short) position	***(155,375)***	***(1,557,261)***	***1,712,636***	**-**

28. Analysis of assets and liabilities by currency profile *(cont'd)*

The table below provides the analysis of the Bank's financial assets and liabilities as at 31 December 2021:

	USD EUR	EUR EUR	Other EUR	Total EUR
Assets				
Cash and balances with the Bank of Latvia	506,779	82,393,452	-	82,900,231
Balances due from banks	38,033,154	110,416	250,092	38,393,662
Financial assets at FVPL	627,296	980,014	-	1,607,310
Debt instruments at FVOCI	30,902,143	-	-	30,902,143
Equity instruments at FVOCI	4,617	231,001	-	235,618
Loans and advances to customers	23,650,271	59,608,822	-	83,259,093
Other financial assets	1,629,537	697,116	-	2,326,653
Prepaid expense	-	-	181,858	181,858
Total financial assets	**95,353,797**	**144,020,821**	**431,950**	**239,806,568**
Liabilities				
Deposits from customers	94,985,745	114,623,127	121,451	209,730,323
Other financial liabilities	199,182	95,879	260	295,321
Provisions	133,429	787,381		920,810
Deferred income and accrued expense	44	803,908	31,074	835,026
Current income tax liabilities	-	1,645	-	1,645
Total liabilities	**95,318,400**	**116,311,940**	**152,785**	**211,783,125**
Net long / (short) position for statement of financial position items	*35,397*	*27,708,881*	*279,165*	*28,023,443*
Off-balance sheet receivables arising from foreign exchange contracts	-	-	-	-
Off-balance sheet liabilities arising from foreign exchange contracts	-	-	-	-
Net long / (short) position	**35,397**	**27,708,881**	**279,165**	**28,023,443**
As at 31 December 2020				
Total financial assets	**113,901,744**	**145,978,865**	**2,191,699**	**262,072,308**
Total liabilities	**114,057,119**	**147,536,126**	**479,063**	**262,072,308**
Net long / (short) position for statement of financial position items	*(155,375)*	*(1,557,261)*	*1,712,636*	-
Off-balance sheet receivables arising from foreign exchange contracts	-	-	-	-
Off-balance sheet liabilities arising from foreign exchange contracts	-	-	-	-
Net long / (short) position on foreign exchange	-	-	-	-
Net long / (short) position	***(155,375)***	***(1,557,261)***	***1,712,636***	**-**

29. Analysis of assets and liabilities by maturity profile

The table below provides the analysis of the Group's and Bank's assets and liabilities by contractual maturity as at 31 December 2022.

	Past due EUR	Within 1 month EUR	1 – 3 months EUR	3 – 6 months EUR	6 –12 months EUR	1–5 years EUR	Over 5 years and undated EUR	Total EUR
Assets								
Cash and balances with the Bank of Latvia	-	141,138,313	-	-	-	-	-	141,138,313
Balances due from banks	-	1,072,639	86,373	-	-	-	-	1,159,012
Financial assets at FVPL	-	-	-	-	-	49,447	140,554	190,001
Debt instruments at FVOCI	-	42,131,966	65,160,042	18,413,512	-	-	-	125,705,520
Loans and advances to customers	3,379,691	3,805,708	4,325,512	9,423,428	23,680,660	59,610,851	5,128,685	109,354,535
Other financial assets	-	155,694	15,549	-	-	-	1,259,589	1,430,832
Total financial assets	**3,379,691**	**188,304,320**	**69,587,476**	**27,836,940**	**23,680,660**	**59,660,298**	**6,528,828**	**378,978,213**
Liabilities								
Balances due to banks	-	4,001,730	-	-	-	-	-	4,001,730
Deposits from customers	-	335,279,124	4,351,367	850,018	826,728	315,473	1,900,000	343,522,710
Other financial liabilities	-	90,417	1,120	4,671	23,687	34,892	195	154,982
Corporate income tax	-	4,059	-	-	-	-	-	4,059
Total liabilities	**-**	**339,375,330**	**4,352,487**	**854,689**	**850,415**	**350,365**	**1,900,195**	**347,683,481**
Off-balance sheet liabilities		-	1,581,461	1,472,755	11,046,136	9,625,649	2,207,653	25,933,654
Liquidity	**3,379,691**	**(151,071,010)**	**63,653,528**	**25,509,496**	**11,784,109**	**49,684,284**	**2,420,980**	**5,361,078**
As at 31 December 2021								
Total assets	**4,118,840**	**141,563,245**	**21,854,452**	**9,660,515**	**8,350,007**	**51,993,488**	**2,084,163**	**239,624,710**
Total liabilities and equity	-	**195,089,882**	**2,679,276**	**2,694,877**	**7,198,754**	**2,364,500**	**-**	**210,027,289**
Off-balance sheet liabilities	-	2,347,615	412,862	1,554,393	17,821,682	14,999,531	15,438,158	52,574,241
Liquidity	**4,118,840**	**(55,874,252)**	**18,762,314**	**5,411,245**	**(16,670,429)**	**34,629,457**	**(13,353,995)**	**(22,976,820)**

The management of the Group and the Bank believes that short-term liquidity is not endangered. The Bank's liquidity ratio calculated according to the Regulator's requirements was 73.26% as at 31 December 2022 (31 December 2021: 62.28%). In accordance with the Regulator's requirements, the Bank has to ensure a sufficient amount of liquid assets to settle its liabilities, but not less than 40% of the total amount of its current liabilities

Deposits serving as security for customer liabilities are disclosed according to the maturity of the underlying liability.

29. Analysis of assets and liabilities by maturity profile *(cont'd)*

The table below provides the analysis of the Group's assets and liabilities by contractual maturity as at 31 December 2021.

	Past due EUR	Within 1 month EUR	1 – 3 months EUR	3 – 6 months EUR	6 –12 months EUR	1–5 years EUR	Over 5 years and undated EUR	Total EUR
Assets								
Cash and balances with the Bank of Latvia	-	82,900,231	-	-	-	-	-	82,900,231
Balances due from banks	-	38,393,662	-	-	-	-	-	38,393,662
Financial assets at FVPL	-	-	1,224,359	-	375,057	-	7,894	1,607,310
Debt instruments at FVOCI	-	13,243,772	17,658,371	-	-	-	-	30,902,143
Equity instruments at FVOCI	-	-	-	-	-	-	235,618	235,618
Loans and advances to customers	4,118,840	6,549,714	2,312,066	9,660,515	7,970,014	51,993,488	654,456	83,259,093
Other financial assets	-	491,792	659,656	-	4,936	-	1,186,195	2,342,579
Total financial assets	**4,118,840**	**141,579,171**	**21,854,452**	**9,660,515**	**8,350,007**	**51,993,488**	**2,084,163**	**239,640,636**
Liabilities								
Deposits from customers	-	193,453,968	2,679,276	2,686,687	7,198,754	2,314,475	-	208,333,160
Other financial liabilities	-	347,235	-	8,190	-	50,025	-	405,450
Corporate income tax	-	594,315	-	-	-	-	-	594,315
Total liabilities	**-**	**194,395,518**	**2,679,276**	**2,694,877**	**7,198,754**	**2,364,500**	**-**	**209,332,925**
Off-balance sheet liabilities	-	2,347,615	412,862	1,554,393	17,821,682	14,999,531	15,438,158	52,574,241
Liquidity	**4,118,840**	**(55,163,962)**	**18,762,314**	**5,411,245**	**(16,670,429)**	**34,629,457**	**(13,353,995)**	**(22,266,530)**
As at 31 December 2020								
Total assets	**2,408,261**	**135,337,436**	**32,962,325**	**7,320,399**	**17,453,394**	**42,191,202**	**26,871,259**	**264,544,276**
Total liabilities and equity	-	**177,155,010**	**8,925,883**	**21,744,055**	**8,942,832**	**8,530,988**	**39,245,508**	**264,544,276**
Off-balance sheet liabilities	-	13,384	100,398	3,580,135	5,483,413	7,173,065	6,922,020	23,272,415
Liquidity	**2,408,261**	**(41,830,958)**	**23,936,044**	**(18,003,791)**	**3,027,149**	**26,487,149**	**(19,296,269)**	**(23,272,415)**

Notes to the financial statements *(cont'd)*

29. Analysis of assets and liabilities by maturity profile *(cont'd)*

The table below provides the analysis of the Bank's financial assets and liabilities by contractual maturity as at 31 December 2021.

	Past due	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Assets								
Cash and balances with the Bank of Latvia	-	82,900,231	-	-	-	-	-	82,900,231
Balances due from banks	-	38,393,662	-	-	-	-	-	38,393,662
Financial assets at FVPL	-	-	1,224,359	-	375,057	-	7,894	1,607,310
Debt instruments at FVOCI	-	13,243,772	17,658,371	-	-	-	-	30,902,143
Equity instruments at FVOCI	-	-	-	-	-	-	235,618	235,618
Loans and advances to customers	4,118,840	6,549,714	2,312,066	9,660,515	7,970,014	51,993,488	654,456	83,259,093
Other financial assets	-	475,866	659,656	-	4,936	-	1,186,195	2,326,653
Total assets	**4,118,840**	**141,563,245**	**21,854,452**	**9,660,515**	**8,350,007**	**51,993,488**	**2,084,163**	**239,624,710**
Liabilities								
Deposits from customers	-	194,851,131	2,679,276	2,686,687	7,198,754	2,314,475	-	209,730,323
Other financial liabilities	-	237,106	-	8,190	-	50,025	-	295,321
Corporate income tax	-	1,645	-	-	-	-	-	1,645
Total liabilities	**-**	**195,089,882**	**2,679,276**	**2,694,877**	**7,198,754**	**2,364,500**	**-**	**210,027,289**
Off-balance sheet liabilities	-	2,347,615	412,862	1,554,393	17,821,682	14,999,531	15,438,158	52,574,241
Liquidity	**4,118,840**	**(55,874,252)**	**18,762,314**	**5,411,245**	**(16,670,429)**	**34,629,457**	**(13,353,995)**	**(22,976,820)**
As at 31 December 2020								
Total assets	**2,408,261**	**133,424,656**	**32,962,325**	**7,320,399**	**17,453,394**	**45,839,102**	**22,664,171**	**262,072,308**
Total liabilities and equity	-	**177,971,342**	**8,925,887**	**21,744,055**	**8,942,832**	**8,530,988**	**35,957,204**	**262,072,308**
Off-balance sheet liabilities	-	13,384	100,398	3,580,135	5,483,413	7,173,065	6,922,020	23,272,415
Liquidity	**2,408,261**	**(44,560,070)**	**23,936,040**	**(18,003,791)**	**3,027,149**	**30,135,049**	**(20,215,053)**	**(23,272,415)**

The table below presents the Group's and Bank's contractual undiscounted cash flows of financial liabilities as at 31 December 2022:

	Past due	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balances due to banks	-	4,001,730	-	-	-	-	-	4,001,730
Deposits from customers	-	335,310,535	4,379,660	874,678	898,903	336,015	1,900,000	343,699,791
Other financial liabilities	-	90,417	1,120	4,671	23,687	34,892	195	154,982
Total liabilities	-	**339,402,682**	**4,380,780**	**879,349**	**922,590**	**370,907**	**1,900,195**	**347,856,503**
Off-balance sheet liabilities	-	-	*1,581,461*	*1,472,755*	*11,046,136*	*9,625,649*	*2,207,653*	*25,933,654*

29. Analysis of assets and liabilities by maturity profile *(cont'd)*

The table below presents the Group's contractual undiscounted cash flows of financial liabilities as at 31 December 2021:

	Past due	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Deposits from customers	-	193,485,378	2,707,569	2,711,347	7,270,930	2,335,017	-	208,510,241
Other financial liabilities	-	347,235	-	-	8,190	50,025	-	405,450
Total liabilities		**193,832,613**	**2,707,569**	**2,711,347**	**7,279,120**	**2,385,042**	**-**	**208,915,691**
Off-balance sheet liabilities	-	*2,347,615*	*412,862*	*1,554,393*	*17,821,682*	*14,999,531*	*15,438,158*	*52,574,241*

The table below presents the Bank's contractual undiscounted cash flows of financial liabilities as at 31 December 2021:

	Past due	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Deposits from customers	-	194,882,541	2,707,569	2,711,347	7,270,930	2,335,017	-	209,907,404
Other financial liabilities	-	237,106	-	-	8,190	50,025	-	295,321
Total liabilities	**-**	**195,119,647**	**2,707,569**	**2,711,347**	**7,279,120**	**2,385,042**	**-**	**210,202,725**
Off-balance sheet liabilities	-	*2,347,615*	*412,862*	*1,554,393*	*17,821,682*	*14,999,531*	*15,438,158*	*52,574,241*

30. Maturity analysis of assets and liabilities based on interest rate changes

The Group's and Bank's assets and liabilities categorized by the earlier of contractual repricing or maturity dates as at 31 December 2022:

	Within 1 month	1–3 months	3–6 months	6–12 months	1–5 years	Over 5 years	Positions not sensitive to interest rate risk	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Assets								
Cash and balances with the Bank of Latvia	139,807,532	-	-	-	-	-	1,330,781	141,138,313
Balances due from banks	1,057,242	101,770	-	-	-	-	-	1,159,012
Financial assets at FVPL	-	-	-	-	49,446	-	140,555	190,001
Debt instruments at FVOCI	42,131,965	65,160,043	18,413,512	-	-	-	-	125,705,520
Loans and advances to customers	21,329,184	43,559,993	9,139,362	18,777503	16,548,293	-	200	109,354,535
Other financial assets	-	-	-	-	-	-	1,430,832	1,430,832
Total assets	**204,325,923**	**108,821,806**	**27,552,874**	**18,777,503**	**16,597,739**		**2,902,368**	**378,978,213**
Liabilities								
Balances due to banks	4,001,730	-	-	-	-	-	-	4,001,730
Deposits from customers	335,526,485	4,174,793	850,017	826,725	544,690	1,600,000	-	343,522,710
Other financial liabilities	-	-	-	-	-	-	154,982	154,982
Corporate income tax	-	-	-	-	-	-	4,059	4,059
Total liabilities	**339,528,215**	**4,174,793**	**850,017**	**826,725**	**544,690**	**1,600,000**	**159,041**	**347,683,481**

Notes to the financial statements *(cont'd)*

30. Maturity analysis of assets and liabilities based on interest rate changes *(cont'd)*

	Within 1 month EUR	1–3 months EUR	3–6 months EUR	6–12 months EUR	1–5 years EUR	Over 5 years EUR	Positions not sensitive to interest rate risk EUR	Total EUR
Sensitivity of statement of financial position items to interest rate risk	*(135,202,292)*	*104,647,013*	*26,702,857*	*17,950,778*	*16,053,049*	*(1,600,000)*	*2,743,327*	*31,294,732*

The Group's assets and liabilities categorized by the earlier of contractual repricing or maturity dates as at 31 December 2021:

	Within 1 month EUR	1–3 months EUR	3–6 months EUR	6–12 months EUR	1–5 years EUR	Over 5 years EUR	Positions not sensitive to interest rate risk EUR	Total EUR
Assets								
Cash and balances with the Bank of Latvia	81, 939,113	-	-	-	-	-	961,118	82,900,231
Balances due from banks	38,379,161	14,501	-	-	-	-		38,393,662
Financial assets at FVPL	-	1,224,358	-	375,058	-	-	7,894	1,607,310
Debt instruments at FVOCI	13,243,772	17,658,371	-	-	-	-	-	30,902,143
Equity instruments at FVOCI	-	-	-	-	-	-	235,618	235,618
Loans and advances to customers	21,725,326	18,795,449	9,096,565	3,130,916	30,506,137	-	4,700	83,259,093
Other financial assets	-	-	-	-	-	-	2,342,579	2,342,579
Total assets	**155,287,372**	**37,692,679**	**9,096,565**	**3,505,974**	**30,506,137**	**-**	**3,551,909**	**239,640,636**
Liabilities								
Deposits from customers	194,478,369	2,679,277	2,001,066	7,173,755	2,000,693	-	-	208,333,160
Other liabilities	-	-	-	-	-	-	405,450	405,450
Corporate income tax	-	-	-	-	-	-	594,315	594,315
Total liabilities	**194,478,369**	**2,679,277**	**2,001,066**	**7,173,755**	**2,000,693**	**-**	**999,765**	**209,332,925**
Sensitivity of statement of financial position items to interest rate risk	(39,190,997)	35,013,402	7,095,499	(3,667,781)	28,505,444		2,552,144	30,307,711

30. Maturity analysis of assets and liabilities based on interest rate changes *(cont'd)*

The Bank's assets and liabilities categorized by the earlier of contractual repricing or maturity dates as at 31 December 2021:

	Within 1 month	1–3 months	3–6 months	6–12 months	1–5 years	Over 5 years	Positions not sensitive to interest rate risk	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Assets								
Cash and balances with the Bank of Latvia	81, 939,113	-	-	-	-	-	961,118	82,900,231
Balances due from banks	38,379,161	14,501	-	-	-	-	-	38,393,662
Financial assets at FVPL	-	1,224,358	-	375,058	-	-	7,894	1,607,310
Debt instruments at FVOCI	13,243,772	17,658,371	-	-	-	-	-	30,902,143
Equity instruments at FVOCI	-	-	-	-	-	-	235,618	235,618
Loans and advances to customers	21,725,326	18,795,449	9,096,565	3,130,916	30,506,137	-	4,700	83,259,093
Other financial assets	-	-	-	-	-	-	2,326,653	2,326,653
Total assets	**155,287,372**	**37,692,679**	**9,096,565**	**3,505,974**	**30,506,137**	**-**	**3,535,983**	**239,624,710**
Liabilities								
Deposits from customers *	195,875,532	2,679,277	2,001,066	7,173,755	2,000,693	-		209,730,323
Other liabilities						-	295,321	295,321
Corporate income tax						-	1,645	1,645
Total liabilities	**195,875,532**	**2,679,277**	**2,001,066**	**7,173,755**	**2,000,693**	**-**	**296,966**	**210,027,289**
Sensitivity of statement of financial position items to interest rate risk	(40,588,160)	35,013,402	7,095,499	(3,667,781)	28,505,444	-	3,239,017	29,597,421

31. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party, they are under common control, or one party exercises significant influence over the other party in making financial or operating decisions.

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

Notes to the financial statements *(cont'd)*

31. Related party disclosures *(cont'd)*

Transactions with related parties as at 31 December 2022 can be specified as follows:

	Bank's shareholders and entities owned by them	Subsidiary of the Bank	Other related parties
Total loans and advances to customers (contractual interest rate: 20%)	-	-	177
Correspondent account	985,225	-	-
Deposits from customers (contractual interest rate: 0.1%-0.0%)	36,261,799	-	1,551,762

Income and expense from transactions with related parties in 2022 can be specified as follows:

	Bank's shareholders and entities owned by them	Subsidiary of the Bank	Other related parties
Interest income	57,643	2,460	269
Interest expense	(486)	-	(3)
Dividends	-	556,399	-
ECL allowances	(105)	-	(311)
Fee and commission income	124,431	69	31,582
Other income	5,782	350	1,537
Fee and commission expense	(4,404)	-	-
Administrative and other operating expense	(4,003)	-	-

Off-balance sheet liabilities towards related parties as at 31 December 2022 can be specified as follows:

	Bank's shareholders and entities owned by them	Subsidiaries of the Bank	Other related parties
Undrawn credit lines	-	-	7,600
Assets under management*	2,363,604	-	-

Transactions with related parties during 2022:

	Bank's shareholders and entities owned by them	Subsidiary of the Bank	Other related parties
Deposits accepted from related parties	20,649,378	-	193,756
Deposits repaid to related parties	20,449,864	-	193,756
Loans issued to related parties	131	-	62,959
Loans repaid by related parties	131	-	64,076
Other transactions	7,138,076	-	1,172,390

31. Related party disclosures *(cont'd)*

Transactions with related parties as at 31 December 2021 can be specified as follows:

	Parent company of the Bank	Bank's shareholders and entities owned by them	Subsidiary of the Bank	Other related parties
Total loans and advances to customers (contractual interest rate: 6%-20%)	-	-	-	1,295
Correspondent account	571,511	-	-	-
Deposits from customers (contractual interest rate: -0.6%-0.0%)	-	323,178	1,397,163	240,165

Income and expense from transactions with related parties in 2021 can be specified as follows:

	Parent company of the Bank	Bank's shareholders and entities owned by them	Subsidiary of the Bank	Other related parties
Interest income	61,872	2,161	100,121	4,522
Interest expense	-	(48,388)	-	-
Dividends	-	-	10,000,000	-
ECL allowances	768	186,264	31,918	(75)
Fee and commission income	310	24,954	320	999
Other income	978	213	600	1
Fee and commission expense	(9,387)	-	-	-
Administrative and other operating expense	(5,224)	-	-	-

Off-balance sheet liabilities towards related parties as at 31 December 2021 can be specified as follows:

	Bank's shareholders and entities owned by them	Subsidiaries of the Bank	Other related parties
Undrawn credit lines	-	-	6,305
Assets under management*	11,607,471	-	919,021

* In November 2021, the Bank together with its related parties acquired a credit-impaired asset (POCI) as an asset under management. The asset is fully secured with real estate (see also Note 13).

Loans issued to and repaid by related parties in 2021 can be specified as follows:

	Parent company of the Bank	Bank's shareholders and entities owned by them	Subsidiary of the Bank	Other related parties
Issued to related parties	8,000,000	30	-	61,867
Repaid by related parties	17,000,000	749,006	3,679,000	65,626

31. Related party disclosures *(cont'd)*

Remuneration to the Board and Council of the Bank can be specified as follows:

	31.12.2022 Group EUR	31.12.2022 Bank EUR	31.12.2021 Group EUR	31.12.2021 Bank EUR
Short-term benefits:				
- salaries	699,991	697,991	825,368	812,917
- statutory social insurance contributions	138,592	138,120	157,246	154,308
Total	**838,583**	**836,111**	**982,614**	**967,225**

32. Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is quoted prices in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Group and the Bank disclose information on fair values of assets and liabilities in such a way as to enable its comparison with their carrying amounts.

When determining fair values of assets and liabilities, the Group and the Bank use three hierarchical measurement levels of fair value:

Level 1 – Quoted prices in an active market;

Level 2 – Valuation techniques for which the input that is significant to the fair value measurement is observable in the market;

Level 3 – Other valuation techniques for which the input that is significant to the fair value measurement is unobservable.

Instruments within **Level 1** include financial instruments traded on the stock exchange.

Fair value for such financial instruments as quoted equity securities, debt securities and exchange traded derivatives is mainly determined based on publicly available quoted prices (bid prices obtained from the Bloomberg system).

Instruments within **Level 2** include assets for which no active market exists, such as over-the-counter (OCT) derivative financial instruments and currency swaps at fair value through profit or loss.

Level 2 valuation techniques include using discounted cash flows, option pricing models, recent transactions and the price of another instrument that is substantially the same.

Level 3 includes equity instruments measured at FVOCI. There are instruments for which there is currently no active market or binding quotes, such as unlisted equity instruments and private equity holdings.

In the reporting year, the fair value of equity instruments measured at FVOCI was based on an indicative price offer received from a potential buyer, and it is considered to be the best estimate of the fair value.

The Group and the Bank conduct assessment of the fair value of financial assets and liabilities which are not presented in the Group's and Bank's statement of financial position at their fair value. All financial instruments not measured at fair value are specified at Level 3 in the fair value hierarchy because of unobservable inputs used. When calculating fair value for floating interest rate loans and for fixed interest rate lending, future cash flows are discounted based on the market interest curve, which has been adjusted for applicable margins of new lending. Fixed interest rate deposits, floating interest rate and fixed interest rate balances due to banks have been calculated similarly.

32. Fair value of financial assets and liabilities *(cont'd)*

The carrying amounts of the Group's and Bank's assets measured at amortized cost and their fair values as at 31 December 2022 can be specified as follows:

	Group		Bank	
	Carrying amount EUR	Fair value EUR	Carrying amount EUR	Fair value EUR
Assets measured at amortized cost				
Cash and balances with the Bank of Latvia	141,138,313	141,138,313	141,138,313	141,138,313
Balances due from banks	1,159,012	1,159,012	1,159,012	1,159,012
Loans to legal entities	106,758,043	106,840,520	106,758,043	106,840,520
Loans to private individuals, except for mortgages	2,473,492	2,474,761	2,473,492	2,474,761
Mortgages	123,000	123,063	123,000	123,063
Other financial assets	1,430,832	1,430,832	1,430,832	1,430,832
Total assets measured at amortized cost	**253,082,692**	**253,166,501**	**253,082,692**	**253,166,501**
Liabilities measured at amortized cost				
Balances due to banks	4,001,730	4,001,730	4,001,730	4,001,730
Deposits from customers	343,522,710	343,650,032	343,522,710	343,650,032
Other financial liabilities	673,974	673,974	673,974	673,974
Total liabilities measured at amortized cost	**348,198,414**	**348,325,736**	**348,198,414**	**348,325,736**

The carrying amounts of the Group's and Bank's assets measured at amortized cost and their fair values as at 31 December 2021 can be specified as follows:

	Group		Bank	
	Carrying amount EUR	Fair value EUR	Carrying amount EUR	Fair value EUR
Assets measured at amortized cost				
Cash and balances with the Bank of Latvia	82,900,231	82,900,231	82,900,231	82,900,231
Balances due from banks	38,393,662	38,393,662	38,393,662	38,393,662
Loans to legal entities	82,153,973	82,252,760	82,153,973	82,252,760
Loans to private individuals, except for mortgages	980,155	980,671	980,155	980,671
Mortgages	124,964	125,029	124,964	125,029
Other financial assets	2,383,901	2,383,901	2,367,975	2,367,975
Total assets measured at amortized cost	**206,936,886**	**207,036,254**	**206,920,960**	**207,020,328**
Liabilities measured at amortized cost				
Deposits from customers	208,333,160	208,421,211	209,730,323	209,818,376
Other financial liabilities	405,450	405,450	295,321	295,321
Total liabilities measured at amortized cost	**208,738,610**	**208,826,661**	**210,025,644**	**210,113,697**

32. Fair value of financial assets and liabilities *(cont'd)*

The Group's and Bank's assets by fair value hierarchy levels (at carrying amounts) can be specified as follows):

	31.12.2022			31.12.2021		
	Level 1 EUR	Level 2 EUR	Level 3 EUR	Level 1 EUR	Level 2 EUR	Level 3 EUR
Assets measured at fair value						
Debt instruments measured at FVOCI	125,705,520	-	-	30,902,143	-	-
Financial assets measured at FVPL	-	57,829	132,172	1,232,253	375,057	235,618
Total assets measured at fair value	**125,705,520**	**57,829**	**132,172**	**32,134,396**	**375,057**	**235,618**

The Latvian government bonds in the Group's and Bank's portfolio are specified at Level 2 in the fair value hierarchy and stated at their fair (market) value, taking into account the information published by Bloomberg.

33. Assets under management

Assets under management are securities and other customer assets acquired under trust agreements.

	31.12.2022 (unaudited) Group EUR	31.12.2022 (unaudited) Bank EUR	31.12.2021 (unaudited) Group EUR	31.12.2021 (unaudited) Bank EUR
Legal entities:				
- residents	2,128,895	2,128,895	8,801,243	8,801,243
- non-residents	37,836,519	37,836,519	21,885,353	21,885,353
Private individuals:				
- residents	234,709	234,709	-	-
- non-residents	26,552,964	26,552,964	34,145,481	34,145,481
Total	**66,753,087**	**66,753,087**	**64,832,077**	**64,832,077**

34. Return on equity and return on assets

	31.12.2022 (unaudited) Group	31.12.2022 (unaudited) Bank	31.12.2021 (unaudited) Group	31.12.2021 (unaudited) Bank
Return on equity (ROE) (%)	0.50%	0.50%	18.36%	22.28%
Return on assets (ROA) (%)	0.06%	0.06%	3.39%	3.32%

Both ratios are calculated according to the Regulator's regulations on the basis of annual averages month by month. ROE is calculated as annualized net profit for the reporting period divided by the average of total equity. ROA is calculated as annualized net profit for the reporting period divided by the average of total assets.

35. Events after the reporting date

As of the last day of the reporting year until the date of signing these financial statements there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.

Aleksandrs Jakovļevs
Chairman of the Board

Yuriy Rodin
Chairman of the Council

Riga, 9 March 2023