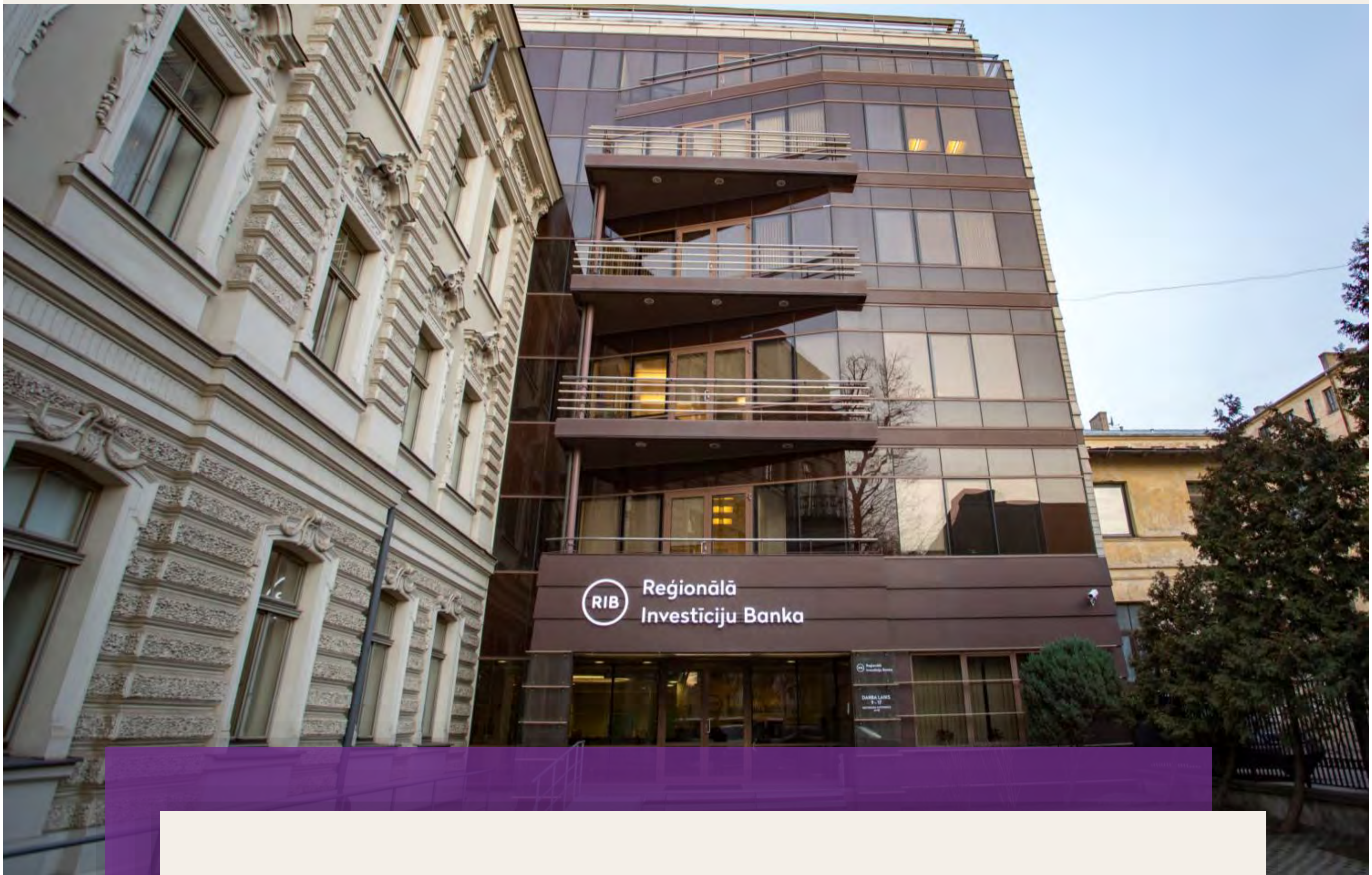

Annual Report* 2023

* This version of Annual report 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 Annual report takes precedence over this translation.

March 8, 2024

Contents

AS Reģionālā investīciju banka
J. Alunana iela 2, Riga, LV-1010, Latvia
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Unified registration number: 4000 356 3375

Management Report

This report presents the performance of AS Reģionālā investīciju banka (Regional Investment Bank, hereinafter the Bank). AS Reģionālā investīciju banka is a joint-stock company registered in the Republic of Latvia, registered office: J. Alunāna iela 2, Riga, Latvia, LV-1010, registered with the Enterprise Register on 28 September 2001, registration No 40003563375. On 3 October 2001, the Financial and Capital Market Commission of the Republic of Latvia approved AS Reģionālā investīciju banka as a credit institution and issued license No 170. After the merger of the Financial and Capital Market Commission and the Bank of Latvia, as of 1 January 2023, the authority supervising the Bank is the Bank of Latvia.

The year of 2023 has been the year of stable growth for the Bank, during which the Bank continued its planned development pursuant to the approved Development Strategy and strengthened its position in the corporate banking segment. In 2023, numerous preparation works and projects were initiated, which will be crucial for the Bank's further development. The profit of 2023 and the increased amount of the Bank's assets reflect both the contribution by the team and the efficient and sustainable business model of the Bank's development.

Excellent Financial Result of 2023. Despite the still dynamically changing external circumstances that are difficult to predict, our achievement-oriented team of professionals fulfilled the budget plans of 2023 and attained the excellent financial result of 2023 – the profit of the reporting year of 2023 amounted to EUR 9.14 million. This result has been achieved thanks to both an increase in the volume of the Bank's business and the increase of interest rates, which grew rapidly in 2023 as a result of the monetary policy implemented by the ECB and the US FRS. At the end of 2023, the Bank's assets amounted to EUR 474.8 million, which is an increase by EUR 75 million or 18.7% compared to the previous year. This allowed the Bank to be ranked the 7th among all the members of the Finance Latvia Association according to the Q3 2023 results (*FLA data*).

Lending as the Bank's Principal Product and Enhancing the Bank's Position in the Market. In 2023, the Bank continued carefully shaping tis credit portfolio, focusing its attention on the financing of projects of Latvian medium and large enterprises. In 2023, 37 new financing projects were implemented in this segment, with new loans being issued to RoL residents for the aggregate amount of EUR 37.7 million. In general, the Bank's credit portfolio for RoL residents increased by EUR 4.3 million in 2023, reaching EUR 67.6 million by the end of the year. The growth dynamics on the year-on-year basis was more confident in the middle of the year, when the Latvian credit portfolio reached EUR 73.6 million. Interest proceedings from loans issued to RoL residents increased by 112% or EUR 2.37 million in 2023, accounting for more than 60% of all the Bank's loan interest proceedings by the end of the year

In 2023, the Bank's loan administration work was carried out in a complicated external environment, which was affected by the overall economic recession in the eurozone, the complicated situation in the real estate segment of Latvia due to the rapid increase in the EURIBOR rate, as well as the still on-going war in Ukraine. When working with its customers, the Bank not only focuses on the pace of the credit portfolio growth, but also pays particular attention to its quality, risk level and diversification. In Q3 2023, within the framework of the overall credit portfolio management strategy, the Bank reduced the concentration of loans in the real estate segment of Latvia from 35% down to 26%, for the total amount of EUR 20.2 million. As the result, a smaller concentration of loans is ensured in the RoL real estate segment, where, according to the Bank's calculations, the year of 2024 will be sufficiently difficult.

In turn, in Q4 2023, the long prepared project of assignment of the credit portfolio with the credit risk in Ukraine has been implemented, whereunder the loans of EUR 13.4 million were transferred for their nominal value, thus reducing the Bank's risk in Ukraine from EUR 20 million to slightly below

Lending as the Bank's Principal Product and Enhancing the Bank's Position in the Market *(cont'd).*

EUR 7 million or 6.7% of the Bank's total credit portfolio by the end of the year. The remaining Bank's credit portfolio with the credit risk in Ukraine mostly consists of companies with a geographically diversified business, which carry out their operations also outside Ukraine, as a result they are capable of fulfilling their obligations despite the war in Ukraine.

In general, in 2023, the Bank issued new loans for the total amount of EUR 62.5 million, maintaining the pace of issuing new loans it had achieved in the previous year and enhancing its positions in the Latvian market as an active corporate bank focused on cooperation with the Latvian resident business.

Customer Service and Commission Fee Earnings. In 2023, the Bank continued implementing the goals outlined in the Development Strategy and demonstrated an increase in the volume of its business. The budget plan of commission fee earnings for 2023 was fulfilled by 117%, of which the plan fulfilment in the RoL resident segment reached even 133%, ensuring an increase by 74%, which demonstrates the Bank's focus on domestic business in this position as well.

In its operations in 2023, the Bank kept adhering to the principles and values outlined in the Development Strategy, concentrating on the Bank's main mission – to become a reliable partner for its customers in all matters related to banking services. Likewise, just as in previous years, we offer our customers high competence, understanding of customer's needs, excellent product quality and the speed of decision-making.

Capital, Liquidity[1] and Deposits. The Bank's financial indicators during 2023 have been stable, with a safe margin of resilience according to liquidity and capital standards. These indicators have been more solid for the Bank in 2023 than a year before, with the liquidity ratio[2] increasing from 73.26% at the end of 2022 up to 87.04% as at December 31, 2023. In turn, the necessary capital adequacy requirement for covering all risks of the Bank, with the indicator set by the Regulator at 11.50%, increased from 27.82% at the end of 2022 up to 38.49% as at December 31, 2023. According to the *Forbes* magazine data, AS Regional investment bank was named the best bank of 2022 in the Baltic States by the capital adequacy ratio. During the reporting period, the total volume of deposits practically has not changed: at the end of 2022, customer deposits amounted to EUR 343.7 million, whereas in 2023 those were EUR 338.3 million or 120% of that planned in the budget for 2023.

Development and Most Important Plans for 2024. The Bank has set ambitious growth plans for 2024, putting the main focus on our principal area of activity, i.e. lending and development of the offered corporate banking products. In 2024, it is planned to issue new loans for the amount of at least EUR 72 million, including EUR 56 million in Latvia, ensuring that the Bank's credit portfolio reaches EUR 153 million by the end of 2024. To achieve this goal we are planning to address new customers from our priority sectors of the Latvian national economy, i.e. forestry and wood processing, pharmacy and food production, metal processing and agriculture. We continue improving our lending products to be able to fulfil our promises given to the customer in any situation: to ensure the highest competence

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[1] Definitions of capital adequacy and liquidity adequacy ratios are outlined in Regulation (EU) No. 575/2013 of the European Parliament and of the Council and calculated in accordance with the requirements set forth in Regulation (EU) No 575/2013 of the European Parliament and of the Council and the Credit Institution Law.
[2] The ratio of the Bank's liquid assets with the remaining repayment term of up to 30 days and short-term liabilities.

Development and Most Important Plans for 2024 *(cont'd).*

in the market in the customer's area of activity and to offer the customer a fast and the most economically beneficial solution for financing business projects.

In 2024, we will continue to improve the quality of the Bank's customer service and enhance our individual approach to the daily work with customers: we will become even more accessible and friendly for our customers and partners, take care of the availability of our services to the Latvian business. In 2023, several projects crucial for the Bank were initiated, and the successful implementation of these projects in the first half of 2024 will strengthen the technological side of the services offered by the Bank.

In the first half of 2024, the Bank's existing and potential customers will be offered the Bank's new website, the new Internet Banking system and a mobile application. In the middle of the year, it is planned to start the reconstruction of the Bank's building. Our customers have earned the best service in the banking sector, and we are working to ensure the compliance of our offer to the highest standard.

Likewise, the Bank continues its work on integrating sustainability in the processes of its principal activity and internal governance with the aim both to manage its business responsibly and to support customers oriented towards 'green development' and climate neutrality so that the sustainable approach to business promotes ensuring competitiveness and business development, inter alia, in the long term. The Bank regularly identifies and assesses the ESG risk with regard to credit exposures of customers/legal entities and the respective pledges used as loan collaterals in the Bank's credit portfolio, as well as every time the respective credit committee considers a new loan project. Thus, the Bank integrates sustainability aspects in the decision-making process with regard to financing.

On behalf of the Bank's Board and Shareholders, we express our gratitude to our customers, cooperation partners and the Bank's team of employees for the results achieved in 2023 and their contribution to the future 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 Jakovļevs Chairman of the Board	Yuriy Rodin Chairman of the Council

Riga, 8 March 2024

Council and Board of the Bank

As at 31 December 2023 and up to the date of signing 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
Maksims Cimbals	Member of the Council	03.05.2023
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: Irina Buc resigned on 2 May 2023 and Maksims Cimbals became a Member of the Supervisory Council of the Bank on 3 May 2023.

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

Aleksandrs Jakovļevs
Chairman of the Board

Yuriy Rodin
Chairman of the Council

Riga, 8 March 2024

Statement of Management Responsibility

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

The Bank's financial statements on pages 14 through 88 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2023 and the results of its operations and cash flows for the reporting year 2023.

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 Bank's assets and the prevention and detection of fraud and other irregularities in the Bank. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of 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, 8 March 2024

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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 financial statements of Reģionālā investīciju banka AS (the Bank) set out on pages 14 to 88 of the accompanying Annual Report, which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

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 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.

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 Bank of the current period. These matters were addressed in the context of our audit of the financial statements of 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 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 Bank.

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Key audit matter	How we addressed the key audit matter
Implementation of the Bank's Development Strategy	
The Bank prepared initial Development Strategy for years 2018-2021 to change its business model and clients' base. In May 2023, the Bank's Council approved the updated Development Strategy for years 2023-2027. 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 2024 has been prepared in line with the Bank's Development Strategy for years 2023-2027. In prior periods, given that the Bank was 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 Bank will succeed in implementing the new strategy. The Bank has been implementing the Development Strategy at a slower pace than initially planned with respect to its key direction stated above, implying that the Bank is 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 Bank's liquidity and capital adequacy. Because significant deviations from Development strategy may have an impact on Bank's going concern; therefore, we considered it to be a key audit matter.	Our audit procedures included, among others, the following: We reviewed the Bank's Development Strategy for years 2023–2027 and its implementation status based on year 2023 actual results. We discussed the implementation status and deviations of the actual results from the Bank's Development Strategy with the Bank's management and representatives of the Bank of Latvia (Regulator). We obtained the year 2024 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 carrying amount of loans to corporate and individual customers as at 31 December 2023 amounted to EUR 99 023 thousand in the Bank's financial statements; the total impairment loss allowance as at 31 December 2023 amounted to EUR 5 664 thousand in the Bank's financial statements as disclosed in the Note 13 to the financial statements. Loan receivables are significant to the total assets of the Bank's financial statements. The Bank has significant 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	Our audit procedures included, among others, the following: We updated our understanding and tested key controls over the loan issuance, accounting and monitoring and loan impairment assessment processes. We gained same understanding of how management applied the assumptions and data used to develop accounting estimates used within the Bank's expected credit loss model. We have also tested 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 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 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, Probability of Default, Exposure at Default and assessed whether the Bank has calculated the estimated expected credit loss in line with the provisioning policy.

economy is fundamentally impacted by the ongoing events. In the previous year the Bank had significant portion of portfolio issued to the businesses in Ukraine which raised a concern about the possible impact of the war on the loan recoverability and collateral value. In 2023, the Bank significantly reduced the portion of portfolio issued to the businesses in Ukraine. The total assets and liabilities of the Bank subject to Ukraine country risk as at 31 December 2023 and 31 December 2022 are presented in Note 2 to the financial statements. The basis of the Bank's loan impairment policy is presented in the accounting policies section in Notes 3(l) 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(l), 4(a) and 13 to the financial statements. In order to provide for expected credit losses, management uses a model-based approach and individual 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 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. Individual impairment allowances recognized by the Bank mostly relate to large, individually monitored exposures to corporates and individuals. Therefore, the assessment of the aforementioned exposures is based on the information 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.	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 2, 3 (l), 4(a) and 13.
Anti-money Laundering (regulatory requirements regarding anti-money laundering)	
The Bank is subject to regular Anti-money Laundering related inspections performed by the Regulator. Historically the Bank has been imposed regulatory fines.	Our audit procedures included, among others, the following: We reviewed the Bank's anti-money laundering and combating the financing of terrorism (AML/CFT) risk management strategy for 2023. We discussed with the Bank's representatives responsible

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As disclosed in Note 4(i) to the financial statements, latest Regulator inspections were executed during 2022. In the autumn 2023, the Bank entered into an administrative agreement with the Regulator about taking certain measures to improve its internal control system and to pay a fine of EUR 259 867. Given the importance of the matter to the Bank's reputational risk, we have identified this as a key audit matter.	for compliance with anti-money laundering requirements, the adherence to the set targets in the strategy during the year 2023. We reviewed and evaluated the Bank's remediation plan in relation to the Regulator 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 selected 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 discussed the results of the latest Regulator inspections with the Bank's management and representatives of the Regulator. We also assessed the adequacy of the disclosures relating the matter in Note 4(i) to the financial statements.

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 Bank and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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,

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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 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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing 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 skepticism 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 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 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

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- the date of our auditor's report. However, future events or conditions may cause 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.

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 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 7 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 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, 8 March 2024

Financial Statements

Statement of Comprehensive Income

	Notes	2023 EUR	2022 EUR
Interest revenue calculated using effective interest rate method	5	21,988,670	7,797,780
Interest expense	5	(2,498,446)	(795,972)
Net interest income	5	**19,490,224**	**7,001,808**
Expenses of allowances for loan impairment	12,13,19,26	(392,570)	(2,452,959)
Net interest income after allowances for loan impairment		**19,097,654**	**4,548,849**
Fee and commission income	6	2,801,959	2,629,532
Fee and commission expense	6	(378,863)	(423,971)
Net fee and commission income	6	**2,423,096**	**2,205,561**
Gain/(loss) from revaluation of securities at fair value through profit or loss, net		28,490	(337,263)
Gain from trading in foreign currencies, net		274,169	508,954
Gain/(loss) from foreign exchange translation, net		(313)	93,109
Dividend income	16	8,958	566,736
Other operating income	8	409,900	278,337
Total operating income		**22,241,954**	**7,864,283**
Administrative expense	7	(9,904,274)	(6,448,223)
Amortization and depreciation charges	17,18	(379,723)	(374,826)
Other income	9	23,228	28,859
Other expense	9	(498,147)	(783,835)
Profit before corporate income tax		**11,483,038**	**286,258**
Corporate income tax	10	(2,338,678)	(61,038)
Net profit for the year:		**9,144,360**	**225,220**
Other comprehensive income			
Items that can be reclassified subsequently to profit or loss:			
Gain on debt instruments at fair value through other comprehensive income		119,149	21,700
Other comprehensive income, total		**119,149**	**21,700**
Total comprehensive income:		**9,263,509**	**246,920**
Earnings per share		0.29	0.01

The financial statements on pages 14 through 88 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, 8 March 2024

The accompanying notes on pages 18 through 88 form an integral part of these financial statements.

Statement of Financial Position

	Notes	31.12.2023 EUR	31.12.2022 EUR
Assets			
Cash and balances with the Bank of Latvia	11	210,303,734	141,138,313
Balances due from banks	12	5,208,289	1,159,012
Financial assets at fair value through profit or loss	14	248,679	190,001
Debt instruments at fair value through other comprehensive income	15	138,195,572	125,705,520
Loans and advances to customers	13	99,023,036	109,354,535
Other assets	19	1,872,332	2,940,697
Prepaid expense		244,638	199,600
Property and equipment, and right-of-use assets	18	12,631,546	12,750,274
Intangible assets	17	721,935	496,064
Total assets		**468,449,761**	**393,934,016**
Liabilities			
Balances due to banks	21	70,595,213	4,001,730
Deposits from customers	22	338,330,004	343,522,710
Other financial liabilities	24	149,699	154,982
Provisions	28	302,270	518,992
Accrued expenses and other liabilities	23	2,866,782	1,078,873
Current income tax liabilities	25	2,289,614	4,059
Total liabilities		**414,533,582**	**349,281,346**
Equity			
Share capital	27	32,334,756	32,334,756
Reserves		6	6
Revaluation reserve on debt instruments at fair value		144,521	25,372
Retained earnings		21,436,896	12,292,536
Total equity		**53,916,179**	**44,652,670**
Total liabilities and equity		**468,449,761**	**393,934,016**
Off-balance sheet items			
Contingent liabilities	28	3,479,864	5,030,980
Financial commitments	28	18,336,123	20,902,674
Assets under management	35	65,347,861	66,753,087

The financial statements on pages 14 through 88 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, 8 March 2024

The accompanying notes on pages 18 through 88 form an integral part of these financial statements.

Statement of Changes in Equity

	Share capital	Reserves	Retained earnings	Revaluation reserve on debt instruments at fair value	Total
	EUR	EUR	EUR	EUR	EUR
Balance as at 31 December 2021	**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**
Profit for the year	-	-	9,144,360	-	9,144,360
Change in revaluation reserve	-	-	-	119,149	119,149
Total comprehensive income for the year	**-**	**-**	**9,144,360**	**119,149**	**9,263,509**
Balance as at 31 December 2023	**32,334,756**	**6**	**21,436,896**	**144,521**	**53,916,179**

The accompanying notes on pages 18 through 88 form an integral part of these financial statements.

Aleksandrs Jakovļevs
Chairman of the Board

Yuriy Rodin
Chairman of the Council

Riga, 8 March 2024

Statement of Cash Flows

	Notes	2023 EUR	2022 EUR
Cash flows from/(used in) operating activities			
Interest received		22,309,231	7,468,630
Interest paid		(2,305,142)	(872,809)
Fees and commissions received	6	2,801,959	2,629,532
Fees and commissions paid	6	(378,863)	(423,971)
Income received from foreign exchange		274,169	508,954
Other operating income received		409,900	278,337
Personnel expense paid		(7,813,892)	(4,684,959)
Administrative and other operating expense paid		(2,537,889)	(1,937,466)
Income tax paid		(53,123)	(58,624)
Cash flows generated from operating activities before changes in operating assets and liabilities		**12,706,350**	**2,907,624**
Changes in operating assets and liabilities			
(Increase)/decrease in financial assets measured at FVOCI		13,897,051	4,665,548
(Increase)/decrease in debt instruments measured at FVOCI		(12,374,260)	(94,567,759)
(Increase)/decrease in balances due from banks		(6,972)	34,992,567
(Increase) /decrease in loans and advances to customers, net		11,117,043	(26,936,255)
(Increase)/decrease in other assets		972,619	1,786,450
Increase/(decrease) in deposits from customers, net		(21,415,653)	120,003,791
(Decrease)/increase in balances due to banks		66,593,483	4,001,730
Increase/(decrease) in other liabilities, net		1,578,226	(275,880)
Net cash flows from/(used in) operating activities		**73,067,887**	**46,577,816**
Cash flows from/(used in) investing activities			
Dividends received		8,958	566,736
(Increase)/decrease in subsidiary's share capital		-	9,190
Purchase of intangible assets	17	(353,109)	(163,515)
Purchase of property and equipment	18	(118,319)	(99,264)
Net cash flows from/(used in) investing activities		**(462,470)**	**313,147**
Cash flows from/(used in) financing activities			
Repayment of the principal amount of lease liabilities		(27,995)	(32,930)
Net cash flows from/(used in) financing activities		**(27,995)**	**(32,930)**
Effect of exchange rates on cash and cash equivalents		644,797	4,185,720
Net increase/(decrease) in cash and cash equivalents		**73,222,219**	**51,043,753**
Cash and cash equivalents at the beginning of the year	20	142,311,278	91,267,525
Cash and cash equivalents at the end of the year	**20**	**215,533,497**	**142,311,278**

The accompanying notes on pages 18 through 88 form an integral part of these financial statements.

Aleksandrs Jakovļevs
Chairman of the Board

Yuriy Rodin
Chairman of the Council

Riga, 8 March 2024

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.

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 8 March 2024

2. Operating environment of the Bank

In 2023, the economy of Latvia was negatively affected by inflation and high energy prices, weak global industrial demand and rising interest rates, leading to a continuous mild economic slowdown. According to the latest forecasts, Latvia's GDP is expected to contract by 0.4% in 2023. After the rapid rise in consumer prices that started in 2022 and had a significant impact on economic development, Latvia experienced a year-long downward inflation dynamics in 2023. In December 2023, the consumer prices increased by only 0.6% compared to December 2022. Although the pace of inflation moderation was faster than expected, with an overall average inflation estimate for 2023 of 8.9%, it was a significant drag on economic growth. At the same time, with inflation stabilizing at a relatively low level and average monthly wages rising, people's purchasing power gradually recovers. Restrictive monetary policy significantly reduces inflation in the euro area and Latvia, and inflation in Latvia is expected to be around 2% in 2024. Inflation-enhancing factors will be mainly linked to internal economic processes, influenced by labor market developments, especially in services sectors. External factors are more likely to have a dampening effect, with gas and oil prices to be expected lower this year than last. The current GDP forecasts for 2024 project 2% growth, too, as the global geopolitical situation, deteriorating consumer sentiment and weak growth in the other Baltic countries do not inspire much optimism. Slightly stronger growth is likely to resume only in H2 2024, with a stronger pick-up in domestic demand and faster export growth. The banking sector remained stable in 2023, despite the economic turmoil caused by geopolitical tensions. However, credit growth remains weak, especially business lending. In contrast, household lending shows positive signs. Deposit volumes continue to grow.

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.

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

The table below presents the total assets and liabilities of the Bank subject to the Ukraine country risk as at 31 December 2023 and 31 December 2022:

	31.12.2023 EUR '000	31.12.2022 EUR '000
Assets subject to the Ukraine country risk:		
Balances due from banks	5,030	1,000
Loans issued and other receivables	3,358	21,003
Other assets	535	549
Total	**8,923**	**22,552**
Liabilities subject to the Ukraine country risk:		
Balances due to banks	70,595	4,002
Deposits from customers	63,446	82,444
Total	**134,041**	**86,446**
Off-balance sheet items subject to the Ukraine country risk:		
Financial commitments	732	1,226
Total	**732**	**1,226**

Compared to the previous year, loans issued and other receivables subject to the Ukraine country risk showed a significant decrease which is due to the Assignment Agreement signed on 14 December 2023 for a total amount that is equivalent of EUR 13.4 million for the assignment of claims arising from credit agreements concluded with Ukrainian residents. The Bank's net gain from this transaction is EUR 21,232.

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.

Ukraine's real GDP growth forecast for 2023 was raised to around 5% at the end of the year, taking into account a number of factors contributing to a faster economic recovery. These include greater adaptability of firms and households to wartime conditions, better-than-expected harvests, expansion of alternative commodity export routes and higher budget spending. The inflation assessment fell from 26% to 5% during 2023, but inflation might pick up again next year, given the security risks in the active phase of the war, wage increases and the acceleration of administratively regulated price increases. Ukraine's economy might grow by 3.6% in 2024 despite persistently high security risks. Continuous development of alternative export routes and sustained loose fiscal policies that support consumer demand will support economic recovery. On the other hand, the constant logistical problems and investment constraints due to the war will limit economic growth. Moreover, the ongoing Russian missile attacks cause significant damage, exerting continuous pressure on business sentiment and activity.

Taking into the account ECL (Expected Credit Loss) downside scenario results that include the geopolitical aspect and other scenario results, which are described in more detail in Note 4(a), the Bank calculated ECL amount is sufficient as at 31 December 2023.

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. Preparing the financial statements on a going concern basis, the management considered the Bank's financial position, the availability of financial resources and an analysis of the direct and indirect effects of the war of Russia and Ukraine on the Bank's future operations.

Despite dynamically changing and difficult to predict external conditions due to their dynamic changes, the Bank met its budget plans in 2023 and achieved an excellent financial result for 2023, with a reported profit for the year of EUR 9.14 million. This was achieved owing to the increase both in the Bank's business volume and the interest rates, which rose sharply during 2023 as a result of implementing the monetary policy of the ECB and the US Fed. At the end of December 2023, the Bank's assets amounted to EUR 474.8 million.

Moreover, assignment projects with respect to the loan portfolio exposed to credit risk in Ukraine were implemented, under which loans amounting to EUR 15.9 million were assigned. In the course of the assignment, a total of EUR 20 million was assigned at nominal value, thus reducing the Bank's exposure in Ukraine from EUR 20 million to just under EUR 7 million or 6.7% of the total loan portfolio. As a result of this transaction, the Bank fully recovered its investment, accrued interest and earned an income of EUR 21 232.

The Bank's financial performance during 2023 was stable, with a healthy buffer in liquidity and capital ratios. As at 31 December 2023, liquidity ratio was 87.04%. The capital required to cover all the Bank's risks, given the capital adequacy ratio of 11.50% set by the Regulator increased from 27.82% at year-end 2022 to 38.49% at 31 December 2023.

The plans for 2024 include issuing new loans of at least EUR 72 million, of which EUR 56 million in Latvia. This will bring the Bank's loan portfolio to EUR 153 million at the end of 2024 and the Bank's assets reaching EUR 420 million. Unchanged remains the Bank's objective for 2024 to allocate part of its assets to highly liquid instruments such as US government bonds and balances with the Bank of Latvia.

In 2024, the net interest income is expected to be EUR 16.95 million. This will mainly come from asset allocation in highly liquid instruments (EUR 11.7 million) and interest income on loans (EUR 8.18 million). The Bank expects net fee and commission income of EUR 2.87 million. Thus, the Bank expects to earn EUR 6.65 million in 2024.

(b) Correction of errors in comparative financial statements

In 2023, no corrections were made to the comparative figures of financial statements.

(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 Bank 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.

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

(d) Basis of preparation (cont'd)

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 2023, if compared to those of 2022.

(e) Fair value measurement

The Bank measures 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. Also 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.

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.

The principal or the most advantageous market must be accessible by 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 Bank uses 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 Bank determines 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.

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

(f) Financial assets and liabilities

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 Bank commits itself 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;
- 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 Bank classifies 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 Bank classifies and measures 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 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 Bank at FVOCI.

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

(f) Financial assets and liabilities (*cont'd*)

For financial liabilities at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability are recognized in profit or loss. For other financial liabilities, direct transaction costs are recognized as a reduction of the fair value of the respective financial liability.

Financial liabilities at fair value through profit or loss are classified as financial liabilities held for trading. Financial liabilities held for trading are derivative financial instruments that are not designated as hedging instruments.

Other financial liabilities include mainly the Bank's current and non-current borrowings. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. This category includes the following items of the statement of financial position: 'Balances due to banks', 'Deposits from customers' and 'Other financial liabilities'.

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

The Bank only measures 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 Bank determines 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 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;
- 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 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 Bank's initial expectations, the Bank does 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 Bank assesses 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).

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

(f) Financial assets and liabilities *(cont'd)*

SPPI test (cont'd)

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 Bank applies 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)

The Bank has introduced the following two sub-categories within this category: 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 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 Bank commits to purchase or sell the asset.

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

The Bank, in accordance with IFRS 9, applies 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.

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 comprehensive income 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 comprehensive income . Total accumulated gains/losses recognized in other comprehensive income are recycled to the statement of comprehensive income upon derecognition of the respective asset.

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

(f) Financial assets and liabilities *(cont'd)*

Equity instruments measured at FVOCI

The Bank, upon initial recognition, often elects 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 comprehensive income when the right of payment has been established, except when the Bank benefits 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.

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues 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 Bank's liabilities arising from guarantees are measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of comprehensive income, and the ECL as defined under IFRS 9.

Undrawn loan commitments and letters of credit are liabilities whereby 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 Bank calculates and recognizes ECL on these exposures which are booked as a provision in the statement of financial position.

(g) 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 Bank calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR (Effective interest rate) to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired, the Bank calculates 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 Bank reverts 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.

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

(h) Foreign currency revaluation

Functional and presentation currency

The functional currency of the Bank is the currency of the primary economic environment in which the Bank operate. The financial statements are presented in the euros (EUR), which is the Bank's functional 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 Bank, the most commonly used currency exchange rates (foreign currency units against EUR 1) were as follows:

Reporting date	USD
31 December 2023	1.1050
31 December 2022	1.0666

(i) Income taxes

Income taxes include current 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 statement of comprehensive income 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 financial statements.

With effect from 1 January 2024, in accordance with the amendments to the Corporate Income Tax Law of the Republic of Latvia, credit institutions and consumer credit providers are obliged to pay a tax surcharge of 20% in the taxation year, calculated using the pre-tax profit for the taxation year. The amount of the tax surcharge paid in subsequent tax years will be attributable, over an unlimited period, in chronological order, to the corporate income tax payable on the distribution of profits in dividends. Therefore, in addition to the current corporate income tax starting from year 2023 expenses for the additional payment of corporate income tax are recognized that is calculated as 20% from the net profit gained for the reporting period. The corporate income tax surcharge is recognized as an expense in the statement of comprehensive income in the reporting period in which the tax surcharge is calculated.

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

(j) 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.

(k) Balances due from other banks

Balances due from banks are recorded when the Bank advances 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.

(l) Loans and allowances for loan impairment

Overview

Impairment is determined using the expected credit loss model. The Bank groups its 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 recognized.

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

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

Significant increase in credit risk

At the end of each reporting period, the Bank determines 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 Bank applies 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.

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

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

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 Bank derecognizes 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 loan.

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 Bank assesses 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 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 Bank also reassesses 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.

(m) Sale and repurchase agreements

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

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

(n) 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 comprehensive income 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 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 Bank accounts 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)).

(o) Repossessed collateral

Repossessed collateral represents real estate repossessed by 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.

(p) Intangible assets

The acquired computer software licenses are recognized as intangible assets at cost less accumulated depreciation and impairment. The cost includes expenditure, 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.

(q) 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 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.

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

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

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 with sufficient regularity. 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 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.

(r) Leases

The Bank as a lessee

At the contract inception, the Bank assesses 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 Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. Low-value assets-any item when it is new less than EUR 5 thousand. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognizes 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 Bank 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).

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

(r) Leases *(cont'd)*

Lease liabilities

At the commencement date of the lease, the Bank recognizes 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 Bank and payments of penalties for terminating the lease, if the lease term reflects 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 Bank uses its 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 Bank's lease liabilities are disclosed under other financial liabilities (see Note 22).

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its 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). It also applies 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 Bank as a lessor

As a lessor, the Bank determines at lease inception whether the lease is a finance lease or an operating lease. If the Bank determines 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 Bank does 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 comprehensive income 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.

(s) 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 or;
- the Bank has 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 Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

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

(s) Derecognition of financial assets and liabilities *(cont'd)*

Financial assets are written off, in full or in part, only when the Bank has 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 comprehensive income .

(t) Deposits from customers

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

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

(v) Debt securities issued

The Bank recognizes 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.

(w) Employee benefits

The Bank makes 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 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.

(x) Trust operations

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

Accounting for trust operations is separated from the 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.

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

(y) Offsetting of financial assets and liabilities

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

(z) 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 Bank assesses its 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 FVOCI), 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)).

Given the on-going war in Ukraine and the global geopolitical situation, the Bank continuously analyses credit portfolio data, taking into account the financial data of borrowers and the solvency of borrowers. The Bank's portfolio is divided into the resident portfolio of Latvia and the customer portfolio of other countries, which includes loans with the Ukrainian country risk. Loans with the Ukrainian country risk account for mere 6% of the Bank's total credit portfolio and the created amount of provisions for the loans with the Ukrainian country risk is 52%. The Bank closely monitors the Ukrainian customer credit portfolio by carrying out more frequent analysis of their financial position and the capabilities of fulfilling obligations, creating additional provisions if necessary.

The quality of the resident and European 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 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:

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

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

Impairment loss on financial instruments (cont'd)

- for Latvia, data is obtained from the Ministry of Finance of Latvia and the Bank of Latvia, updated twice a year;
- 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 Bank calculates ECLs either on a collective or on an individual basis. Asset classes where the Bank calculates ECL on an individual basis include:

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

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 calculates ECL 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 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 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 Bank as a lessee

The Bank determines 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 Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its

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

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

Determining the lease term of contracts with renewal and termination options – the Bank as a lessee (cont'd)

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 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 Bank typically exercises 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 Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that 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 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 Bank estimates 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).

(aa) 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 Bank as of 1 January 2023:

The amendments are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

Standards that are effective and have been endorsed by the European Union

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2023. 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. The Bank has no contracts in scope of IFRS 17; therefore, its application does not impact the Bank's financial performance, financial position and cash flows.

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 January 1, 2023. 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 management has evaluated the disclosed information about the accounting policies and excluded the immaterial policies.

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

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

Standards that are effective and have been endorsed by the European Union (cont'd)

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 January 1, 2023 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 from 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 management's assessment reveals that the adoption of these amendments has no impact on the Bank's financial statements.

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 January 1, 2023. 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 management's assessment reveals that the adoption of these amendments has no impact on the Bank's financial statements.

IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (Amendments)

The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organization for Economic Co-operation and Development's (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. On 23 May 2023, the IASB issued International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023. The management's assessment reveals that the adoption of these amendments has no impact on the Bank's financial statements.

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

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

Standards issued but not yet effective and not early adopted

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 January 1, 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 management's assessment reveals that the adoption of these amendments will have no impact on the Bank's financial statements.

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

The amendments are effective for annual reporting periods beginning on or after January 1, 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 management's assessment reveals that the adoption of these amendments will have no impact on the Bank's financial statements.

Standards that are not yet effective and they have not yet been endorsed by the European Union

IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The amendments have not yet been endorsed by the EU.

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

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

Standards that are not yet effective and they have not yet been endorsed by the European Union (cont'd)

IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique. The amendments have not yet been endorsed by the EU.

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 Bank's strategic tasks. The Risk Management Strategy has been developed for 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 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 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 Bank, oversees the risk management system and co-ordinates actions of all structural units of 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 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 Bank in accordance with the provisions of the contract. Credit risk is present in the Bank's operations where the Bank makes claims against another person and which are reflected in the Bank's statement of financial position and under off-balance sheet items.

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.

The Bank divides 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 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.

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

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

Credit–related commitments risks

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

	31.12.2023 EUR	31.12.2022 EUR
Assets subject to credit risk:		
Balances with the Bank of Latvia	210,303,734	141,138,313
Balances due from banks	5,208,289	1,159,012
Financial assets at FVPL	248,679	190,001
Debt instruments at FVOCI	138,195,572	125,705,520
Loans to customers	99,023,036	109,354,535
Other financial assets	1,446,255	1,430,832
Total	**454,425,565**	**378,978,213**
Off-balance sheet items subject to credit risk:		
Contingent liabilities	3,479,863	5,030,980
Financial commitments	18,336,123	20,902,674
Total	**21,815,986**	**25,933,654**

The Bank estimates expected credit losses (ECL) as 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.

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 Bank reflects 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 Bank has 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.

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

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

Impairment assessment

The Bank is 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 Bank assesses whether there has been a significant increase in credit risk since initial recognition.

At every reporting date, the Bank assesses whether credit risk with regard to an exposure has increased significantly since initial recognition. The assessment of a significant increase in 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 Bank uses quantitative information in 12m PD or LTPD measurement models and includes 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 Bank determines 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 qualitative 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 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 Bank considers 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.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition. The asset classes where the Bank calculates ECL on a collective basis include all Stage 1 and 2 assets.

Impairment assessment (cont'd)

Under the above procedure, the Bank organizes its loans as Stage 1, Stage 2, Stage 3 and POCI as described below:

Stage 1: Upon initial recognition of a loan, the Bank recognizes 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 Bank recognizes 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 Bank recognizes 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 Bank takes into account the financial instrument, which will correspond to the default definition with regarding to ECL calculations in all cases when the borrower delays the payment deadline stipulated in the agreement by 90 days. The Bank considers 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 Bank also considers various events that can indicate an inability to pay (default events). In such cases, the Bank carefully considers 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 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 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 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 over the cure period and whether it indicates a significant increase in credit risk in comparison with initial recognition.

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

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

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

- o private individuals and legal entities – residents of Latvia;
- o 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:

- o 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;
- o 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;
- o 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 Bank assesses 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 Bank determines 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 Bank.

Loss given default

The Bank assesses the LGD values at least quarterly as well as whenever the Bank becomes 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.

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

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

Forward-looking information

For determining the PD, and hence for the ECL modeling, the Bank considers for each group macroeconomic indicators from two publicly available official data sources in each country. The Bank uses 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 Bank applies 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 Bank uses 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 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 Bank assesses:

- 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.

Key macroeconomic variable assumptions for the ECL measurement

The Bank uses 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 Bank uses 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 2023 are set out below.

	2024	2025
Latvian portfolio:		
Inflation rate	2.1%	2.4%
Unemployment rate	6.5%	6.3%
Other countries' portfolio (based on macroeconomic forecasts for Ukraine)		
GDP (gross domestic product)	3.60%	6.0%
Nominal gross wage (annual changes, %)	15.80%	14.0%

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, Ministry of Finance of Ukraine..*

The upside scenario foresees a reduction in geopolitical risks and an increase in investment, which would boost economic activity, however, the macroeconomic outlook still remains cautious over uncertainty of external geopolitical factors.

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

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

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

In the downside scenario, macroeconomic projections are made against the background of high uncertainty, anticipating an escalation of the geopolitical situation.

In measuring ECL as at 31 December 2023, 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%.

	LV portfolio EUR '000	**Other countries' portfolio** EUR '000	**Total** EUR '000
ECL			
Base case scenario (100%)	1,166	386	1,552
Base case scenario (60%)	700	232	932
Upside scenario (15%)	174	57	231
Downside scenario (25%)	295	97	392
Total	**1,169**	**386**	**1,555**

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 used for strategic planning and budgeting process of the Bank.

(b) Market risk

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 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 Bank is exposed to the risk of changing foreign currency exchange rates, which impacts both the financial performance and the cash flows of the Bank. The Bank controls 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 Bank. The Board determines the 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 Bank's equity but the total foreign currency open position may not exceed 20% of the equity. In 2023 and 2022, the Bank complied with these limits (see Note 30). The Bank has no significant open positions in 'exotic' currencies.

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

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

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 Bank defines and controls 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 Bank's revenue/costs change with exchange rate fluctuations) and the results of such evaluation are submitted to the management of 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 Bank, if necessary.

The table below presents the sensitivity of the 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):

31.12.2023	Effect on net profit/loss and equity		**31.12.2022**	Effect on net profit/loss and equity	
	+10%	-10%		+10%	-10%
USD	(48)	48	USD	(102)	102
Total	**(48)**	**48**	**Total**	**(102)**	**102**

(d) Interest rate risk

Interest rate risk is the sensitivity of the Bank's financial position to a change in market interest rates. In the normal course of business, the Bank encounters 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 Bank (see Note 32).

Basis of the interest rate risk management:

- assessing sensitivity of interest rate risk;
- setting internal limits and monitoring adherence to them;
- 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 address 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 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, and the results further used for proposing changes in the interest rate risk management policies, if needed. The results of interest rate risk assessment are reported to the management of 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 Bank's profit/loss to interest rate fluctuations as described above with all other variables held constant (in thousand EUR):

31.12.2023	Effect on net profit/loss and equity		**31.12.2022**	Effect on net profit/loss and equity	
	+100 bps/ +50 bps	-100 bps/ -50 bps		+100 bps/ +50 bps	-100 bps/ -50 bps
USD	(335)	335	USD	(139)	139
EUR	(175)	175	EUR	(191)	191
Total	**(510)**	**510**	**Total**	**(330)**	**330**

(e) Liquidity risk

The Bank is 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 Bank sets limits on cash and short-term liquid assets in an appropriate proportion to its projected close-to-maturity liabilities to ensure that it has sufficient cash to meet its liabilities in full and in time, while also allowing for situations where it may need to meet demands for funds in excess of its initial projections. The Bank regularly assesses and plans the maturity structure of its assets and liabilities (see Note 31).

The Bank uses the following methods for the evaluation of liquidity risk:

- assesses the maturity structure of existing and projected assets, liabilities and off-balance sheet commitments by financial instrument, for different maturity bands in aggregate and for each currency in which the Bank has a significant amount of business (i.e., currencies with a weighting in the Bank's assets/liabilities exceeding 5%) or for which the market is illiquid;
- sets liquidity ratios and limits and monitors them regularly. In developing the procedures for calculating liquidity ratios and setting limits, the Bank takes into account its business objectives and the level of risk tolerance;
- establishes and regularly analyzes a system of early warning indicators that can help identify vulnerabilities in the Bank's liquidity position and the need to raise additional funding;
- stress testing.

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

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

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, if necessary;
- ensures efficient diversification of funding sources and their maturities, incl. sets concentration limits.

On a daily basis, the Bank monitors both the liquid asset and deposit structure and their changes to ensure high liquidity ratios. The Bank assesses the deposit situation as stable. As at 31 December 2023, the Bank's liquidity coverage ratio was 171.69% (31 December 2022: 181.18%), significantly above the minimum ratio of 100%.

(f) Capital adequacy

Capital adequacy refers to the sufficiency of the 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 Bank calculates the own funds requirements for credit valuation adjustment (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.

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

Moreover, the Bank has developed internal documentation and regulations according to which it 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 25 October 2022, the Regulator recalculated the minimum capital requirement, determining it to the Bank at 11.10%, 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 25 October 2022, the Regulator set the required capital adequacy requirement to cover all risks of the Bank and the recommended capital buffer requirement in the amount of 11.5% and 1.75% (P2G) respectively. Calculated in accordance with Regulation (EU) 575/2013 of the European Parliament and of the Council, the Bank's capital adequacy ratio in December 2023 was 36.05% (31 December 2022: 27.82%, which exceeds the requirements the Regulator (11.5%) (see also Note 29). The Bank also complies with Regulation (EU) No 575/2013 of the European Parliament and of the Council with the established leverage ratio requirement of 3%. The Bank's leverage ratio as at 31 December 2023 was 11.12%. The leverage ratio provides an indication of the 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.

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

(g) Operational risk

Operational risk is the possibility of incurring losses as a result of inadequate or unsuccessful developments in the 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 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 Bank has 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 the risk that any exposure or group of exposures might cause the Bank to incur losses that might threaten its solvency or ability to continue as a going concern, or a significant change in the Bank's risk profile. 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 Bank has 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.

In order to manage concentration risk, the Bank has set and controls the following 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 related party transactions;
- various limits for portfolio transactions.

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

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

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

Country risk

Country risk is one of significant transaction concentration risks. Country risk is the possibility of incurring losses if the Bank's assets are located in a country where, due to changes in its economic and political factors, 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.

Basis of the country 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.

The country risk of transactions reflected in assets, liabilities and off-balance-sheet items is attributable 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.

The table below presents composite ratings of Latvia and the TOP3 foreign countries (OECD and non-OECD separately) in which the Bank had exposures.

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	Aa1/AA+	Ukraine	Ca/CC
-	-	Lithuania	A2/A	Romania	Baa3/BBB-
-	-	France	Aa2/AA	China	A1/A+

The top countries were selected taking into account the volume of transferred exposures and excluding Russia, for which the country risk limit was cancelled in 2022, however, two exposures are still valid.

The table below shows the breakdown of financial assets by groups of countries as at 31 December 2023.

	Latvia	**OECD**	**Non-OECD**	**31.12.2023**
	EUR	EUR	EUR	EUR
Financial assets				
Cash and balances with the Bank of Latvia	210,303,734	-	-	210,303,734
Balances due from banks	-	177,480	5,030,809	5,208,289
Loans and advances to customers	66,310,307	27,044,645	5,668,084	99,023,036
Financial assets at FVPL	-	160,190	88,489	248,679
Debt instruments at FVOCI	-	138,195,572	-	138,195,572
Other financial assets	149,785	1,249,538	46,932	1,446,255
Total financial assets	**276,763,826**	**166,827,425**	**10,834,314**	**454,425,565**

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 liabilities by groups of countries as at 31 December 2023.

	Latvia EUR	OECD EUR	Non-OECD EUR	31.12.2023 EUR
Liabilities				
Balances due to banks	-	-	70,595,213	70,595,213
Deposits from customers	97,938,940	84,954,297	155,436,767	338,330,004
Other financial liabilities	137,324	10,181	2,194	149,699
Provisions	203,313	58,084	40,873	302,270
Accrued expense and other liabilities	2,830,606	6,059	30,117	2,866,782
Corporate income tax payable	2,289,614	-	-	2,289,614
Total liabilities	**103,399,797**	**85,028,621**	**226,105,164**	**414,533,582**

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

	Latvia EUR	OECD EUR	Non-OECD EUR	31.12.2022 EUR
Financial assets				
Cash and balances with the Bank of Latvia	141,138,313	-	-	141,138,313
Balances due from banks	-	70,620	1,088,392	1,159,012
Loans and advances to customers	62,334,738	17,480,265	29,539,532	109,354,535
Financial assets at FVPL	-	132,172	57,829	190,001
Debt instruments at FVOCI	-	125,705,520	-	125,705,520
Other financial assets	130,979	1,259,780	40,073	1,430,832
Total financial assets	**203,604,030**	**144,648,357**	**30,725,826**	**378,978,213**
Liabilities				
Balances due to banks	-	-	4,001,730	4,001,730
Deposits from customers	123,809,972	86,397,577	133,315,161	343,522,710
Other financial liabilities	140,110	10,342	4,530	154,982
Provisions	298,172	68,611	152,209	518,992
Accrued expense and other liabilities	1,043,736	11,778	27,418	1,082,932
Total liabilities	**125,291,990**	**86,488,308**	**137,501,048**	**349,281,346**

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

The Bank places 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 Bank has established and continuously 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. Clear risk management mechanisms are defined in internal regulatory documents for all ICS elements - ML/FTP and Sanctions Risk Management Strategy 2023-2025, as well as its implementation policies and procedures, which define the structure and operational organization of the Bank's ML/FTP risk management, the distribution of management and employee responsibility and authority for ML/FTP risk management in the field of ML/FTP risk identification and management, including measurement,

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

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

evaluation, control, preparation and submission of reports to the Bank's management, accounting and documentation of customer information and transactions, etc.

In the customer due diligence process, the Bank follows a risk based approach – the depth and scope of the due diligence depends on the customer risk level as well as its impact on the Bank's total AML/CFTP risk exposure the Bank considers possible to undertake (risk appetite).

The Bank ensures its obligation to justify and document the commensurability of the customer due diligence measures to the risks inherent in relations with customers. The Bank assures 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.

During the reporting period, the Bank of Latvia carried out a horizontal off-site inspection "Horizontal Inspection of Money Laundering, Terrorism and Proliferation Financing and Sanctions Risk Assessment Process Including Methodology" (hereinafter the Inspection) for all financial market participants, including the Bank. The Bank of Latvia informed of the overall conclusions on good and bad practices during the Inspection and the accompanying communication. Reviewing its own results separately, the Bank, in accordance with the Inspection Report published by the Bank of Latvia on 28 June 2023 and in the light of best practices, revised the frequency of reviewing the ML/FTP and Sanctions Risk Assessment Methodology, the circumstances under which a review of the methodology is required and, consequently, the frequency of assessments, stipulating that both the review and assessments of the ML/FTP and Sanctions Risk Assessment Methodology are to be carried out no less frequently than annually thereafter (previously - every 18 months), as well as included the requirement to separately assess (isolate) TF and PF risks, and updated the Bank's ML, TPF and sanctions risk assessments in accordance with the new deadlines by 31 December 2023.

During the reporting period, the Bank of Latvia carried out the thematic inspection of the Bank as well as of all 22 market participants supervised by the Bank of Latvia. The objective of this thematic inspection was to assess the effectiveness of the Bank's sanctions screening system based on the provisions of the Law on International Sanctions and National Sanctions of the Republic of Latvia, Financial and Capital Market Commission Regulation No. 5 and Financial and Capital Market Commission Regulation No 126. For the thematic inspection, the Bank of Latvia contracted an independent service provider *AML Analytics* that performed the testing, compiled and evaluated the results, and provided feedback on the test results. As a result of the inspection, the Bank obtained assurance that the IT systems it used in the sanctions screening process meet the AML Analytics Global Benchmark standards, and based on the results of the thematic inspection, the Bank made improvements to the screening mechanism for certain items, thereby reducing the number of false positives to be processed.

Following the AML/CFTP inspection carried out in 2022, in autumn 2023, the Bank entered into an administrative agreement with the Bank of Latvia about taking certain measures to improve its internal control system and to pay a fine of EUR 259,867. The fine relates to shortcomings in the application of compliance procedures that are already remedied and paid for. The conclusion of the above administrative agreement with the Bank of Latvia and the fulfilment of the obligations set out therein do not have a negative impact either on the Bank's customer service processes and quality or its financial stability.

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

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

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 ad-hoc assessments.

The Bank continues to constantly improve IT systems that provide automated ML/FTP and sanctions risk management processes (customer information processing and management, numerical evaluation of the customer's ML/FTP 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, such activities as testing the effectiveness of the alerts, improving and testing the algorithm/configuration for screening of persons, considering alternative suppliers for screening systems and checklists, and also other activities were carried out to increase the effectiveness and range of applications of the IT systems used. In August 2023, the Bank migrated and successfully launched the FIU goAML (version 5.0) reporting system providing even more comprehensive and structured reporting of threshold declarations and suspicious transactions.

The aforementioned ML/FTP risk management elements, the Bank's investment in the creation of the internal control system and its continuous improvement that embraces increasing the competence of employees, regular updating of the ML/FTP risk 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 confirm the Bank's ability to assume and manage its inherent risks.

(j) Strategic and business risk

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

- failure of taking into account or incomplete identification of potential hazards to the Bank's business;
- incorrect or insufficiently substantiated identification of prospective areas of activity in which 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 Bank's strategic objectives.

Within the Bank, strategic and business risk is managed within the framework of the Bank's Development Strategy 2023-2027 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.

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

(j) Strategic and business risk

One of the key elements of the Bank's Development Strategy 2023-2027 is to increase the volume and share of Latvian business by gradually diversifying the Bank's resources and sources of profit and reducing the share of the Bank's business with non-residential customers. In 2023, the Bank focused on delivering this strategic element. The volume of loans to Latvian residents increased, as did the share of income from Latvian residents from 39% in 2022 to 54% in 2023. As at 31 December 2023, the share of loans to Latvian residents in the Bank's total loan portfolio was 64%, an increase of EUR 4.3 million compared to 31 December 2022.

Based on unaudited information, the Bank's operating result for January and February 2024 was in line with the planned budget, confirming the Bank's ability to operate steadily within its chosen Development Strategy and to further develop its priority activities - financing of Latvian business projects and servicing EU/Latvian residents

(k) Climate impact (unaudited)

The Bank identifies and assesses its ESG risks on a regular basis, at least twice a year, concerning loan exposures of corporate customers as well as collateral used to secure the relevant loans, and their impact on climate risks.

The Bank is aware of the importance of climate issues and their impact on its operations and those of its clients, therefore sustainability issues are a key focus. Sustainability risk management takes into account both physical risks and transition risks associated with reducing carbon emissions.

The ESG risk assessment covers up to 85% of the Bank's loan portfolio and is rated low/medium risk.

	Very high	High	Medium	Low	Very low
Industry					
Forestry, wood processing	0%	0%	9%	0%	0%
Real estate operations	0%	0%	21%	17%	0%
Manufacturing	0%	0%	2%	4%	0%
Trade	0%	0%	16%	9%	0%
Transport	0%	0%	7%	0%	0%
Other	0%	0%	1%	11%	0%
Total	**0%**	**0%**	**57%**	**43%**	**0%**

The ESG risk impact on loan exposures by sector as at 31 December 2023 is assessed as low/medium. Considering the ESG assessment of the top 5 clients as medium and classifying them by sector, the ECL would increase by 1%, i.e., the ECL allowances would increase by EUR 0.285 thousand. It can be concluded that the impact of ESG risk on the Bank's performance is not material.

5. Interest income and expense

	2023 EUR	2022 EUR
Interest income at effective interest rate:		
Loans and advances to legal entities	7,730,166	5,093,120
Loans and advances to private individuals	115,625	135,104
Balances due from banks	7,744,811	906,509
Debt securities held for trading	30,385	1,650,748
Debt instruments at fair value through other comprehensive income	6,367,683	12,299
Total interest income	**21,988,670**	**7,797,780**
Interest expense:		
Deposits from private individuals	(178,097)	(50,396)
Current accounts of private individuals	(78,504)	-
Deposits from legal entities	(320,491)	(31,171)
Current accounts of legal entities	(961,674)	-
Current accounts of banks	(596,606)	-
Other interest and related expense	(362,357)	(713,813)
Interest expense on lease liabilities (see also Note 18)	(717)	(592)
Total interest expense	**(2,498,446)**	**(795,972)**
Net interest income	**19,490,224**	**7,001,808**

The rapid growth in interest income in 2023 was achieved owing to the increase both in the Bank's business volume and the interest rates, which rose sharply during 2023 as a result of implementing the monetary policy of the ECB and the US Fed.

Other interest and related expense include payments to the deposit guarantee fund of EUR 93,427 (2022: EUR 103,768), 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 268,930 (2022: EUR 222,147), a negative interest rate applied to correspondent accounts of EUR 0 (2022: EUR 387,898).

6. Fee and commission income and expense

	2023 EUR	2022 EUR
Fee and commission income:		
Account servicing	1,120,379	905,790
Money transfers	496,020	504,231
Commissions on transactions with settlement cards	222,670	190,437
Commission income on asset management	220,500	339,642
Interbank commission income	156,539	126,930
Commission income on escrow accounts servicing	149,054	90,450
Commission income on transactions with securities	121,510	16,978
Income from general services	113,544	133,185
Commissions on letters of credit	106,812	217,064
Fees on registration of changes in loan agreements	29,235	66,181
Other commissions (DIGIPAS)	22,851	26,928
Other income	42,845	11,716
Total fee and commission income	**2,801,959**	**2,629,532**
Fee and commission expense:		
Money transfers	(338,702)	(234,484)
Commissions on transactions with settlement cards	(30,853)	(139,607)
Other expense	(9,308)	(49,880)
Total fee and commission expense	**(378,863)**	**(423,971)**
Net fee and commission income	**2,423,096**	**2,205,561**

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

7. Administrative expense

	2023 EUR	2022 EUR
Remuneration paid to personnel*	(5,102,656)	(3,123,990)
Statutory social insurance contributions	(1,470,680)	(862,977)
Remuneration paid to the Members of the Council and the Board	(1,240,556)	(697,991)
Set-up and maintenance costs of information systems	(494,175)	(441,200)
Communications expense	(356,366)	(351,209)
Fee paid to the certified auditor*	(229,496)	(205,330)
Non-deductible VAT	(155,914)	(171,488)
Public utilities	(136,607)	(174,234)
Consulting and professional fees	(113,969)	(92,471)
Real estate tax	(69,214)	(52,877)
Sponsorship	(66,000)	-
Business trips	(42,215)	(18,086)
Health insurance	(41,528)	(31,494)
Advertising and marketing	(35,940)	(9,308)
Office and equipment maintenance	(33,682)	(13,992)
Stationery	(20,973)	(11,142)
Postal charges	(14,050)	(19,023)
Transport expense	(9,102)	(9,812)
Security	(1,401)	(1,444)
Other administrative expense	(269,750)	(160,155)
Total administrative expense	**(9,904,274)**	**(6,448,223)**

* In 2023 increase in remuneration paid to personnel due to the fact that the remuneration was revised and bonuses were paid.

The average number of staff employed by Bank in 2023 was 137, including 5 Members of the Board, 5 Members of the Council and 127 other employees (2022: 126, including 5 Members of the Board, 5 Members of the Council and 116 other employees). The remuneration paid to the Members of the Council and the Board is disclosed in Note 33.

* The total fee paid to the certified auditor by the types of services provided by the auditor was as follows: statutory annual audit of financial statements – EUR 215,020 (2022: EUR 172,630), other audit tasks – EUR 14,476 (2022: EUR 27,700); other specialists' tasks – EUR 0 (2022: EUR 5,000).

8. Other operating income

	2023 EUR	2022 EUR
Rentals	279,345	260,484
Penalties	20,384	14,476
Other income	110,171	3,377
Total other operating income	**409,900**	**278,337**

9. Other income and expense

	2023 EUR	2022 EUR
Income from recovery of written-off loans	1,996	25,159
Profit from the sale of foreclosed assets	-	3,700
Profit from loan assignment transactions	21,232	-
Total other income	**23,228**	**28,859**
Loss on revaluation of the investment in the subsidiary *	-	(574,782)
Impairment of repossessed collateral	(50,708)	(35,443)
Payments to funds and membership fees	(187,376)	(173,607)
Other taxes		-
Penalties	(260,063)	(3)
Total other expense	**(498,147)**	**(783,835)**

* In 2022, the Bank's loss on the revaluation of its investment in the subsidiary was due to the distribution of the entire profit and paying it out as dividends; an impairment loss of EUR 574,782 was recognized on the investment in the subsidiary.

10. Corporate income tax

	2023 EUR	2022 EUR
Current corporate income tax	(7,082)	(12,891)
Overpayment of corporate income tax*	(2,286,091)	-
Tax paid abroad **	(45,505)	(48,147)
Total corporate income tax	**(2,338,678)**	**(61,038)**

* Additional payment of corporate income tax (see also Note 3 (i).

** 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

	31.12.2023	31.12.2022
	EUR	EUR
Cash	805,656	1,330,781
Demand deposits with the Bank of Latvia	209,519,032	139,821,514
ECL allowances	(20,954)	(13,982)
Cash and balances with the Bank of Latvia, net	**210,303,734**	**141,138,313**

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

All cash balances are allocated to Stage 1.

	31.12.2023	31.12.2022
	EUR	EUR
Demand deposits with the Bank of Latvia at the beginning of the year	139,821,514	81,947,374
Increase in the reporting year	46,262,232,555	11,009,097,900
Decrease in the reporting year	(46,192,535,037)	(10,951,223,760)
Demand deposits with the Bank of Latvia at the end of the year	**209,519,032**	**139,821,514**

Changes in ECL allowances for the year can be specified as follows:

	31.12.2023	31.12.2022
	EUR	EUR
Allowances for demand deposits with the Bank of Latvia at the beginning of the year	13,982	8,261
Increase in the reporting year*	4,807,490	1,130,378
Decrease in the reporting year*	(4,800,518)	(1,124,657)
Allowances for demand deposits with the Bank of Latvia at the end of the year	**20,954**	**13,982**

* increase relates to new deposits and the decrease to deposits that matured, i.e. there has be no change to credit risk

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 20 December 2023 to 30 January 2024 was set at EUR 3,892,670 (2022: EUR 3,486,212). The Bank was in compliance with the reserve requirement of the Bank of Latvia in 2023 and 2022.

12. Balances due from banks

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

	31.12.2023	31.12.2022
	EUR	EUR
On demand	5,208,809	1,072,747
Balances with maturity of three months or less	-	86,381
Balances due from banks, gross	**5,208,809**	**1,159,128**
ECL allowances	(521)	(116)
Balances due from banks, net	**5,208,289**	**1,159,012**

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 2023:

Balances due from banks	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2023	**1,159,128**	**-**	**-**	**1,159,128**
New assets originated or purchased	140,042,000	-	-	140,042,000
Assets repaid	(135,203,623)	-	-	(135,203,623)
Interest accrued	(146)	-	-	(146)
Foreign exchange adjustments	(788,550)	-	-	(788,550)
Gross carrying amount as at 31.12.2023	**5,208,809**	**-**	**-**	**5,208,809**

Balances due from banks	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2023	**116**	**-**	**-**	**116**
New assets originated or purchased	12,936	-	-	12,936
Change in credit risk	(6,431)	-	-	(6,431)
Assets repaid	(6,008)	-	-	(6,008)
Foreign exchange adjustments	(92)	-	-	(92)
ECL allowances as at 31.12.2023	**521**	**-**	**-**	**521**

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 the Bank's balances due from banks by their ratings:

Ratings	**31.12.2023 Due from banks**		**31.12.2022 Due from banks**	
	EUR	%	EUR	%
Aa1 to Aa3	-	-	-	-
A1 to A3	20,207	0.39	101,666	8.77
Baa1 to Baa3	-	-	-	-
Ba1 to Ba3	-	-	-	-
B1 to B3	-	-	-	-
Caa1 to Caa3	-	-	1,000,468	86.32
Ca	5,029,754	96.57		
	5,049,961	**96.96**	**1,102,134**	**95.09**
Without rating	158,849	3.04	56,994	4.91
ECL allowances	(521)	-	(116)	-
Balances due from banks, net	**5,208,289**	**100**	**1,159,012**	**100**

13. Loans and advances

Analysis of loans by customer profile and type of loans:

	31.12.2023 EUR	31.12.2022 EUR
Loans to legal entities	103,287,118*	111,610,386
Loans to private individuals, except for mortgages	1,283,351	2,843,402
Mortgages	116,194	124,352
Total loans and advances to customers, gross	**104,686,663**	**114,578,140**
Allowances for loan impairment	(5,663,627)	(5,223,605)
Total loans and advances to customers, net	**99,023,036**	**109,354,535**

* Part of credit loans with Ukrainian credit risk was sold under the cession agreement.

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 2023.

Loans to legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2023	**88,469,794**	**13,829,282**	**9,311,310**	**-**	**111,610,386**
New assets originated or purchased	48,722,134	-	-	-	48,722,134
Assets increase[1]	134,176,449	1,115,311	1,433,594	-	136,725,354
Assets repaid	(173,746,464)	(2,351,539)	(1,698,644)	-	(177,796,647)
Assets sold	-	(2,557,732)	(13,397,346)	-	(15,955,078)
Transfers to Stage 2	(13,529,240)	13,529,240	-	-	-
Transfers to Stage 3	-	(18,657,155)	18,657,155	-	-
Accrued interest	329,396	19,873	-	-	349,269
Foreign exchange adjustments	(7,579)	(13,561)	(347,160)	-	(368,300)
Gross carrying amount as at 31.12.2023	**84,414,490**	**4,913,719**	**13,958,909**	**-**	**103,287,118**

Loans to legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2023	**1,476,867**	**622,543**	**2,752,933**	**-**	**4,852,343**
New assets originated or purchased	398,450	-	-	-	398,450
Assets increase[1]	1,474,662	25,732	150,455	-	1,650,849
Change in credit risk	88,449	(1,258)	3,466,464	-	3,553,655
Assets repaid	(2,097,198)	(75,327)	(122,164)	-	(2,294,689)
Assets sold	-	(142,144)	(3,638,172)	-	(3,780,316)
Transfers to Stage 2	(222,762)	222,762	-	-	-
Transfers to Stage 3	-	(586,711)	586,711	-	-
Impact on ECL of transfers	-	129,068	942,415	-	1,071,483
Foreign exchange adjustments	(35)	(1,311)	(152,472)	-	(153,818)
ECL allowances as at 31.12.2023	**1,118,433**	**193,354**	**3,986,170**	**-**	**5,297,957**

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2023	**2,213,853**	**8,400**	**621,149**	**-**	**2,843,402**
New assets originated or purchased	22,839	-	-	-	22,839
Assets increase[1]	535,724	2,467	22,469	-	560,660
Assets repaid	(2,078,111)	(1,643)	(62,087)	-	(2,141,841)
Transfers to Stage 3	(39,448)	(9,322)	48,770	-	-
Amounts written off	(47)	-	-	-	(47)
Accrued interest	(1,517)	-	-	-	(1,517)
Foreign exchange adjustments	(84)	98	(159)	-	(145)
Gross carrying amount as at 31.12.2023	**653,209**	**-**	**630,142**	**-**	**1,283,351**

[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)*

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2023	**9,745**	**161**	**360,004**	**-**	**369,910**
New assets originated or purchased	312	-	-	-	312
Assets increase[1]	313	-	-	-	313
Change in credit risk	(369)	571	(434)	-	(232)
Assets repaid	(7,962)	(200)	(75)	-	(8,237)
Transfers to Stage 3	(828)	(535)	1,363	-	-
Amounts written off	(47)	-	-	-	(47)
Foreign exchange adjustments	(14)	3	(94)	-	(105)
ECL allowances as at 31.12.2023	**1,150**	**-**	**360,764**	**-**	**361,914**

Mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2023	**52,699**	**71,653**	**-**	**-**	**124,352**
Assets increase[1]	2,043	9,061	-	-	11,104
Assets repaid	(6,580)	(3,121)	(3,362)	-	(13,063)
Transfers to Stage 3	-	(74,723)	74,723	-	-
Accrued interest	27	(3,786)	-	-	(3,759)
Foreign exchange adjustments	-	916	(3,356)	-	(2,440)
Gross carrying amount as at 31.12.2023	**48,189**	**-**	**68,005**	**-**	**116,194**

Mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2023	**737**	**615**	**-**	**-**	**1,352**
Assets increase[1]	26	151	-	-	177
Change in credit risk	(325)	806	2232	-	2,713
Assets repaid	(82)	(93)	(168)	-	(343)
Transfers to Stage 3	-	(1,487)	1,487	-	-
Foreign exchange adjustments	-	8	(151)	-	(143)
ECL allowances as at 31.12.2023	**356**	**-**	**3,400**	**-**	**3,756**

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 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**

[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 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 increase1	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 increase1	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**

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**

[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 Bank's independent Risk Management 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 loans, mostly 3 stage loans internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behavior.

The table below analyzes the changes in the gross balance sheet value and the relevant ECL for the Bank's loans and advances in the year ending on 31 December 2023.

	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers, gross	**85,115, 888**	**4,913,719**	**14,657,056**	**-**	**104,686,663**
A	11,012,606	-	-	-	11,012,606
B	60,312,107	1,441,278	-	-	61,753,385
C	13,607,661	3,472,441	-	-	17,080,102
D	182,899	-	-	-	182,899
E	-	-	-	-	-
F	-	-	14,657,056	-	14,657,056
Without rating	615	-	-	-	615
Allowances for loan impairment	**1,119,933**	**193,354**	**4,350,334**	**-**	**5,663,621**
A	115,743	-	-	-	115,743
B	782,262	38,833	-	-	821,095
C	220,996	154,521	-	-	375,517
D	901	-	-	-	901
E	-	-	-	-	-
F	-	-	4,350,334	-	4,350,334
Without rating	31	-	-	-	31

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 31 December 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
Without rating	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
Without rating	40	-	12	-	52

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

Risk concentration in the loan portfolio by industry profile:

	31.12.2023		31.12.2022	
	EUR	%	EUR	%
Construction and transactions with real estate	34,519,209	32.97	52,142,292	45.51
Trade and commercial activities	26,984,216	25.77	28,203,549	24.60
Financial services	9,521,469	9.10	6,390,862	5.58
Transport and communications	8,779,007	8.39	6,056,302	5.30
Forestry and logging	8,150,810	7.79	2,383,595	2.08
Manufacturing	7,333,935	7.01	2,816,515	2.46
Tourism and hotel services, restaurant business	4,243,716	4.05	3,725,700	3.25
Electricity, gas or heat supply	3,001,205	2.87	-	-
Private individuals	1,399,545	1.34	1,814,434	1.58
Other	741,595	0.70	10,409,982	9.09
Agriculture and food industry	11,956	0.01	634,909	0.55
Total loans and advances to customers (gross)	**104,686,663**	**100**	**114,578,140**	**100**
Allowances for loan impairment	(5,663,627)	-	(5,223,605)	-
Total loans and advances to customers, net	**99,023,036**	**-**	**109,354,535**	**-**

As at 31 December 2023, the total amount of loans issued to top 10 Bank's customers was EUR 47,991,004 (2022: EUR 63,823,433), which formed 48.85% of the total loan portfolio (2022: 57.61%).

The analysis of the Bank's collateral as at 31 December 2023:

	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	102,629,212	282,441,237	657,906	642,106
Loans to individuals – consumer loans	1,205,538	13,487,929	77,813	-
Mortgages	116,194	340,124	-	-
Total	**103,950,944**	**296,269,290**	**735,719**	**642,106**

The analysis of the 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**

14. Financial assets at fair value through profit or loss

	31.12.2023	31.12.2022
	EUR	EUR
Non-OECD government bonds	80,398	49,447
Quoted shares	8,253	6,820
Unquoted shares	160,028	133,734
Total	**248,679**	**190,001**

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

Ratings	31.12.2023		31.12.2022	
	EUR	%	EUR	%
Aaa to Aa3	160,190	64.42	132,172	69.57
A1 to A3	-	-	-	-
Ba1 to Ba3	8,091	3.25	8,382	4.41
B1 to B3	-	-	-	-
Caa1 to Caa3	-	-	49,447	26.02
Ca	80,398	32.33	-	-
Total	**248,679**	**100**	**190,001**	**100**

15. Debt instruments at fair value through other comprehensive income

	31.12.2023	31.12.2022
	EUR	EUR
OECD government bonds	138,195,572	125,705,520
Total	**138,195,572**	**125,705,520**

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

Ratings	31.12.2023		31.12.2022	
	EUR	%	EUR	%
Aaa to Aa3	138,195,572	100	125,705,520	100
Total	**138,195,572**	**100**	**125,705,520**	**100**

The table below shows changes in the carrying amounts of the Bank's debt instruments designated at fair value through other comprehensive income in the year ended 31 December 2023:

	Stage 1	Stage 2	Stage 3	Total
Fair value at 1 January 2023	**125,705,520**	**-**	**-**	**125,705,520**
New assets originated or purchased	487,332,358	-	-	487,332,358
Assets repaid	(470,203,068)	-	-	(470,203,068)
Changes in fair value	117,900	-	-	117,900
Interest accrued	115,792	-	-	115,792
Foreign exchange adjustments	(4,872,930)	-	-	(4,872,930)
Fair value at 31 December 2023	**138,195,572**	**-**	**-**	**138,195,572**

15. Debt instruments at fair value through other comprehensive income *(cont'd)*

The table below shows changes in the ECL allowances for the Bank's debt instruments designated at fair value through other comprehensive income in the year ended 31 December 2023:

	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 1 January 2023	**12,546**	**-**	**-**	**12,546**
New assets originated or purchased	47,627	-	-	47,627
Assets repaid	(45,893)	-	-	(45,893)
Foreign exchange adjustments	(486)	-	-	(486)
ECL allowances as at 31 December 2023	**13,794**	**-**	**-**	**13,794**

The table below shows changes in the carrying amounts of the 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 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	-	-	681
ECL allowances as at 31 December 2022	**12,546**	**-**	**-**	**12,546**

16. Investment in subsidiary

SIA Grunewald Residence

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 Bank'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).

17. Intangible assets

Changes in the Bank's intangible assets in 2023 and 2022 can be specified as follows:

	Software 2023 EUR	Pre-payments 2023 EUR	Total software 2023 EUR	Software 2022 EUR	Pre-payments 2022 EUR	Total software 2022 EUR
Cost						
At the beginning of the year	2,708,332	92,593	2,800,925	2,514,737	122,674	2,637,411
Additions	93,775	259,333	353,108	193,595	-	193,595
Disposals	(361,663)	-	(361,663)	-	(30,081)	(30,081)
At the end of the year	**2,440,444**	**351,926**	**2,792,370**	**2,708,332**	**92,593**	**2,800,925**
Amortization						
Accumulated amortization at the beginning of the year	2,304,861	-	2,304,861	2,161,985	-	2,161,985
Charge for the year	127,237	-	127,237	142,876	-	142,876
Disposals	(361,663)	-	(361,663)	-	-	-
Accumulated amortization at the end of the year	**2,070,435**	**-**	**2,070,435**	**2,304,861**	**-**	**2,304,861**
Net carrying amount at the beginning of the year	**403,471**	**92,593**	**496,064**	**352,752**	**122,674**	**475,426**
Net carrying amount at the end of the year	**370,009**	**351,926**	**721,935**	**403,471**	**92,593**	**496,064**

As at 31 December 2023, a number of assets that had been fully amortized were still in active use. The original cost value of these assets was EUR 1,786,961 (31 December 2022: EUR 2,097,587).

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 Bank's property and equipment in 2023 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 31.12.2022	**13,335,000**	**96,229**	**1,149,292**	**651,244**	**100,927**	**15,332,692**
Additions	-	-	111,282	7,037	-	118,319
Disposals	-	-	(1,007,803)	(169,292)	-	(1,177,095)
As at 31.12.2023	**13,335,000**	**96,229**	**252,771**	**488,989**	**100,927**	**14,273,916**
Depreciation as at 31.12.2022	**754,495**	**66,732**	**1,087,030**	**616,100**	**85,628**	**2,609,985**
Disposals	-	-	(1,007,803)	(168,822)	-	(1,176,625)
Charge for the year	150,898	6,210	46,607	14,364	6,116	224,195
As at 31.12.2023	**905,393**	**72,942**	**125,834**	**461,642**	**91,744**	**1,657,555**
Net carrying amount as at 31.12.2022	**12,580,505**	**29,497**	**62,262**	**35,144**	**15,299**	**12,722,707**
Net carrying amount as at 31.12.2023	**12,429,607**	**23,287**	**126,937**	**27,347**	**9,183**	**12,616,361**

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

Changes in the 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 the year	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 2023, 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 540,460 (31 December 2022: EUR 1,679,922).

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 value of the Bank's building 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 2023 and the value was set at EUR 12.848 million (the acquisition cost in 2015 was EUR 14.825 million).

The Bank has entered into lease agreements on premises that are used in their business activities. The leases term is three to five years. The Bank's liabilities are secured with the leased assets (see also Note 24). The Bank has also several car lease agreements for 12 months or less and low-value office equipment lease agreements. The Bank 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:

	2023 Premises EUR	**2023** Total EUR	**2022** Premises EUR	**2022** Total EUR
Right-of-use assets as at 1 January	**27,567**	**27,567**	**50,172**	**50,172**
Additions	16,212	16,212	11,088	11,088
Decrease	-	-	-	-
Depreciation expense	(28,291)	(28,291)	(32,632)	(32,632)
Foreign exchange adjustments	(303)	(303)	(1,061)	(1,061)
Right-of-use assets as at 31 December	**15,185**	**15,185**	**27,567**	**27,567**

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:

	2023	2022
	EUR	EUR
Depreciation expense of right-of-use assets	(28,291)	(32,632)
Interest expense on lease liabilities	(717)	(592)
Total amount recognized in the statement of comprehensive income	**(29,008)**	**(33,224)**

In 2023, the Bank had total cash outflows for leases of EUR 29,008 (2022: EUR 33,643).

19. Other assets

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

	31.12.2023	31.12.2022
	EUR	EUR
Financial assets, incl.:	1,488,602	1,465,579
- security deposits	1,260,686	1,295,484
- accounts receivable	76,005	60,064
- other financial assets	151,911	110,031
Non-financial assets	426,077	1,509,865
- repossessed collateral	426,077	476,784
- investment gold	-	1,033,081
Total other assets, gross	**1,914,679**	**2,975,444**
Impairment allowances for other financial assets	(42,347)	(34,747)
Total other assets, net:	**1,872,332**	**2,940,697**

The analysis of the changes in other financial assets as at 31 December 2023:

	Stage 1	Stage 2	Stage 3	Total
Financial assets as at 01.01.2023	**1,430,401**	**-**	**35,178**	**1,465,579**
New assets originated or purchased	6,772,932	-	-	6,772,932
Assets repaid	(6,706,283)	-	-	(6,706,283)
Foreign exchange adjustments	(54,989)	-	11,365	(43,624)
Financial assets as at 31.12.2023	**1,442,061**	**-**	**46,543**	**1,488,604**

The analysis of changes in ECL allowances for other financial assets in the year ended 31 December 2023:

	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 1 January 2023	**125**	**-**	**34,622**	**34,747**
New assets originated or purchased	397,819	-	-	397,819
Assets repaid	(391,918)	-	-	(391,918)
Foreign exchange adjustments	(5,902)	-	7,601	1,699
ECL allowances as at 31 December 2023	**124**	**-**	**42,223**	**42,347**

The analysis of the 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**

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

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**

The Bank treats 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.

The table below summarizes methods used by the Bank in determining the net realizable value of non-financial assets in 2023.

No	Property	Municipality	City	Carrying amount EUR	Methods used in net realizable value measurement
1	Office	Odessa	Odessa	426,077	Market (comparables) approach
Total assets repossessed by the Bank				426,077	

The table below summarizes methods used by 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	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

	31.12.2023	31.12.2022
	EUR	EUR
Cash and balances with the Bank of Latvia (see Note 11)	210,324,688	141,152,295
Balances due from other banks with an original maturity of three months or less	5,208,809	1,158,983
Total	**215,533,497**	**142,311,278**

21. Balances due to banks

	31.12.2023	31.12.2022
	EUR	EUR
Credit institution vostro correspondent account	70,595,213	4,001,730
Total	**70,595,213**	**4,001,730**

22. Deposits from customers

(a) Analysis of deposits by customer profile

	31.12.2023	31.12.2022
	EUR	EUR
Legal entities		
- current/settlement accounts	216,902,406	226,541,604
- term deposits	24,518,023	6,081,172
Private individuals		
- current/settlement accounts	86,103,733	108,328,893
- term deposits	10,805,842	2,571,041
Total	**338,330,004**	**343,522,710**
Sector:		
Private companies	191,190,118	177,839,307
Private individuals	96,909,575	110,899,934
Other financial intermediaries (OFI), except non-MFI	36,762,557	35,920,064
Captive financial institutions and money lenders	13,217,480	18,509,006
Non-profit organizations serving households	250,274	354,399
Total	**338,330,004**	**343,522,710**

(b) Analysis of deposits by place of residence

	31.12.2023	31.12.2022
	EUR	EUR
Residents	97,896,631	123,809,972
Non-residents	240,433,373	219,712,738
Total	**338,330,004**	**343,522,710**

In 2023, the average interest rate on term deposits was 2.11% (2022: 0.41%) and the average interest rate on demand deposits was 0.41% (2021: -0.09%). All deposits bear a fixed interest rate.

Deposits from customers by industry can be specified as follows:

	31.12.2023		31.12.2022	
	EUR	%	EUR	%
Financial and insurance services	105,647,426	31.23	126,307,699	36.77
Private individuals	96,909,575	28.64	110,899,934	32.28
Trade and commercial activities	96,408,225	28.50	55,947,425	16.29
Construction and real estate	22,156,780	6.55	18,933,701	5.51
Transport and communications	7,497,857	2.22	8,105,379	2.36
Other	5,626,787	1.65	15,370,928	4.47
Manufacturing	3,236,422	0.96	4,697,613	1.37
Agriculture and food industry	846,932	0.25	3,260,031	0.95
Total	**338,330,004**	**100**	**343,522,710**	**100**

As at 31 December 2023, the total amount of deposits attributable to top 20 depositors was EUR 249,560,723 (31 December 2022: EUR 239,866,062), constituting 73.77% of the Bank's portfolio (31 December 2022: 69,83%).

23. Current income tax liabilities

	31.12.2023	31.12.2022
	EUR	EUR
Corporate income tax liabilities for December	3,523	4,059
Additional payment liabilities of corporate income tax	2,286,091	-
Total	**2,289,614**	**4,059**

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

24. Other financial liabilities

	31.12.2023.	31.12.2022.
	EUR	EUR
Liability suspense account*	3,558	3,217
Settlements on behalf of a closed bank	16,585	16,585
Accounts payable	114,028	107,331
Lease liabilities	15,528	27,849
Total	**149,699**	**154,982**

* The liability suspense account as at 31 December 2023 and 31 December 2022 included the amounts erroneously transferred to the Bank, which were returned to the senders at the beginning of 2024 and 2023 respectively.

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

	2023	2023	2022	2022
	Premises	Total	Premises	Total
	EUR	EUR	EUR	EUR
Lease liabilities as at 1 January	**27,849**	**27,849**	**50,285**	**50,285**
Increase	18,599	18,599	11,088	11,088
Payments	(31,055)	(31,055)	(33,643)	(33,643)
Foreign exchange adjustments	135	135	119	119
Lease liabilities as at 31 December	**15,528**	**15,528**	**27,849**	**27,849**

25. Accrued expenses and other liabilities

	31.12.2023	31.12.2022
	EUR	EUR
Vacation pay reserve and accrual for bonuses	2,002,213	560,882
Accrual for the guarantee fund and Regulator's financing	159,994	186,101
Statutory social insurance contributions	465,155	126,337
Deferred income	-	10,289
Other accrued expense	239,420	195,264
Total	**2,866,782**	**1,078,873**

26. Derivative financial instruments

The Bank uses 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 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 Bank assesses counterparty risk using the same techniques as for its 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 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 2023 and 31 December 2022, the Bank had no derivative financial instruments.

27. Share capital

As at 31 December 2023, the Bank's issued and fully paid share capital was EUR 32,334,756 (31 December 2022: EUR 32,334,756). The nominal value of one share is EUR 1.00 (31 December 2022: 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.

The shareholders of the Bank as at 31 December 2023 and 31 December 2022:

	31.12.2023 EUR	%	31.12.2022 EUR	%
SIA SKY Investment Holding	14,228,717	44.00	14,228,717	44.00
Yuriy Rodin	8,698,783	26.90	10,915,756	33.76
SIA Villa Flora	4,664,881	14.43	-	-
Mark Bekker	3,418,808	10.57	3,418,808	10.57
Other shareholders (with less than 10% of shares)	1,323,567	4.10	3,771,475	11.67
Total paid share capital	**32,334,756**	**100**	**32,334,756**	**100**

28. Off-balance items and encumbered assets

Contingent liabilities

Contingent liabilities can be specified as follows:

	31.12.2023 EUR	31.12.2022 EUR
Financial guarantees	3,395,883	4,769,891
Irrevocable letters of credit	-	176,573
Non-financial guarantees	83,981	84,516
Total contingent liabilities	**3,479,864**	**5,030,980**

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 Bank takes into account changes in the risk that the particular debtor might default on its contractual obligations.

The analysis of changes in the granted amounts of financial guarantees in the year ended 31 December 2023:

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
Financial guarantees as at 01.01.2023	**2,728,900**	**2,040,991**	**-**	**4,769,891**
New assets originated or purchased	666,061	-	-	666,061
Increase	791,775	-	1,136,153	1,927,928
Decrease	(1,695,690)	-	(2,272,307)	(3,967,997)
Transfers to Stage 3	(557,046)	(2,040,991)	2,598,037	-
Financial guarantees as at 31.12.2023	**1,934,000**	**-**	**1,461,883**	**3,395,883**

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

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

The analysis of changes in ECL in the year ended 31 December 2023:

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
ECL as at 01.01.2023	**45,982**	**131,545**	**-**	**177,527**
New assets originated or purchased	17,108	-	-	17,108
Increase	10,551	-	6,069	16,620
Change in credit risk	(30,611)	-	(8,841)	(39,452)
Decrease	(25,059)	-	(79,296)	(104,355)
Transfers to Stage 3	(8,841)	(131,545)	140,386	-
ECL as at 31.12.2023	**9,130**	**-**	**58,318**	**67,448**

The analysis of changes in the granted amounts of 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**

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.

The analysis of changes in non-financial guarantees in the year ended 31 December 2023:

	31.12.2023 EUR	**31.12.2022** EUR
Non-financial guarantees as at 1 January.	**84,516**	**108,618**
Decrease	-	(25,000)
Foreign exchange adjustments	(535)	898
Non-financial guarantees as at 31 December	**83,981**	**84,516**

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

Financial commitments

The outstanding loan commitments can be specified as follows:

	31.12.2023	31.12.2022
	EUR	EUR
Loan commitments	5,647,654	5,600,658
Undrawn credit lines	12,688,469	15,302,016
Total financial commitments	**18,336,123**	**20,902,674**

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:

	31.12.2023	31.12.2022
	EUR	EUR
EUR	5,647,654	5,600,658
USD	-	-
Total loan commitments	**5,647,654**	**5,600,658**

The undrawn credit lines are denominated in the following currencies:

	31.12.2023	31.12.2022
	EUR	EUR
EUR	11,003,457	12,428,827
USD	1,685,012	2,873,189
Total undrawn credit lines	**12,688,469**	**15,302,016**

The analysis of changes in the undrawn granted amounts of financial commitments in the year ended 31 December 2023:

Financial commitments	Stage 1	Stage 2	Stage 3	Total
Financial commitments as at 01.01.2023	**19,594,268**	**1,308,406**	**-**	**20,902,674**
New assets originated or purchased	68,034,501	-	-	68,034,501
Increase[1]	144,367,980	3,228,614	5,919,554	153,516,148
Decrease	(213,298,375)	(4,841,824)	(5,921,121)	(224,061,320)
Transfers to Stage 2	(1,379,926)	1,379,926	-	-
Transfers to Stage 3	-	(8,912)	8,912	-
Foreign exchange adjustments	(55,517)	(20)	(343)	(55,880)
Financial commitments as at 31.12.2023	**17,262,931**	**1,066,190**	**7,002**	**18,336,123**

[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.

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

The analysis of changes in ECL in the year ended 31 December 2023:

Financial commitments	Stage 1	Stage 2	Stage 3	Total
ECL as at 01.01.2023	**270,480**	**70,985**	**-**	**341,465**
New assets originated or purchased	319,100	-	-	319,100
Increase[1]	909,531	42,083	55,169	1,006,783
Change in credit risk	182,881	(59,951)	(1,655)	121,275
Decrease	(1,459,037)	(46,830)	(53,514)	(1,559,381)
Transfers to Stage 2	(5,807)	5,807	-	-
Impact on ECL of transfers	-	7,414	-	7,414
Foreign exchange adjustments	(1,834)	-	-	(1,834)
ECL as at 31.12.2023	**215,314**	**19,508**	**-**	**234,822**

The analysis of changes in the undrawn granted amounts of financial commitments in the year ended 31 December 2022:

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**

Encumbered assets

The pledged and restricted assets can be specified as follows:

	31.12.2023	**31.12.2022**
	EUR	EUR
Other assets	1,253,992	1,274,988
Total	**1,253,992**	**1,274,988**

[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.

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

All encumbered assets serve as security for the Bank's financial liabilities as at 31 December 2023 and 31 December 2022. The carrying amount of encumbered assets approximates to their fair value as at both 31 December 2023 and 31 December 2022.

As at 31 December 2023, the encumbered assets of the Bank consisted of the following:

- security deposits of EUR 1,239,128 (31 December 2022: EUR 1,259,589) for potential claims from MasterCard Europe SPRL. The agreement with this organization requires ensuring a sufficient amount of resources available in a deposit account with U.S Bank (MasterCard Europe Sprl), which could cover all potential expenses related to the Bank's participation in this organization;
- security deposits of EUR 14,863 in other assets (31 December 2021: EUR 15,398) for letters of credit issued.

29. Capital adequacy

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

Description	31.12.2023 EUR	31.12.2022 EUR
Total own funds	**53,055,799**	**45,488,974**
- Tier 1 capital	53,055,799	45,488,974
- Common equity Tier 1 capital	53,055,799	45,488,974
- Tier 2 capital	-	-
Total risk exposure amount	**147,169,195**	**163,531,982**
- Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	121,997,996	146,133,551
- Total risk exposure amount for position, foreign exchange and commodities risks	723,680	1,980,874
- Total risk exposure amount for operational risk	24,447,519	15,417,557
- Total exposure amounts for credit valuation adjustment	-	-
Capital adequacy ratios		
- Common equity Tier 1 capital ratio	36,05%	27,82%
- Surplus (+) / Deficit (-) of common equity Tier 1 capital (4.5%)	46,433,185	38,130,035
- Tier 1 capital ratio	36,05%	27,82%
- Surplus (+) / Deficit (-) of Tier 1 capital (6%)	44,225,647	35,677,055
- Total capital ratio	36,05%	27,82%
- Surplus (+) / Deficit (-) of total capital (8%)	41,282,263	32,406,415
- Capital conservation buffer (%)	2,5%	2.5%
- Capital conservation buffer	3,679,230	4,088,300

On 25 December 2022, the Regulator revised the total capital requirement for the Bank setting it at 11.5% (11.1% for 2022), comprising the 8% requirement under Article 92(1) of EU Regulation No 575/2013 and an additional requirement of 3.5% (3.1% for 2022) set by the Regulator; the Bank's recommended capital buffer requirement for P2R was set at 1.75%. The Bank is also required to maintain a capital conservation buffer of 2.5%. The Bank meets and complies with the specified capital adequacy requirements for 2023.

30. Analysis of assets and liabilities by currency profile

The table below provides the analysis of the Bank's financial assets and financial liabilities as at 31 December 2023:

	USD EUR	EUR EUR	Other EUR	Total EUR
Financial assets				
Cash and balances with the Bank of Latvia	326,995	209,976,739	-	210,303,734
Balances due from banks	5,087,811	83,348	37,130	5,208,289
Financial assets at FVPL	96,742	151,937	-	248,679
Debt instruments at FVOCI	138,195,572	-	-	138,195,572
Loans and advances to customers	712,893	98,310,143	-	99,023,036
Other financial assets	1,254,100	192,155	-	1,446,255
Prepaid expense	2,086	241,098	1,454	244,638
Total financial assets	**145,676,199**	**308,955,420**	**38,584**	**454,670,203**
Liabilities				
Balances due to banks	-	70,595,213	-	70,595,213
Deposits from customers	145,367,890	192,910,932	51,182	338,330,004
Other financial liabilities	2,890	144,615	2,194	149,699
Provisions	27,401	274,869	-	302,270
Accrued expense and other liabilities	-	2,836,665	30,117	2,866,782
Current income tax liabilities	-	2,289,614	-	2,289,614
Total financial liabilities	**145,398,181**	**269,051,908**	**83,493**	**414,533,582**
Net long / (short) position for statement of financial position items	*278,018*	*39,903,512*	*(44,909)*	*40,136,621*
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	**278,018**	**39,903,512**	**(44,909)**	**40,136,621**
as at 31 December 2022				
Total financial assets	**140,827,755**	**238,331,466**	**18,592**	**379,177,813**
Total financial liabilities	**142,601,687**	**206,602,416**	**77,243**	**349,281,346**
Net long / (short) position	**(1,773,932)**	**31,729,050**	**(58,651)**	**29,896,467**

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

The table below provides the analysis of the Bank's financial assets and financial 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
Accrued expense and other liabilities	-	1,051,455	27,418	1,078,873
Current income tax liabilities	-	4,059	-	4,059
Total financial 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 financial liabilities	**95,318,400**	**116,311,940**	**152,785**	**211,783,125**
Net long / (short) position	**35,397**	**27,708,881**	**279,165**	**28,023,443**

31. Analysis of assets and liabilities by maturity profile

The table below provides the analysis of the Bank's financial assets and financial liabilities by contractual maturity as at 31 December 2023.

	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	-	210,303,734	-	-	-	-	-	210,303,734
Balances due from banks	-	5,208,289	-	-	-	-	-	5,208,289
Financial assets at FVPL	-	-	-	-	27,005	53,394	168,280	248,679
Debt instruments at FVOCI	-	36,913,047	52,473,002	30,962,545	8,722,153	9,124,825	-	138,195,572
Loans and advances to customers	688,824	7,742,233	8,162,359	6,969,527	13,825,106	61,128,737	506,250	99,023,036
Other financial assets	-	206,979	150	-	-	-	1,239,128	1,446,257
Total financial assets	**688,824**	**260,374,282**	**60,635,511**	**37,932,072**	**22,574,264**	**70,306,956**	**1,913,658**	**454,425,567**
Liabilities								
Balances due to banks	-	70,595,213	-	-	-	-	-	70,595,213
Deposits from customers	-	308,878,549	23,491,219	1,848,272	2,878,145	233,819	1,000,000	338,330,004
Other financial liabilities	-	110,694	1,337	2,006	4,011	31,651	-	149,699
Corporate income tax	-	-	-	2,289,614	-	-	-	2,289,614
Total financial liabilities	**-**	**379,584,456**	**23,492,556**	**4,139,892**	**2,882,156**	**265,470**	**1,000,000**	**411,364,530**
Off-balance sheet liabilities	-	16,168,332	5,647,654	-	-	-	-	21,815,986
Liquidity	**688,824**	**(135,378,506)**	**31,495,301**	**33,792,180**	**19,692,108**	**70,041,486**	**913,658**	**21,245,051**

The management of the Bank believes that short-term liquidity is not endangered. The Bank's liquidity ratio calculated according to the Regulator's requirements was 87.04% as at 31 December 2023 (31 December 2022: 73.26%). In accordance with the Regulator's requirements, the Bank has to ensure a sufficient amount of liquid assets to settle its liabilities.

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

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

The table below provides the analysis of the Bank's financial assets and financial 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 financial liabilities	**-**	**339,375,330**	**4,352,487**	**854,689**	**850,415**	**350,365**	**1,900,195**	**347,683,481**
Off-balance sheet liabilities		20,332,996	5,600,658	-	-	-	-	25,933,654
Liquidity	**3,379,691**	**(171,404,006)**	**59,634,331**	**26,982,251**	**22,830,245**	**59,309,933**	**4,628,633**	**5,361,078**

The table below presents the Bank's contractual undiscounted cash flows of financial liabilities as at 31 December 2023:

	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
Balances due to banks	-	70,595,213	-	-	-	-	-	70,595,213
Deposits from customers	-	308,909,959	23,519,513	1,872,933	2,950,319	254,361	1,000,000	338,507,085
Other financial liabilities	-	110,694	1,337	2,006	4,011	31,651	-	149,699
Corporate income tax	-	-	-	2,289,614	-	-	-	2,289,614
Total financial liabilities	-	**379,615,866**	**23,520,850**	**4,164,553**	**2,954,330**	**286,012**	**1,000,000**	**411,541,611**
Off-balance sheet liabilities	-	16,168,332	5,647,654	-	-	-	-	*21,815,986*

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

The table below presents the Bank's contractual undiscounted cash flows of financial liabilities 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
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 financial liabilities	-	**339,402,682**	**4,380,780**	**879,349**	**922,590**	**370,907**	**1,900,195**	**347,856,503**
Off-balance sheet liabilities		20,332,99	5,600,658	-	-	-	-	*25,933,654*

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

The Bank's financial assets and financial liabilities categorized by the earlier of contractual repricing or maturity dates as at 31 December 2023:

	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	209,498,078	-	-	-	-	-	805,656	**210,303,734**
Balances due from banks	5,208,289	-	-	-	-	-	-	**5,208,289**
Financial assets at FVPL	-	-	-	27,004	53,394	-	168,281	**248,679**
Debt instruments at FVOCI	36,913,047	52,588,795	30,962,545	8,722,153	9,009,032	-	-	**138,195,572**
Loans and advances to customers	18,641,978	59,182,921	7,098,830	1,087,595	13,011,712	-	-	**99,023,036**
Other financial assets	-	-	-	-	-	-	1,446,255	1,446,255
Total financial assets	**270,261,392**	**111,771,716**	**38,061,375**	**9,836,752**	**22,074,138**	**-**	**2,420,192**	**454,425,565**
Liabilities								
Balances due to banks	70,595,213	-	-	-	-	-	-	**70,595,213**
Deposits from customers	308,949,331	23,491,219	1,779,155	2,878,145	532,154	700,000	-	**338,330,004**
Other financial liabilities	-	-	-	-	-	-	149,699	**149,699**
Corporate income tax	-	-	-	-	-	-	2,289,614	**2,289,614**
Total financial liabilities	**379,544,544**	**23,491,219**	**1,779,155**	**2,878,145**	**532,154**	**700,000**	**2,439,313**	**411,364,530**
Sensitivity of statement of financial position items to interest rate risk	*(109,283,152)*	*88,280,497*	*36,282,220*	*6,958,607*	*21,541,984*	*(700,000)*	*(19,121)*	*43,061,035*

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

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

	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	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	18,777,503	16,548,293	-	200	109,354,535
Other financial assets	-	-	-	-	-	-	1,430,832	1,430,832
Total financial assets	**204,325,923**	**108,821,806**	**27,552,874**	**18,777,503**	**16,597,739**		**2,902,368**	**378,978,213**
Liabilities	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 liabilities	-	-	-	-	-	-	154,982	154,982
Corporate income tax	-	-	-	-	-	-	4,059	4,059
Total financial liabilities	**339,528,215**	**4,174,793**	**850,017**	**826,725**	**544,690**	**1,600,000**	**159,041**	**347,683,481**
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*

33. 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 Bank, their close relatives and companies in which they have controlling interest, as well as companies in which they have significant influence.

Transactions with related parties as at 31 December 2023 can be specified as follows:

	Bank's shareholders and entities owned by them	Other related parties
Total loans and advances to customers (contractual interest rate: 6%)	-	4,546
Correspondent account	5,016,878	-
Deposits from customers (contractual interest rate: (0.7% of ECB interest rate-0.0%)	81,181,006	4,093,350

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

Income and expense from transactions with related parties in 2023 can be specified as follows:

	Bank's shareholders and entities owned by them	Other related parties
Interest income	-	322
Interest expense	(830,191)	(82,111)
ECL allowances	(919)	(890)
Fee and commission income	137,866	2,293
Fee and commission expense	(4,322)	-
Other income	2,761	1,562
Administrative and other operating expense	3,869	-

Off-balance sheet liabilities towards related parties as at 31 December 2023 can be specified as follows:

	Bank's shareholders and entities owned by them	Other related parties
Undrawn credit lines	-	3,062
Assets under management	4,730,721	-

Transactions with related parties during 2023:

	Bank's shareholders and entities owned by them	Other related parties
Deposits accepted from related parties	542,986	-
Deposits repaid to related parties	(742,986)	-
Loans issued to related parties	-	70,330
Loans repaid by related parties		(65,966)
Other transactions*	15,976,310	28,250

* The amount includes the part of credit loans with Ukrainian credit risk sold within the framework of the Assignment Agreement

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

	Bank's shareholders and entities owned by them	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

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

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	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	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

Remuneration to the Board and Council of the Bank can be specified as follows:

	31.12.2023 EUR	**31.12.2022** EUR
Short-term benefits:		
- salaries	1,240,556	697,991
- statutory social insurance contributions	277,170	138,120
Total	**1,517,726**	**836,111**

34. 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 Bank discloses information on fair values of assets and liabilities in such a way as to enable its comparison with their carrying amounts.

34. Fair value of financial assets and liabilities *(cont'd)*

When determining fair values of assets and liabilities, the Bank uses 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 Bank conducts assessment of the fair value of financial assets and liabilities which are not presented in the 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.

The carrying amounts of the Bank's assets measured at amortized cost and their fair values can be specified as follows:

	31.12.2023		31.12.2022	
	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	210,303,734	210,303,734	141,138,313	141,138,313
Balances due from banks	5,208,289	5,208,289	1,159,012	1,159,012
Loans to legal entities	97,989,161	98,082,428	106,758,043	106,840,520
Loans to private individuals, except for mortgages	921,437	922,016	2,473,492	2,474,761
Mortgages	112,438	112,508	123,000	123,063
Other financial assets	1,446,255	1,446,255	1,430,832	1,430,832
Total assets measured at amortized cost	**315,981,314**	**316,075,230**	**253,082,692**	**253,166,501**

34. Fair value of financial assets and liabilities *(cont'd)*

	31.12.2023 Carrying amount EUR	31.12.2023 Fair value EUR	31.12.2022. Carrying amount EUR	31.12.2022. Fair value EUR
Liabilities measured at amortized cost				
Balances due to banks	70,595,213	70,595,213	4,001,730	4,001,730
Deposits from customers	338,330,004	338,010,357	343,522,710	343,650,032
Other financial liabilities	149,699	149,699	673,974	673,974
Total liabilities measured at amortized cost	**409,074,916**	**408,755,269**	**348,198,414**	**348,325,736**

The Bank's assets by fair value hierarchy levels (at carrying amounts) can be specified as follows):

	31.12.2023 Level 1 EUR	31.12.2023 Level 2 EUR	31.12.2023 Level 3 EUR	31.12.2022 Level 1 EUR	31.12.2022 Level 2 EUR	31.12.2022 Level 3 EUR
Assets measured at fair value						
Debt instruments measured at FVOCI	138,195,572	-	-	125,705,520	-	-
Financial assets measured at FVPL	-	88,489	160,190	-	57,829	132,172
Total assets measured at fair value	**138,195,572**	**88,489**	**160,190**	**125,705,520**	**57,829**	**132,172**

The Ukrainian government bonds in the 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 about securities price, published by Bloomberg. The bank's 3rd level instruments are financial instruments of the capital market - shares. The sensitivity of the fair value determination to changes in these financial instruments would have an immaterial effect on the bank's profit or loss.

35. Assets under management

Assets under management are securities and other customer assets acquired under trust agreement

	31.12.2023 (unaudited) EUR	31.12.2022 (unaudited) EUR
Legal entities:		
- residents	4,589,959	2,128,895
- non-residents	36,172,113	37,836,519
Private individuals:		
- residents	140,762	234,709
- non-residents	24,445,027	26,552,964
Total	**65,347,861**	**66,753,087**

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

36. Return on equity and return on assets

	31.12.2023 (unaudited)	31.12.2022 (unaudited)
Return on equity (ROE) (%)	18.30%	0.50%
Return on assets (ROA) (%)	2.06%	0.06%

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.

37. 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, 8 March 2024