Group consolidated and Bank Separate Annual report for the year ended 31 December 2023

Contents

A letter by Jeļena Buraja, the Chairman of the Executive Board	3
Report of the Council and the Executive Board	4-11
Statements of Management Responsibility	12
The Council and the Executive Board	13
Independent Auditors' Report	14-21
Separate and Consolidated Statements of Profit or Loss and Other Comprehensive Income	22-23
Separate and Consolidated Statements of Financial Position	24-25
Separate and Consolidated Statements of Cash Flows	26-27
Separate and Consolidated Statements of Changes in the Shareholders' Equity	28-30
Notes to the Separate and Consolidated Financial Statements	31-120

A letter by Jeļena Buraja, the Chairman of the Executive Board

Honourable shareholders, clients and partners!

One more year has passed. The activity of Rietumu Bank was influenced by both the previously unexpected geopolitical shocks that changed and continue to change the whole world and the significant external economic factors.

I am pleased that in this challenging era we are able to work successfully, develop, support our clients and forge new and ambitious plans.

Rietumu Bank has further strengthened its position among the leading credit institutions operating in this country, and convincingly is the largest bank owned by local shareholders. Our financial results are a reliable indicator of the foresight of the chosen strategy and its successful implementation and provide a solid foundation for the further growth of the Bank.

Last year we substantially extended cooperation with large companies established in Latvia and other European countries.

We firmly stand behind the independence of Latvia, its economic growth and further integration into the single market of the European Union. We ensure qualitative financial services and safe settlements to our clients in Latvia and Europe.

We grant the necessary funds for the development of various economic sectors – we have financed many ambitious projects in such key areas supporting the growth of Latvian economy as green energy, transport and logistics, commercial and residential real estate project development, innovative agriculture, local production, trade and financial services.

At the same time we are deeply convinced that it is very important to implement and strictly observe all international sanctions. It is one of the priorities of Rietumu Bank and it has received positive assessment from the Bank of Latvia, the Financial Intelligence Unit and our local and foreign partners.

Last year we continued to improve the Bank's internal processes, including the corporate management and internal control system, and to develop risk assessment and compliance with sanctions.

We implement our sustainability strategy, which defines the Bank's priorities in environmental, social and governance areas. We consider transparency of corporate governance, ensuring gender equality, social responsibility, promoting environmental protection, including the use of renewable energy, to be of high importance. We actively cooperate with clients evaluating their projects also from the point of view of sustainability, and finance more and more renewable energy projects.

We continue to provide social and cultural support to the society. We have been consistently providing support to Ukraine and the Ukrainian community and refugees in Latvia since the beginning of the war, and this will definitely remain one of our priorities.

Rietumu Banka has ambitious growth plans, and we look to the future with confidence. We will continue to develop cooperation with Latvian and European companies, offer our clients extensive business financing opportunities, introduce new financial products, expand cooperation with international partners.

Thank you, our shareholders, clients and partners for your support last year!

We continue our path to new successes together!

Report from the Council and the Executive Board

The Bank's strategic development and key events in 2023

JSC "Rietumu Banka" (hereinafter - the Bank) concentrates on providing services to large and medium-sized enterprises and affluent individuals in Latvia, the Baltic States and other Member States of the European Union. The rationale behind the choice of the business model and the Bank's long-term development goals are outlined in the long-term Business Development Strategy 2023–2028 devised and approved by the Bank's senior management in 2023. At the end of 2023, the Business Development Strategy was approved by the responsible representatives of Latvijas Banka.

The key directions of the Business Development Strategy 2023–2028 envisage that the Bank:

1. predominantly provides services in Latvia, the Baltic States, and member countries of the European Economic Area (EEA);
2. sets out the principal direction of the development, namely the increase in the volume of lending services in Latvia and the Baltic States;
3. is planning to diversify geographic and customer segmentation within the deposit portfolio across Latvia, the Baltic States, and the EEA;
4. is planning to stabilise the volume of the Bank's investment portfolio and the inherent risks;
5. continues to develop the Bank's business process and digitalisation of customer service channels;
6. actively focuses on sustainability issues and corporate governance while integrating „green" initiatives and environmental, social and governance (ESG) factors in the Bank's all-encompassing aspects;
7. in HR management, the Bank stays oriented towards a purposeful professional development of the personnel and encourages employee involvement in strengthening the Bank's values and shaping of an inclusive culture;

When setting the Bank's and the Bank's group (hereinafter – the Group) strategic objectives and tasks, the senior management has them quantified through the following key performance indicators (KPIs) (the implementation deadline is 31.12.2028:

- growth of the Group's total assets: up to EUR 2.4 billion;
- growth of the volume of the Bank's deposits: up to EUR 1.9 billion;
- growth of the volume of the Bank's loan portfolio: up to EUR 1.5 billion;
- growth of the Group's operating income: up to EUR 100 million;
- growth of the volume of the Group's annual net profit: up to EUR 33 million;
- growth of the Group's return on equity (ROE): up to 7.8%;
- reduction of the percentage of the Bank's non-performing loans (NPLs): below 10%.

To strengthen the Bank's overall business development strategy 2023–2028, in 2023 the Bank additionally devised and approved governance documents, including the strategies: Investment Portfolio Construction and Management Strategy**,** Marketing Strategy, Risk Management Strategy, the Money Laundering and Terrorism and Proliferation Financing Risk Management Strategy, Sustainability Strategy, Information Technology Development Strategy, NPL Management Strategy, and Strategy for Management of Repossessed Real Estate.

Implementation of strategic objectives in 2023

When commencing to implement the Business Development Strategy 2023–2028, the Bank has already accomplished two tangible achievements in 2023: the total amount of the Bank's assets exceeded EUR 1.5 billion (31.12.2023: EUR 1.51 billion). The total volume of the Bank's deposits exceeded EUR 1 billion (31.12.2023: EUR 1.011 billion).

The achievements are based on the professional work of the Bank's management and employees, offering clients a broad array of top-quality financial services while placing a special emphasis on funding business projects in Latvia and acquiring investments specifically for the projects. The Bank's essential advantages include a bespoke approach to its clients, Latvia-based decision-making bodies, and professional expertise and experience accumulated by the Bank over the past 30 years. Such an approach enables the Bank to raise financial resources for its clients and hence jointly implement new and innovative projects; increase economic value of the invested and managed assets in the long term, both for the Bank itself, and for its clients.

Along with a range of traditional lending and deposit services, the Bank also develops services based on new-generation financial technologies. The Bank offers 24/7 customer service. Its clients can receive daily banking services via a modern mobile application and can avail of video identification support. The Bank acquires deposits from European individuals with intermediation of the EU's fintech deposit platforms.

A vast work experience and knowledge accumulated by the Bank over 30 years equip the Bank with advantages and enable the Bank to provide services to local clients in Latvia, regional clients in Baltic States, and clients of EU Member States representing all traditional and innovative sectors of economy, as well as public institutions and companies of Latvia. Sectors of paramount importance include transport and logistics, energy, construction, development of infrastructure and immovable property, information technologies, agriculture, light industry, processing industry, wholesale, and other sectors. The main Latvia's economic sectors financed by the Bank in 2023 encompass development of commercial and residential immovable property, renewable energy, light industry, non-banking and alternative financial services, development and management of hotels, and transport services.

Lending is one of the Bank's important strategic directions. The Bank is planning to develop cooperation with large and medium-sized enterprises in Latvia while the Bank thoroughly analysing feasibility, viability and business potential of each project. The Bank therefore continued in 2023 to pursue Bank-specific conservative lending policy with a focus on financially stable businesses and support of new development projects. In 2023, the volume of loans granted to Latvia's enterprises totalled EUR 214 million.

The Bank is categorised as other systemically important institution (O-SII). As of 31 December 2023, the Bank ranked 4th in terms of assets and capital volume among Latvia's credit institutions. The Bank was included on TOP101 of Latvia's most valuable companies of 2023. TOP 101 is compiled by Prudentia in cooperation with Nasdaq Riga Stock Exchange. The Bank ranks fifth in the TOP101 ranking of Latvia's private local-capital companies. The Bank ranks 21st in the overall list of companies operating in Latvia.

In 2023, the Bank devised and approved the Marketing Strategy 2023–2025 which sets forth the guidelines based on which the Bank implements all marketing and PR events in accordance with the Bank's mission and the goals envisaged by the Business Development Strategy 2023–2028.

In 2023, the Bank commenced its changeover to the new visual identity. The Bank's new visual identity includes a lot of innovations, including the new logo, advertising mock-ups/models, website design, design of forms and seals, and other elements of visual image. Bank has also new slogans which resonate with the Bank's business philosophy: *Rietumu. A bank for Latvian business that appreciates every nuance. Quality is never an accident.*

After implementing the new visual identity, the Bank enjoys the new modern brand image while remains sticking to its fundamental principle, namely, to be courageous, sustainable, professional and responsive partner for each client.

External factors exerting impact on business activities

In 2023, the U.S. Federal Reserve System (FRS) and the European Central Bank (ECB) continued to use their tools of monetary policy, frequently revised and raised their key interest rates in an effort to stop inflation and reduce it to 2% target. In 2023, the ECB's EUR interbank deposit rate was raised and held at 4.00%, thus ensuring that the annual inflation indicator in the eurozone declines to 2.9%, and the FRS set its USD key interest rate at 5.33%, thus ensuring decrease of the annual inflation in the USA to 3.4% level.

In 2023, the outbreak of the Russia-Ukraine war continued to adversely affect and change geopolitical and economic environment in the world, the European Union and Latvia. Because of the sanctions imposed in 2022 and 2023 by the governments of the EU, the USA, and other leading jurisdictions on Russian and Belarussian financial institutions, banks in the Baltic States were required to revise their operational risk management models. The Bank made great efforts to manage the impact and implications of the external circumstances on the Bank, the Group and the clients and to effectively manage other related risks and to maintain their respective liquidity coverage ratios at high level.

In 2023, the Bank continued to implement its stringent strategic approach according to which the Bank refrains from unveiling any new investments and commencing any new projects in Russia and Belarus. Under the new Business Development Strategy 2023–2028, only redemption of previously made investments and previously disbursed (outstanding) loans is permitted. In 2023, the volume of repaid and recovered loans in Russia and Belarus totalled EUR 32,7 million. The Bank's senior management expresses its viewpoint that the Bank succeeds in attaining the target. According to the Business Development Strategy 2023–2028, the Bank is planning to fully redeem its total exposure in Russia and Belarus by 2024.

The military conflict that had arisen in October 2023 and escalates in other Middle East countries affected and would continue to affect the restructuring of international and regional supply and logistics chains. In the long run, this will fuel increasing costs for goods shipments/transportation.

Although the average inflation rate in Latvia dropped to 8.9% in 2023 versus 17.3% in 2022, Latvia's GDP is expected (in the light of the still high ECB's deposit-facility rate of 4.0%) to shrink in 2023 by 0.4% (2022: surge by 2.0%). However, Latvijas Banka's projections for GDP growth and inflation decline to 2,0% target next year enable the Bank to remain optimistic regarding its growth outlook for the foreseeable future. The basis for such optimism lies in aspects such as the rising volume of exports and imports of Latvia's enterprises and hence enhancement of purchasing power of Latvia's public.

The Bank's management regularly and thoroughly keeps track of the previously described macroeconomic trends in Latvia and geopolitical developments worldwide in order to ensure a stable management process for the Bank and the Group and to envisage that significant strategic and operative decisions are made in a timely manner and implemented in accordance with the covenants and provisions of the Business Development Strategy 2023–2028.

Analysis of financial results

Operating and financial results attained by the Bank and the Group in 2023 are indicative of the Bank management's decisions related to choosing and shaping of the new strategy prove to be correct and far-reaching as the 2023 financial results and further forecasts ensure a stable basis, thus enabling the Bank and the Group to continue their development and growth.

Assets

Although amidst the aforesaid external geopolitical changes and economic instability the Bank made the decisions to re-orientate market segments and customer deposits to the Baltic States and EU Member States and to reinforce its more conservative approach used in assessing the new lending projects, in 2023 the Group's total assets increased by EUR 117 million (+8.4%) to stand at EUR 1.51 billion as of 31 December 2023. The Group's total loan portfolio (net) surged by EUR 77 million (+14%) to attain EUR 622 million as of 31 December 2023.

By 2023-end, the Bank's securities portfolio totaled EUR 332 million. The portfolio comprises top-quality government and corporate securities denominated primarily in EUR and USD. 71% of the portfolio's volume are invested in investment-grade securities; 17% are securities issued by U.S. issuers. The securities portfolio is diversified geographically and by sectors and ensures high-level risk control. The average securities coverage term is 2.03 years.

Funding, capital and expansion of the capital base

The total amount of the current accounts and deposits of the Bank increased per 59 million EUR (+6.2%) during 2023 and as of 31 December 2023 they have exceeded 1 billion EUR and amounted to 1.01 billion EUR. Deposits held on accounts of the Bank's clients accounted for 88% of the total liabilities. The sum total of term deposits on 31 December 2023 was 564 million euro.

The Bank continued to diversify its external-funding base in 2023 by attracting term deposits through deposit platforms from private individuals in other European Union member states. The average maturity of deposits on 31 December 2023 exceeded a year and was 1.23 years.

The total equity of the Group increased by EUR 31 million during 2023 and as of 31 December 2023 reached EUR 380 million which was supported by the gain of change in fair value of financial instruments at fair value through other comprehensive income of EUR 14 million and the total profit of the Group in 2023 of EUR 17 million. Tier 1 capital adequacy ratio of the Group (see Appendix 4 (h) Capital management) was 26.00% as of 31 December 2023 (in 2022: 24.85%) and the total capital adequacy ratio of the Bank (see Appendix 4 (h) Capital management) was 25.65%% as of 31 December 2023 (in 2022: 24.66%)

Revenues and Profitability

Despite the external macroeconomic and geographical risks, the main operating income source of the Group – interest income – continued to grow in 2023 and compared with the previous year it increased by EUR 19 million and reached EUR 68 million. At the same time, although the costs of external funding were growing rapidly, i. e., interest expense rose from EUR 11.5 million in 2022 to EUR 16.1 million in 2023, the Group was still able to ensure a small net operating income increase by EUR 1.61 million by attaining EUR 74 million in 2023.

As a result, the pre-tax profit of the Group compared with the previous year increased by EUR 2.3 million and reached EUR 21.5 million. However, after amendments in the tax legislation of Latvia which prescribed the Bank and its affiliated company of the Group SIA "InCREDIT GROUP" to calculate the corporate income tax and recognise it in advance prior to dividend pay-out in the reporting year, the sum total of the income tax of the Group in 2023 amounted to EUR 4.49 million (2022: EUR 1.73 million). As a consequence, the total net profit of the Group was kept at the level of the previous year at the amount of EUR 17 million. Thus, the total profit of the Group as per one share in 2023 made EUR 0.13 (2022: EUR 0.14).

As a result, the return on equity ratio (ROE) of the Group after tax[1] was 4.67% (in 2022 – 4.96%), ROE of the Bank – 3.61% (in 2022 – 5.66%) and the return on assets ratio (ROA) of the Group after tax[2] was 1.17% (in 2022 – 1.18%), ROA of the Bank – 0.86% (in 2022 – 1.29%).

In 2023, the comprehensive income of the Group amounted to EUR 31.9 million, being the result of the change in the fair value of securities (debt securities in their fair value through comprehensive income) in 2023 compared with their fair value at the end of 2022. In 2024 and years to come, the Bank plans to continue to manage its securities portfolio according to the investment management strategy developed in 2023 and approved by the Bank of Latvia in order to provide positive cash flow ensured in investment horizon.

Companies of the Group

The companies of the Group operate in the area of financial services, consumer lending, energy, real estate development and rent, and others.

In 2023, the Bank embarked on optimising the structure of the Group by liquidating non-operating companies and merging companies of similar industries. Thus, the management and daily activities of the Bank's subsidiaries were integrated in the management and internal control processes of the Bank. Activities of the Bank's subsidiaries are mainly financed by the Bank by investing in the capital and/or granting loans.

The Bank partially owns the consumer lending company SIA "InCREDIT GROUP" which is registered and operates in Latvia. On 31 December 2023, the net loan portfolio of SIA "InCREDIT GROUP" totaled EUR 59 million.

SIA "RB Investments" is a part of the Group and owns a large number of the most significant real estate of the Group and other assets of the Bank. Most of the assets are located in Riga and Riga Region. At the present, a part of these assets of SIA "RB Investments" group is rented or leased which makes it possible for the Group to gain profit during their retention period.

Influenced by geopolitical instability, in the framework of the Group no new leasing financing transactions were concluded in Belarus in 2023. Amortization of the Belarus leasing company portfolio was continued to close the total exposition in Belarus in 2024.

Risk management

With an aim to ensure more effective availability of financial services and effective implementation of the risk-based approach in 2023 functions of the 1st and 2nd defense line of the Bank were strengthened by attracting additional experienced professionals and introducing new processes in onboarding and due diligence of clients' transactions.

Due to geopolitical circumstances and the new sanction regimes in order to be able to respond to emergencies in the external environment, the Bank continuously monitors the sanction risk level, the quality and effectiveness of controls and the adequacy of human resources. In 2023 unscheduled assessments of sanction risk level were performed by analyzing the changes in client behavior and their reasons, and regularly evaluating typologies of violation and circumvention of sanctions and scenarios of the necessary controls. The Bank continues to implement the comprehensive package of control and risk-mitigation measures in the management of sanctions risk.

The Bank ensures a high compliance level in the AML/CTF/CPF and sanctions area by implementing, in a quick manner, amendments in internal regulatory documents and processes according to changes in legislation, recommendations by external and internal audits and the best practice standards.

In 2023, the Bank continued to enhance the efficiency of due diligence and monitoring of clients and their transactions and launched new technological solutions for improvement of the internal processes in the area of ML/TF/PF risks and sanction risk management. It also paid significant attention to quality control assurance and increase of personnel competences and skills.

While continuing the attraction of the local clients and the implementation of the long-term cooperation policy, in 2023 the Bank established a business relationship with several hundreds of new clients – residents of Latvia. At the same time, in the light of the current sanction issues, the Bank has paid special attention to the analysis of its corporate clients by introducing supplementary monitoring and due diligence mechanisms.

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[1] the ratio of the reporting period profit after corporate income tax over the average capital and reserves in the beginning and the end of the year

[2] the ratio of the reporting period profit after corporate income tax over the average assets in the beginning and the end of the year

Sustainability, social responsibility and well-being of the employees in the long run

The Bank and its subsidiaries set as the priority and continue to integrate the fundamental sustainability principles into their internal regulatory documents and un processes accordance with the Sustainable Development Goals of the United Nations for 2030 and in line with sustainability ambition levels defined by the Bank's Executive Board and to be reached by 2030.

In 2023, the Bank continued to implement measures, goals and targets, and priorities in environmental, social and governance (ESG) aspects in accordance with the Sustainability strategy. The Bank is planning to boost energy efficiency and to spur healthy and responsible lifestyle of its employees and their family members.

The Bank actively educates its employees on sustainability issues by organising training to enhance their awareness of ESG factors and sustainability overall, as well as of ESG regulation and assessment of sustainability risk inherent in the Bank's products and processes while strengthening employee expertise relating to sustainability in each of the three lines of defense.

The Bank's goal is to promote the positive impact of its products and services on the environment, and it will especially support cooperation with clients who consider ESG principles to be very important, just as the Bank does.

The Bank is firmly committed to reducing the intensity of climate change and in 2023 continued activities to reduce the impact of its operations on the environment, as well as started assessing the impact of customers and cooperation partners on the climate.

In 2023, the Bank paid special attention to the assessment of sustainability risks in the Bank's risk profile. An assessment of the sustainability risk profile of the Bank and the Group was carried out in the form of a questionnaire, determining the types of risks, as well as the main sustainability elements and transmission channels affecting them.

An assessment of the maturity of the Bank's Sustainability risk management was developed in seven dimensions of risk management: strategy and appetite, governance, culture, identification and assessment, management and monitoring, reporting, data and technology, and the planning of measures to increase the level of maturity.

The Bank updated the sustainability risk identification and assessment methodology for application to existing and new loans, anticipating both physical environmental and climate change-related risk factors, as well as potential significant transitional risks.

In 2023, the Bank obtained the status of "Family-Friendly Employer" and joined the "Mission Zero" initiative, which is a voluntary commitment to implement and comply with business principles oriented towards people, their health and safety, as well as to publicly define the goal - " 0" workplace accidents.

The Bank continues to actively implement social responsibility measures, providing support to various groups of society in such areas as sports, art and culture projects, promotion of medicine and medical science, and social projects. In the fall of 2023, the Bank becomes a cooperation partner of the Daile Theatre, providing annual support of EUR 100,000 for new productions over a three-year period.

The Bank is actively working on measures to implement the Corporate Sustainability Reporting Directive (CSRD), which adjusts the evaluation of the Bank's performance criteria in accordance with the European Sustainability Reporting Standards (ESRS) and the EU Taxonomy Regulation.

The Bank prepares the Sustainability Report in accordance with the principles of the Global Reporting Initiative (GRI) General Standards. In doing so, the Bank also takes into consideration the principles stipulated in Regulation (EU) 2019/2088 of the European Parliament and of the Council and the Corporate Sustainability Reporting Directive and in compliance with other binding standards and recommendations in the field of sustainability.

One of the essential components of the Bank's and the Group's sustainability as a responsible employer is the professional and personal development of its employees, as well as their well-being in qualitative and quantitative terms. During 2023, 90 new employees were hired by the Bank and the number of employees reached 388 as of 31 December 2023. In 2023, the Bank organised various well-being initiatives and activities to enhance employee awareness of importance of physical and mental health both in and outside the workplace environment. The Bank's personnel management will continue to focus on the targeted professional development of personnel in the long-term perspective, encourage employee involvement in shaping the Bank's values and an inclusive culture, as well as their involvement in support projects implemented by Nākotnes Atbalsta fonds (Future Supporting Fund) established by the Bank.

Support provided by the Bank in the field of social responsibility

In its Business Development Strategy 2023–2028, the Bank articulated that the social part of Bank's mission is to support Latvia's general public in developing traditional and new cultural currents, preserving historic heritage and improving the quality of life. To implement the social mission, the Bank has channelled EUR 667 thousand towards the social area during 2023 through the Future Supporting Fund established by the Bank.

One of the Bank's priorities is specific, multilateral and permanent assistance and support to Ukraine and Ukrainian refugees. Since the Russian invasion of Ukraine in February 2022, the Bank, employees, the Bank's charity foundation, shareholders and the Chairman of the Executive Board Jeļena Buraja have been actively involved in supporting Ukrainian defenders and Ukrainian refugees also in 2023.

In 2023, the Bank is one of the leaders of charity projects in the Latvian financial sector. The Bank and the Future Supporting Fund provide support in such areas as:

- support to Ukrainian refugees and community in Latvia;
- healthcare, including medical services for children;
- social projects geared towards the most the most vulnerable (economically disadvantaged) groups of population;
- environmental protection, ecology, wildlife conservation;
- urban development, sacral heritage of Latvia;
- Latvia's and Europe's arts and culture;
- support to children and young people in development of their talents; education opportunities;
- sports activities for children and young people, elite (high-performance sport).

Further development

The Bank and the Group, in accordance with its approved long-term development strategy for years 2023-2028, plan to continue implementing the chosen business model, becoming one of the leading financial service providers and knowledge centres in the Baltic region, which, through professional cooperation with large and medium-sized companies, creates values and new opportunities for the growth of the entire Latvian, Baltic and European society.

The results achieved by the Bank and the Group in 2023 confirm the effectiveness of the strategy and lay the foundation for its further implementation in 2024 and the following years, providing the necessary financial and intellectual resources, a robust capital base and state-of-the-art technologies.

In 2024 and the following years, the Bank plans to continue increasing the growth of the loan portfolio in Latvia, the other Baltic States and the European Union.

The Bank will continue to develop cooperation with international modern platforms, expand the range of counterparties for interbank deposits, improve brokerage services and individual securities portfolio management services, offer new financial services in the field of customer bond issue support, continue to develop correspondent relations with other financial institutions in the European Union and the USA.

The management of the Bank would like to thank its employees for the work involved and the Bank's shareholders for their support in ensuring the stable development of the Bank. The management of the Bank highly appreciates cooperation with the clients and business partners, and thanks them for the trust and support they have shown over many years. The year 2024 will be the basis for our common business growth, sustainable development and security.

The Sustainability Report for 2023 prepared by the management is created as a separate report and published on the Bank's website https://www.rietumu.com.

The Bank was founded in the Republic of Latvia as a joint-stock company. On 5 May 1992, the Bank obtained the general banking license, the license number 06.01.04.018/245. The legal address of the Bank's head office is Vesetas iela 7, Riga, Latvia, unified registration number 40003074497. The Bank's core activities are accepting deposits, maintaining customer accounts, lending, documentary operations, cash and settlement operations and operations with securities and foreign currency.

Financial results of the Group

	2023	**2022**	**2021**	**2020**
At year end (EUR'000)				
Total assets	1 511 812	1 395 304	1 554 287	1 469 042
Loans and receivables due from customers	622 215	545 151	595 188	560 086
Current accounts and deposits due to customers	1 005 938	940 933	1 090 276	1 072 456
Total shareholder's equity	379 771	348 817	355 459	331 437
For the year (EUR'000)				
Net profit before tax	21 505	19 183	29 859	12 764
Net profit after tax	17 013	17 456	28 884	11 768
Operating income	74 005	72 391	82 092	69 192
Ratios				
Earnings per share (EUR) – basic and diluted				
After tax	0.13	0.14	0.24	0.10
Return on equity				
Before tax	5.90%	5.45%	8.69%	3.89%
After tax	4.67%	4.96%	8.41%	3.59%
Return on assets				
Before tax	1.48%	1.30%	1.98%	0.80%
After tax	1.17%	1.18%	1.91%	0.74%
Capital adequacy ratio	26.00%	24.85%	25.43%	22.61%
Profit margin	29.06%	26.50%	36.37%	18.45%
Loan portfolio to total assets ratio	41.16%	39.07%	38.29%	38.13%
Number of employees	523	526	558	603

Return on equity before tax = net profit before tax / average shareholders' equity

Return on equity after tax = net profit after tax / average shareholders' equity

Return on assets before tax = net profit before tax / average assets

Return on assets after tax = net profit after tax / average assets

Capital adequacy ratio = equity / total risk transactions value

Profit margin = net profit before tax / operating income

Financial results of the Bank

	2023	2022	2021	2020
At year end (EUR'000)				
Total assets	1 508 604	1 402 576	1 565 182	1 479 183
Loans and receivables due from customers	656 367	584 332	638 482	606 346
Current accounts and deposits due to customers	1 011 145	951 824	1 100 818	1 082 424
Total shareholders' equity	360 467	333 798	341 500	324 014
For the year (EUR'000)				
Net profit before tax	15 902	19 390	21 230	18 826
Net profit after tax	12 534	19 111	21 500	18 125
Operating income	59 953	60 330	59 943	64 742
Ratios				
Earnings per share (EUR) – basic and diluted				
After tax	0.10	0.16	0.18	0.15
Return on equity				
Before tax	4.58%	5.74%	6.38%	6.07%
After tax	3.61%	5.66%	6.46%	5.84%
Return on assets				
Before tax	1.09%	1.31%	1.39%	1.30%
After tax	0.86%	1.29%	1.41%	1.25%
Capital adequacy ratio	25.65%	24.66%	25.38%	22.76%
Profit margin	26.52%	32.14%	35.42%	29.08%
Loan portfolio to total assets ratio	43.51%	41.66%	40.79%	40.99%
Number of employees	388	389	323	344

Return on equity before tax = net profit before tax / average shareholders' equity

Return on equity after tax = net profit after tax / average shareholders' equity

Return on assets before tax = net profit before tax / average assets

Return on assets after tax = net profit after tax / average assets

Capital adequacy ratio = equity / total risk transactions value

Profit margin = net profit before tax / operating income

Statement of management responsibility

The Management of AS "Rietumu Banka" is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (the Group) as well as for the preparation of the separate financial statements of the Bank.

The separate and consolidated financial statements on pages 31 to 120 are prepared in accordance with source documents and present fairly the financial position of the Bank and the Group as of 31 December 2023 and the results of their operations and cash flows for the year ended 31 December 2023.

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

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

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

____
Chairman of the Executive Board
Jelena Buraja

____
Deputy Chairman of the Executive Board
Ruslans Stecjuks

28 March 2024

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

The Council and the Executive Board

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

<u>The Council of the Bank</u>

1 January 2023 – 10 March 2023

Name, Surname	*Position*	*Date of the last appointment and current term*
Leonids Esterkins	Chairman of the Council	06.04.2021 - 06.04.2024
Arkadijs Suharenko	Deputy Chairman of the Council	06.04.2021 - 06.04.2024
Brendan Thomas Murphy	Deputy Chairman of the Council	06.04.2021 –10.03.2023
Dermot Fachtna Desmond	Member of the Council	06.04.2021 - 06.04.2024
Valentins Blugers	Member of the Council	06.04.2021 - 06.04.2024
Ilja Suharenko	Member of the Council	06.04.2021 - 06.04.2024

10 March 2023 – 17 May 2023

Name, Surname	*Position*	*Date of the last appointment and current term*
Leonids Esterkins	Chairman of the Council	10.03.2023 - 17.05.2023
Arkadijs Suharenko	Deputy Chairman of the Council	10.03.2023 - 17.05.2023
Dermot Fachtna Desmond	Member of the Council	10.03.2023 - 17.05.2023
Valentins Blugers	Member of the Council	10.03.2023 - 17.05.2023
Ilja Suharenko	Member of the Council	10.03.2023 - 17.05.2023

17 May 2023 – 31 December 2023

Name, Surname	*Position*	*Date of the last appointment and current term*
Leonids Esterkins	Chairman of the Council	17.05.2023 - 17.05.2026
Arkadijs Suharenko	Deputy Chairman of the Council	17.05.2023 - 17.05.2026
Dermot Fachtna Desmond	Member of the Council	17.05.2023 - 17.05.2026
Valentins Blugers	Member of the Council	17.05.2023 - 17.05.2026
Ilja Suharenko	Member of the Council	17.05.2023 - 17.05.2026

<u>The Executive Board of the Bank</u>

1 January 2023 – 29 August 2023

Name, Surname	*Position*	*Date of the last appointment and current term*
Jelena Buraja	Chairman of the Executive Board	14.10.2022 - 13.10.2025
Ruslans Stecjuks	Member of the Executive Board, Deputy Chairman	14.10.2022 - 13.10.2025
Mihails Birzgals	Member of the Executive Board	19.08.2021 - 19.08.2024
Vladlens Topcijans	Member of the Executive Board	02.09.2020 - 29.08.2023
Sandris Straume	Member of the Executive Board, Risk Director	21.10.2022 - 20.10.2025

29 August 2023 – 31 December 2023

Name, Surname	*Position*	*Date of the last appointment and current term*
Jelena Buraja	Chairman of the Executive Board	14.10.2022 - 13.10.2025
Ruslans Stecjuks	Member of the Executive Board, Deputy Chairman	14.10.2022 - 13.10.2025
Mihails Birzgals	Member of the Executive Board	19.08.2021 - 19.08.2024
Vladlens Topcijans	Member of the Executive Board	29.08.2023 - 29.08.2026
Sandris Straume	Member of the Executive Board, Chief Risk Officer	21.10.2022 - 20.10.2025

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Independent Auditors' Report

To the shareholders of Rietumu Banka AS

Report on the Audit of the Separate and Consolidated Financial Statements

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of Rietumu Banka AS ("the Bank") and accompanying consolidated financial statements of the Bank and its subsidiaries ("the Group") set out on pages 22 to 120 of the accompanying separate and consolidated Annual Report, which comprise:

- the separate and consolidated statements of financial position as at 31 December 2023,
- the separate and consolidated statements of profit or loss and other comprehensive income for the year then ended,
- the separate and consolidated statements of changes in the shareholders' equity for the year then ended,
- the separate and consolidated statement of cash flows for the year then ended, and
- the notes to the separate and consolidated financial statements, which include a summary of material accounting policies and other explanatory notes.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Bank and the Group, respectively, as at 31 December 2023, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the European Union.

Basis for Opinion

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

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

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

Key Audit Matters

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

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

Impairment allowances for Loans and receivables due from customers (separate and consolidated financial statements)

Group's consolidated financial statements

The gross amount of Loans and receivables due from customers as at 31 December 2023: EUR 651 761, total impairment allowance as at 31 December 2023: EUR 29 546 thousand.

Bank's separate financial statements

The gross amount of loans and advances to customers as at 31 December 2023: EUR 692 155 thousand, total impairment allowance as at 31 December 2023: EUR 35 788 thousand.

We refer to the separate and consolidated financial statements: Note 3 (Material accounting policies), Note 4 b) and i) (Risk management), Note 5 i) (Use of Estimates and judgements), Notes 13 and 19 (financial disclosures).

Key audit matter	***How we addressed the key audit matter***
Loans and receivables due from customers, collectively represent approximately 41% of the Group's assets as at 31 December 2023 (31 December 2022: approximately 39%) and approximately 43% of the Bank's assets as at 31 December 2023 (31 December 2022: approximately 42%). The Bank and other entities within the Group offer a variety of loan products issued to corporate clients and individuals. The Bank and the Group have a significant exposure to borrowers in foreign jurisdictions, including those in Russia and Belarus. Impairment allowance represents the Management's best estimate of the expected credit losses within the Loans and receivables due from customers items at the reporting date. We focused on this area as the determination of impairment loss allowances requires significant judgments from the Management over both the timing of recognition and the specific amounts, especially considering	Our procedures in the area included, among others: • inspecting the Group's expected credit losses ("ECL"), expected credit loss methodology and assessing its compliance with the relevant requirements of IFRS 9; • assessing and testing the design and implementation of a control over monitoring of loans and testing design and implementation and operating effectiveness of selected key controls over the approval and recording of loans; • assisted by our own information technology (IT) specialists, testing the design, implementation and operating effectiveness of application and general IT controls related to the calculation of days past due; • assessing whether the definition of default and the staging criteria were consistently

the current geopolitical environment and the Bank's and the Group's exposure towards Russia and Belarus as described in note 4 i) of the separate and consolidated financial statements. In accordance with IFRS 9, the Bank and the Group calculate impairment allowance based on expected credit losses ("ECLs"). ECLs are estimated mainly based on the historical pattern of losses and changes in loan risk characteristics based on qualitative and quantitative indicators such as the probability of default ("PD") and loss given default ("LGD"). The Bank and the Group incorporate forward looking information into modelling techniques applied and recognizes post model adjustments, where it is deemed appropriate. Individual impairment allowances recognized by the Bank and the Group often relate to large, individually monitored, corporate exposures, where the Bank and the Group are assessing ECLs on an individual basis. The assessment is therefore based on the knowledge about each individual borrower and often on estimation of the fair value of the related collateral. Due to the above factors, we consider the area to be associated with a significant risk of material misstatement, which requires our increased attention in the audit. As such, we determined it to be a key audit matter.	applied and in line with the requirements of IFRS 9; • independently assessing and challenging the forward-looking information used in the ECL model, by means of corroborating inquiries of the Management with the assistance of our own financial risk management specialists and inspection of publicly available information; • challenging LGD and PD parameters, by assessing collateral valuation inputs and, where deemed necessary, consulting with our own valuation specialists as well as assessing historical default levels and, where comparable cases were observable in historical data, referencing to loss event levels and historical realized losses on defaults; • assessing the appropriateness of the Bank's and the Group's staging of exposures, including identification of exposures with significant increase in credit risk; • selecting and testing a sample of individual exposures, with focus on those with high magnitude and risk characteristics, as well as items which we independently assessed as high-risk; • for stage 3 (credit impaired) exposures in our sample, challenging key assumptions applied in the Bank's and the Group's estimates of future cash flows. We sought the Executive Board's and credit risk personnel's explanations for any material discrepancies identified as a result of the above procedures; • for post model adjustment, considering the size and complexity of economic uncertainties related to overlay for the Bank's and Group's exposures in Russia, assessing the reasonableness of adjustments by challenging key assumptions, inspecting the calculation methodology and tracing the post model adjustment back to source data; • assessing the adequacy of the Bank's and the Group's disclosures on the loss allowances and credit risk management in

	the notes to the separate and consolidated financial statements.

Valuation of investment properties (separate and consolidated financial statements)	
Group's consolidated financial statements The carrying amount of Investment properties as at 31 December 2023: EUR 97 753 thousand. Bank's separate financial statements The carrying amount of Investment properties as at 31 December 2023: EUR 42 117 thousand. We refer to the separate and consolidated financial statements: Note 3 d) ii) (Material accounting policies), Note 5 iii) (Use of Estimates and judgements), Notes 12 and 26 (financial disclosures).	
Key audit matter	***How we addressed the key audit matter***
The Bank and the Group have a significant balance of investment properties, including the Group having a significant balance of investment properties located in Russia. Investment properties are held either to earn rental income or for capital appreciation or for both. The Bank and the Group measure investment properties at fair value, with all changes therein recorded in profit or loss. The valuation of the Group's investment properties involves significant judgements and estimates made by the Management using the input from the external valuation specialists, particularly in relation to sensitivity of assumptions regarding discount rates, cash flow projections and comparable market transactions. Due to the above factors, we consider the area to be associated with a significant risk of material misstatement, which requires our increased attention in the audit. As such, we determined it to be a key audit matter.	Our procedures included, among others: • based on our understanding of the Bank's and Group's approach to valuation of investment properties, assessing the applied valuation methodology against relevant financial reporting standards; • agreeing the fair values determined by the Bank's and Group's external valuation experts to the Bank's and Group's accounting records; • using our own internal valuation specialists, challenging, on a sample basis, the valuation methods and key assumptions applied by the Bank's and Group's external experts, including those in respect of discount rates, capitalisation rates, cash flow projections and comparable market transactions and performing a sensitivity analysis in respect of the above key assumptions to evaluate the effects of their potential changes on the fair values; • assessing the adequacy of the Bank's and the Group's disclosures on investment properties and the valuation techniques and significant unobservable inputs disclosed in the notes to the separate and consolidated financial statements.

Reporting on Other Information

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

- A letter by Jeļena Buraja, the Chairman of the Executive Board, as set out on page 3 of the accompanying separate and consolidated Annual Report,
- Report of Council and Executive Board, as set out on pages 4 to 11 of the accompanying separate and consolidated Annual Report,
- the Statement of Management Responsibility, as set out on page 12 of the accompanying separate and consolidated Annual Report,
- the Council and the Executive Board, as set out on page 13 of the accompanying separate and consolidated Annual Report.

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

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

If, based on the work we have performed and in light of the knowledge and understanding of the Bank, Group and their environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Report of Council and Executive Board ("Management Report"), our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Financial and Capital Market Commission of the Republic of Latvia – "Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies' ("Regulation No. 113").

Based solely on the work required to be undertaken in the course of our audit, in our opinion, in all material respects:

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

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

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

In preparing the separate and consolidated financial statements, Management is responsible for assessing the Bank's and Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank and Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

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

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

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

— Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

We were appointed by shareholders on 3 May 2023 to audit the separate and consolidated financial statements of Rietumu Banka AS for the year ended 31 December 2023. Our total uninterrupted period of engagement is 2 years, covering the periods ending 31 December 2022 to 31 December 2023.

We confirm that:

— our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank and Group;

— as referred to in the paragraph 37.6 of the 'Law on Audit Services' of the Republic of Latvia we have not provided to the Bank and Group the prohibited non-audit services (NASs) referred to of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity and group in conducting the audit.

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

KPMG Baltics SIA
Licence No. 55

Rainers Vilāns
Member of the Board
Latvian Sworn Auditor
Certificate No. 200
Riga, Latvia
28 March 2024

THIS DOCUMENT HAS BEEN SIGNED WITH A SECURE ELECTRONIC SIGNATURE AND IT HAS A TIME-STAMP

FINANCIAL STATEMENTS

Separate and consolidated statements of profit or loss and other comprehensive income

	Note	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
Interest income	6	67 950	60 490	48 667	39 604
Interest expense	6	(16 067)	(16 212)	(11 548)	(11 089)
Net interest income		**51 883**	**44 278**	**37 119**	**28 515**
Fee and commission income	7	9 525	9 483	11 496	10 637
Fee and commission expense	8	(2 103)	(1 786)	(2 472)	(2 440)
Net fee and commission income		**7 422**	**7 697**	**9 024**	**8 197**
Net gain on financial assets at fair value through profit or loss	9	262	262	2 746	2 746
Net foreign exchange gain/(loss)	10	(4 054)	332	3 547	1 102
Net realised gain/(loss) on financial assets at fair value through other comprehensive income	11	(829)	(829)	1 185	1 185
Net realised loss on financial instruments at amortised cost		(1 019)	(1 019)	-	-
Share of losses of associates	22	(775)	-	(1 225)	-
Other income	12	21 115	9 232	19 995	18 585
Operating income		**74 005**	**59 953**	**72 391**	**60 330**
Impairment losses	13	(10 460)	(14 921)	(7 920)	(10 242)
Provisions charges	34	310	311	(675)	(661)
General and administrative expenses	14	(42 350)	(29 441)	(44 613)	(30 037)
Profit before income tax		**21 505**	**15 902**	**19 183**	**19 390**
Income tax	15	(4 492)	(3 368)	(1 727)	(279)
Profit for the period		**17 013**	**12 534**	**17 456**	**19 111**
Attributable to:					
Equity holders of the Bank		**15 653**		**16 369**	
Non-controlling interest		**1 360**		**1 087**	

The separate and consolidated statements of profit or loss and other comprehensive income are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 31 to 120.

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Chairman of the Executive Board
Jelena Buraja

____
Deputy Chairman of the Executive Board
Ruslans Stecjuks

28 March 2024

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Separate and consolidated statements of profit or loss and other comprehensive income

	Note	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
Profit for the period		**17 013**	**12 534**	**17 456**	**19 111**
Other comprehensive gain/(loss)					
Items that will not to be reclassified to profit or loss					
Fair value changes of equity instruments measured at fair value through other comprehensive income	32	32	32	17	17
Revaluation of property and equipment	32	55	-	4 954	-
Items that are or may be reclassified to profit or loss					
Foreign currency translation differences for foreign operations		731	-	(769)	-
Net change in fair value of debt instruments at fair value through other comprehensive income	32	14 103	14 103	(26 830)	(26 830)
Net change in fair value		*13 274*	*13 274*	*(25 645)*	*(25 645)*
Reclassified to profit or loss		829	829	*(1 185)*	*(1 185)*
Other comprehensive income/(loss) for the period		**14 921**	**14 135**	**(22 628)**	**(26 813)**
Total comprehensive income/(loss) for the period		**31 934**	**26 669**	**(5 172)**	**(7 702)**
Attributable to:					
Equity holders of the Group		**30 574**		**(6 259)**	
Non-controlling interest		**1 360**		**1 087**	

The separate and consolidated statements of profit or loss and other comprehensive income are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 31 to 120.

____
Chairman of the Executive Board
Jelena Buraja

____
Deputy Chairman of the Executive Board
Ruslans Stecjuks

28 March 2024

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Separate and consolidated statements of financial position

	Note	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Assets					
Cash and balances due from the Bank of Latvia	16	350 366	350 330	248 618	248 584
Deposits and balances due from banks	17	14 060	13 528	34 406	33 757
Financial assets at fair value through profit or loss	18	6 719	6 225	5 966	5 522
Financial assets at amortised cost					
Debt securities	19	57 610	57 610	66 137	66 137
Loans and receivables due from customers	19	622 215	656 367	545 151	584 332
Financial assets at fair value through other comprehensive income	20	268 399	268 399	351 038	351 038
Non-current assets held for sale		303	300	1 378	1 343
Investments in subsidiaries	21	-	32 612	-	40 262
Investments in associates	22	36 955	36 955	775	-
Property and equipment	23	42 548	28 900	37 521	22 957
Intangible assets	24	1 564	1 557	1 255	1 246
Investment property	26	97 753	42 117	93 596	36 258
Current tax asset		60	-	36	5
Deferred tax asset	31	43	-	531	-
Other assets	27	13 217	13 704	8 896	11 135
Total Assets		**1 511 812**	**1 508 604**	**1 395 304**	**1 402 576**

The separate and consolidated statements of financial position are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 31 to 120.

Separate and consolidated statements of financial position

	Note	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Liabilities and Shareholders' Equity					
Financial instruments at fair value through profit or loss	18	2 024	2 024	551	551
Due to Bank of Latvia	28	51 479	51 479	49 811	49 811
Deposits and balances due to banks	28	4 828	4 828	1 679	1 679
Current accounts and deposits due to customers	29	1 005 938	1 011 145	940 933	951 824
Provisions	35	33 408	33 418	33 719	33 729
Current tax liability		3 056	3 048	112	-
Deferred tax liability	31	750	-	750	-
Other liabilities and accruals	30	30 558	42 195	18 932	31 184
Total Liabilities		**1 132 041**	**1 148 137**	**1 046 487**	**1 068 778**
Share capital	32	168 916	168 916	168 916	168 916
Share premium	32	52 543	52 543	52 543	52 543
Revaluation reserve	32	6 670	-	6 735	-
Fair value reserve	32	(14 995)	(14 995)	(29 130)	(29 130)
Currency translation reserve		(4 103)	-	(4 834)	-
Other reserves	32	40	23	40	23
Retained earnings		166 478	153 980	150 704	141 446
Total Equity Attributable to Equity Holders of the Bank		**375 549**	**360 467**	**344 974**	**333 798**
Non-controlling Interest	41	**4 222**	-	**3 843**	-
Total Shareholders' Equity		**379 771**	**360 467**	**348 817**	**333 798**
Total Liabilities and Shareholders' Equity		**1 511 812**	**1 508 604**	**1 395 304**	**1 402 576**

The separate and consolidated statements of financial position are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 31 to 120.

____
Chairman of the Executive Board
Jelena Buraja

____
Deputy Chairman of the Executive Board
Ruslans Stecjuks

28 March 2024

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Separate and consolidated statements of cash flows

	Note	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax		21 505	15 902	19 183	19 390
Adjustments for non-cash items					
Interest income		(67 950)	(60 490)	(48 667)	(39 604)
Interest expense		16 067	16 212	11 548	11 089
Dividends		(103)	(1 672)	(116)	(8 278)
Amortisation and depreciation	23, 24	2 002	2 220	2 053	1 677
Revaluation of investment property		(7 582)	(5 012)	(1 498)	(1 186)
Share of (income)/loss of equity accounted investees		775	-	1 225	-
Increase/(decrease) of provisions		(311)	(311)	679	662
Revaluation of currencies		647	-	(1 554)	-
(Gain)/loss on sale of subsidiaries		(119)	881	-	-
Impairment losses	13	10 498	14 959	7 880	10 202
Increase in cash and cash equivalents before changes in assets and liabilities as a result of ordinary operations		**(24 571)**	**(17 311)**	**(9 267)**	**(6 048)**
Decrease/(increase) in financial assets at fair value through profit or loss		(753)	(703)	2 697	2 742
(Increase)/decrease in loans and receivables from customers		(88 162)	(86 039)	45 355	49 497
(Increase)/decrease in financial assets at fair value through other comprehensive income		98 154	98 154	(59)	(59)
Increase/decrease in other assets		(1 436)	256	6 160	8 620
Increase/(decrease) in derivative liabilities		(482)	(482)	402	402
Increase/(decrease) in current accounts and deposits due to customers		60 674	53 278	(149 371)	(148 833)
Decrease in amounts due to Bank of Latvia		1 668	1 668	-	-
(Decrease)/increase in other liabilities and accruals		11 792	5 628	(837)	(1 423)
(Increase)/decrease in debt securities at amortised costs		7 045	7 045	(75)	(75)
Increase/(decrease) in cash and cash equivalents from operating activities before corporate income tax		**63 929**	**61 494**	**(104 995)**	**(95 177)**
Interest received		68 583	59 628	49 711	38 302
Interest paid		(11 736)	(10 169)	(11 702)	(11 432)
Corporate income tax paid		(1 226)	(315)	(797)	(279)
Net cash and cash equivalents from operating activities		**119 550**	**110 638**	**(67 783)**	**(68 586)**

The separate and consolidated statements of cash flows are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 31 to 120.

Separate and consolidated statements of cash flows

	Note	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment and intangible assets	23, 24	(1 447)	(1 184)	(1 376)	(836)
Proceeds from sale of property, plant and equipment and other assets		94	42	56	3
(Increase)/decrease in equity investments in other entities and acquisition of subsidiaries		(35 000)	(35 000)	-	-
Disposal of subsidiaries					
Increase in investment property	26	(7 394)	(2 315)	(3 127)	(2 850)
Sale of investment property		2 413	2 202	2 427	1 525
Net cash from sale of subsidiary		-	-	131	-
Reduction of subsidiary share capital and liquidation quota		119	3 219	-	-
Sale of Non-current assets held for sale		1 075	1 043	3 941	3 040
Dividends received		103	1 672	116	1 946
Cash and cash equivalents used in / from investing activities		**(40 037)**	**(30 321)**	**2 168**	**2 828**
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid	32	(980)	-	(1 470)	-
Repayment of lease liability	25	(280)	(1 949)	(280)	(1 757)
Cash and cash equivalents used in/from financing activities		**(1 260)**	**(1 949)**	**(1 750)**	**(1 757)**
Net cash flow for the period		**78 253**	**78 368**	**(67 365)**	**(67 515)**
Cash and cash equivalents at the beginning of the year		**281 345**	**280 662**	**348 710**	**348 177**
Cash and cash equivalents at the end of the year	33	**359 598**	**359 030**	**281 345**	**280 662**

The separate and consolidated statements of cash flows are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 31 to 120.

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Chairman of the Executive Board
Jelena Buraja

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Deputy Chairman of the Executive Board
Ruslans Stecjuks

28 March 2024

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Group consolidated statements of changes in the shareholders' equity

For the year ended 31 December 2023

	Attributable to Equity Holders of the Bank									
	Share capital '000 EUR	**Share premium '000 EUR**	**Revalua-tion reserve '000 EUR**	**Fair value reserve '000 EUR**	**Foreign currency transla-tion reserve '000 EUR**	**Other reserves '000 EUR**	**Retained earnings '000 EUR**	**Total '000 EUR**	**Non-controllin g interest '000 EUR**	**Total Equity '000 EUR**
Balance at 1 January 2023	**168 916**	**52 543**	**6 735**	**(29 130)**	**(4 834)**	**40**	**150 704**	**344 974**	**3 843**	**348 817**
Transactions with non-controlling interest										
Dividends paid to non-controlling interest shareholders	-	-	-	-	-	-	-	-	(980)	**(980)**
Total transactions with non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(980)**	**(980)**
Total comprehensive income										
Profit for the current year	-	-	-	-	-	-	15 653	15 653	1 360	**17 013**
Other comprehensive income/(loss)										
Net change in fair value of financial instruments at fair value through other comprehensive income	-	-	-	14 135	-	-		14 135	-	**14 135**
Foreign currency translation differences for foreign operations	-	-	-	-	731	-	-	731	-	**731**
Depreciation of revalued property	-	-	(120)	-	-	-	120	-	-	**-**
Revaluation of property and equipment	-	-	55	-	-	-	-	55	-	**55**
Total other comprehensive income/(loss)	-	-	(65)	14 135	731	-	120	14 921	-	**14 921**
Total comprehensive income/ (loss)	-	-	(65)	14 135	731	-	15 773	30 574	1 360	**31 934**
Balance at 31 December 2023	**168 916**	**52 543**	**6 670**	**(14 995)**	**(4 103)**	**40**	**166 477**	**375 548**	**4 223**	**379 771**

The Group consolidated statements of changes in the shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 31 to 120.

Group consolidated statements of changes in the shareholders' equity

For the year ended 31 December 2022

	Attributable to Equity Holders of the Bank									
	Share capital	**Share premium**	**Revalua-tion reserve**	**Fair value reserve**	**Foreign currency transla-tion reserve**	**Other reserves**	**Retained earnings**	**Total**	**Non-controllin g interest**	**Total Equity**
	'000 EUR	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**
Balance at 1 January 2022	**168 916**	**52 543**	**1 840**	**(2 317)**	**(4 065)**	**40**	**134 276**	**351 233**	**4 226**	**355 459**
Transactions with non-controlling interest										
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	(1 470)	**(1 470)**
Total transactions with non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1 470)**	**(1 470)**
Total comprehensive income										
Profit for the current year	-	-	-	-	-	-	16 369	16 369	1 087	**17 456**
Other comprehensive income/(loss)										
Net change in fair value of financial instruments at fair value through other comprehensive income	-	-	-	(26 813)	-	-	-	(26 813)	-	**(26 813)**
Foreign currency translation differences for foreign operations	-	-	-	-	(769)	-	-	(769)	-	**(769)**
Depreciation of revalued property	-	-	(27)	-	-	-	27	-	-	**-**
Revaluation of property and equipment	-	-	4 922	-	-	-	32	4 954	-	**4 954**
Total other comprehensive income/(loss)	-	-	4 895	(26 813)	(769)	-	59	(22 628)	-	**(22 628)**
Total comprehensive income/(loss)	-	-	4 895	(26 813)	(769)	-	16 428	(6 259)	1 087	**(5 172)**
Balance at 31 December 2022	**168 916**	**52 543**	**6 735**	**(29 130)**	**(4 834)**	**40**	**150 704**	**344 974**	**3 843**	**348 817**

The Group consolidated statements of changes in the shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 31 to 120.

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Chairman of the Executive Board
Jelena Buraja

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Deputy Chairman of the Executive Board
Ruslans Stecjuks

28 March 2024

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Bank's separate statements of changes in shareholders'equity

For the year ended 31 December 2023

	Share capital	Share premium	Fair value reserve	Other reserves	Retained earnings	Total equity
Balance at 1 January 2022	**168 916**	**52 543**	**(2 317)**	**23**	**122 335**	**341 500**
Total comprehensive income						
Profit for the period	-	-	-	-	19 111	**19 111**
Other comprehensive income/(loss)						
Net change in fair value of financial instruments at fair value through other comprehensive income	-	-	(26 813)	-	-	**(26 813)**
Total other comprehensive income	**-**	**-**	(26 813)	**-**	**-**	**(26 813)**
Total comprehensive income	-	-	(26 813)	-	19 111	(7 702)
Balance at 31 December 2022	**168 916**	**52 543**	**(29 130)**	**23**	**141 446**	**333 798**
Total comprehensive income						
Profit for the period	-	-	-	-	12 534	**12 534**
Other comprehensive income/(loss)						
Net change in fair value of financial instruments at fair value through other comprehensive income	-	-	14 135	-	-	**14 135**
Total other comprehensive income	-	-	14 135	-	-	14 135
Total comprehensive income	-	-	14 135	-	12 534	26 669
Balance at 31 December 2023	**168 916**	**52 543**	**(14 995)**	**23**	**153 980**	**360 467**

The Bank's separate statements of changes in shareholders' equity are to be read in conjunction with the Notes to, and forming part of, the separate and consolidated financial statements set out on pages 31 to 120.

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28 March 2024

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NOTES TO THE FINANCIAL STATEMENTS

1. Background

Principal activities

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

The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Bank of Latvia. The number of full-time equivalent employees in the Group on December 31 was 523 (2022: 526) and in the Bank 388 (2022: 389).

Principal subsidiaries of the Group (total assets more than EUR 5,000 thousand)

Name	Country of	Principal activities	Ownership	
			31 Dec 2023	31 Dec 2022
SIA "RB Investments"	Vesetas Str.7, Riga, Latvia	Investments	100%	100%
Rietumu Lizing OOO	Odoevskogo Str.117, 6th floor, office 9, Minsk, Belarus	Leasing company	100%	100%
SIA "Vesetas 7"	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
SIA "OVERSEAS Estates"	Dzintaru str.3A, Ventspils, Latvia	Terminal	100%	100%
SIA "InCREDIT GROUP"	Krisjana Barona Str.130, Riga, Latvia	Customer lending	51%	51%
SIA "KI Nekustamie ipasumi"	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
KI Invest OOO	Nauchnij Str.19, Moscow, Russia	Real estate operating	100%	100%
SIA "KI Fund"	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
SIA "Euro Textile Group"	Vesetas Str.7, Riga, Latvia	Real estate operating	100%	100%
SIA "Second Sky Management"	Vesetas Str.7, Riga, Latvia	Other reservation service and related activities	100%	100%

2. Basis of accounting

These consolidated and separate financial statements have been prepared in accordance with IFRS Accounting Standards adopted by the European Union (EU IFRS), and regulations of the Bank of Latvia in force as at the reporting date.

The Executive Board approved these separate and consolidated financial statements for issue on 27 March 2024. Shareholders of the Bank have the power to amend the financial statements after their issue, if necessary.

The consolidated and separate financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, FVTPL (Financial assets at fair value through profit or loss) and FVOCI (Financial assets at fair value through other comprehensive income) securities, derivative financial instruments, investment property, land and buildings have been measured at fair value.

These financial statements are presented in euro, which is bank functional currency. All amounts have been rounded to the thousands of euros (EUR 000's), except when otherwise indicated.

2. Basis of accounting, continued

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

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

3. Material accounting policies

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

(a) Foreign currency

(i) Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated into the functional currency at the spot exchange rate at the date of transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency of the Group at exchange rates set by the European Central Bank at the reporting date. For currencies not published by European Central Bank, the spot rate observed in the market is applied.

The income and expenses of foreign operations are translated into the presentation currency of the Group at average exchange rate for the reporting period. Foreign currency differences are recognized in other comprehensive income and accumulated in a currency translation reserve, except that the translation difference is allocated to non-controlling interest. Upon disposal of subsidiary, the balance of currency translation reserve is reclassified to profit or loss.

(iii) Foreign exchange rates

	31 Dec 2023	**Average 2023**	**31 Dec 2022**	**Average 2022**
USD	1.1050	1.0813	1.0666	1.0537
BYN	3.5363	3.2541	2.9156	2.9091
RUB	98.0653	92.3963	78.5651	72.7817

(b) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations under the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

3. Material accounting policies, continued

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transactions costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

(ii) Subsidiaries

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

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

Any amounts recognized in prior periods in other comprehensive income in relation to that subsidiary would be reclassified to the Consolidated Statement of Income or transferred directly to retained earnings if required by other IFRS Accounting Standards.

(iii) Equity accounted investees

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

(iv) Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealized gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with

associates are eliminated to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

3. Material accounting policies, continued

(v) *Non – controlling interest*

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

(vi) Investment in subsidiaries and associates in Bank's separate financial statements

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

(vii) Asset management

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

(c) Goodwill

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

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

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

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

(d) Fair value measurement principles

A number of the Bank's and Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank or the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When measuring the fair value of an asset or a liability, the Bank and the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Bank and the Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

(i) Financial assets and liabilities

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

3. Material accounting policies, continued

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

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

(ii) Investment property and owner's occupied buildings

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

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation. Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

(e) Cash and cash equivalents

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

(f) Financial instruments

(i) Classification

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

All financial assets are classified based on a combination of the business model for managing the assets and the instruments' contractual cash flow characteristics.

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

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

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

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

3. Material accounting policies, continued

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

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

On initial recognition of an equity investment that is not held for trading, the Group and the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are mandatorily measured at FVTPL.

Business model assessment

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

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

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

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

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

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

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

(ii) Measurement

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

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

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

3. Material accounting policies, continued

All debt securities measured at amortised cost, loans and receivables and financial liabilities at amortised cost are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.
Loss allowance for expected credit losses on financial assets that are measured at amortised cost or at fair value through other comprehensive income is recognised in accordance with note 3 (l).

(iii) Gains and losses on subsequent measurement

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

- a gain or loss on a financial asset classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on debt securities classified as at fair value through other comprehensive income is recognised in fair value reserve through other comprehensive income (except for impairment losses and foreign exchange gains or losses on monetary assets) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to debt securities classified as at fair value through other comprehensive income is recognised as earned in profit or loss (net interest income) calculated using the effective interest method.
- equity investments classified at fair value through other comprehensive income are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains or losses are recognised in other comprehensive income and are never reclassified to profit or loss

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

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

(iv) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Bank and the Group transfer substantially all of the risks and rewards of ownership of the financial asset or when the Bank and the Group neither transfer, nor retain substantially all risks and rewards of ownership but does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for derecognition that is created or retained by the Bank and the Group is recognised as a separate asset or liability. A financial liability is derecognised when it is extinguished.
On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

(v) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, and options in interest rate, foreign exchange, precious metals and stock markets, and any combinations of these instruments. The Bank and the Group classify all derivative financial instruments as financial instruments at fair value through profit or loss.
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

(vi) Offsetting

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

(g) Leases

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

3. Material accounting policies, continued

The Bank and the Group as lessee

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

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

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

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

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

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

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

The bank and the Group as lessor

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

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

(h) Property and equipment

(i) Owned assets

Items of property and equipment are carried at cost less accumulated depreciation, less accumulated impairment losses, except for land and buildings which are carried at revalued amounts as described below. Cost is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction. The cost includes expenditures that are directly attributable to the acquisition of the asset.

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

(ii) Revaluation

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

A reduction in the value on an item of land or buildings is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

3. Material accounting policies, continued

(iii) Depreciation

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

Buildings	50 years
Equipment	2.5 to 10 years
Furniture	8-18 years
Safe deposit boxes	20 years
Vehicles	8-20 years

(i) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss in other operating income.

(j) Repossessed collateral

If the borrower fails to fulfil the contractual obligations, the Bank may decide that the loan agreement will be terminated and that the right to collateral pledged as security, will be exercised. According to Latvian law, the Bank and the Group cannot assume formal title of the pledged asset directly through confiscation, but can initiate an auction, the proceeds of which will be used to repay or partly repay the outstanding loan receivable.

When the Group and Bank acquires (i.e., gains a full title to) an asset by participating in the auction, the asset's classification follows the nature of its intended use by the Group and the Bank:

- as investment property if property will be held either to earn rental income or for capital appreciation or for both;
- as property and equipment if it will be occupied by the Group and the Bank,
- as non-current asset held for sale if the carrying amount will be recovered through a sale rather than continuing use and the management has committed to an active plan that it is expected to result in a complete sale within one year from the date of the classification.

(k) Intangible assets

Intangible assets, which are acquired by the Bank and the Group, are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is charged to the statements of profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 6-10 year, except for some software licences up to 30 years.

(l) Measurement of expected credit losses on financial assets

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

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

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

The Group and the Bank has established a policy to perform an assessment at the end of each reporting period of the whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

3.Material accounting policies, continued

The Bank and the Group classifies loans, financial guarantees and commitments, bonds measured at amortised cost or fair value through other comprehensive income into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 –When a loan is originated or purchased, expected credit losses (ECL) resulting from default events that are possible within the next 12 months are recognised (12-month ECL) and a loss allowance is established;
- Stage 2 – If a loan's credit risk has increased significantly since initial recognition and is not considered low, lifetime ECLs are recognised. The calculation of interest revenue is the same as for Stage 1;
- Stage 3 – If the loan's credit risk increased to the point where it is considered credit-impaired. Lifetime ECLs are recognised, as in Stage 2.

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

Significant increase in credit risk (transfer from stage 1 to stage 2)

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

The assessment of whether credit risk has increased significantly since initial recognition for loans and receivables due from customers is performed on collective basis by considering overdue period and credit risk grade migration:

- Stage 1 includes loans with below 31 overdue days and loans not defined by Stage 2 or Stage 3;
- Stage 2 includes loans with above 30 overdue days till below 91 overdue days and loans with rating that has decreased by 2 degrees since initial recognition.

The Group's subsidiaries SIA InCREDIT GROUP and Rietumu Lizing OOO determines whether credit risk has increased significantly since initial recognition for loans and receivables due from customers on collective basis by considering overdue period. Loans and receivables that are more than 30 days past due are moved to stage 2.

Stage 3 (credit-impaired assets)

An asset is transferred from stage 2 to stage 3 when it becomes credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or past-due event that result in overdue period above 90 days;
- the loan restructuring, without which the borrower would be unable to fulfil its obligations;
- it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation;
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- a combination of other events that cause a financial asset to become credit-impaired.

All credit-impaired financial assets are classified as stage 3 exposures.

For significant loans and non-performing loans, the Group and the Bank determines the expected credit losses individually.

3. Material accounting policies, continued

For bonds measured at amortized cost or fair value through other comprehensive income and Deposits and balances due from banks assessment of increase in credit risk is performed by considering composite credit rating (equally weighted blend of the ratings of a security by Moody's, S&P, Fitch and DBRS). Decrease in credit rating by more than 3 notches since the acquisition date is considered as a significant increase in credit risk and bond is transferred from stage 1 to stage 2. Bond is transferred from stage 2 to stage 3 when it becomes credit-impaired. Low credit risk exemption is not used by the Group and the Bank.

Credit risk grades

The Bank allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Bank uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Exposures of loans due from customers are allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures is subject to ongoing monitoring, which result in an exposure being moved to a different credit risk grade. The monitoring typically involves analysis of the following data:

- payment discipline;
- sources of income and stability of cash flow;
- country risk;
- type of collateral;
- type of activity;
- financial status of the borrower;
- ESG factors;
- review of other obligations of the borrower.

A, B, C, D and E are bank assigned rating classes based on internal rating approach, where A is the lowest credit risk and E – highest credit risk.

The key inputs into the measurement of ECLs for the Group and the Bank are term structures of the following variables:

- Probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. ECL for exposures in Stage 2 is calculated by multiplying the Life-time PD by LGD and EAD.

ECL for exposures in Stage 3 is calculated individually as a difference between the loan's gross carrying amount and the present value of projected future cash flows discounted at the loan's initial effective interest rate.

The table below provides a mapping of how Stages and number of overdue days relate to PD in the Bank's loan portfolio.

Stage	Overdue days	12-month PD – group 1	12-month PD – group 2
1	0	3.67%	6.50%
	1-30	8.64%	24.19%
Stage	Overdue days	Life-time PD – group 1	Life-time PD – group 2
2	0	13.03%	23.24%
	1-30	17.50%	29.00%
	31-60	24.80%	52.46%
	61-90	42.50%	57.35%
3	>=0	100.00%	100.00%

Group 1 - includes loans to individuals with an initial contract amount that does not exceed EUR 9 million, excluding loans with risk country of Russia, Belarus and Ukraine.

Group 2 - includes loans to corporates with an initial contract amount that does not exceed EUR 9 million, excluding loans to Bank's subsidiaries and loans granted in Russia, Belarus and Ukraine.

3. Material accounting policies, continued

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

Grading	12-month weighted-average PD
AAA to AA-	0.01%
A+ to BBB-	0.10%
BB+ to C	2.00%
Default	100%

These parameters are derived from historical data and internally approved statistical models. They are adjusted to reflect forward-looking information.

PD estimates are estimates at a certain date, which is calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Credit risk grades and overdue periods are primary inputs into the determination of the term structure of PD for exposures. The Group and the Bank employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures.

The definition of default used in the measurement of expected credit losses and the assessment to determine movements between stages is consistent with the definition of default used for internal credit risk management purposes and is aligned with CRR (Capital Requirements Regulation). Hence, exposures which are considered to be in default for regulatory purposes will always be considered stage 3 under IFRS 9.

The Bank considers a financial asset to be defaulted when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as collateral realisation;
- the borrower is more than 90 days past due on credit obligation to the Bank (excluding technical default caused by manual or system errors).

Financial asset is no longer considered defaulted when specific time period has passed (probation period - in some instances up to 2 years) from the moment when all identified default factors are no longer observed. Significant forbearance measures are within risk factors for which an extended monitoring period applies.

The Group companies SIA "InCREDIT GROUP" and Rietumu Lizing OOO consider a financial asset to be defaulted when the borrower is more than 90 days past due on credit obligation to the company (excluding technical default caused by manual or system errors).

LGD is the magnitude of the likely loss if there is a default. The Group and the Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. EAD represents the expected exposure in the event of a default. The Group and the Bank incorporates forward-looking information into the measurement of ECL. For detailed description and the sensitivity analysis see note 5.

Other financial assets

For other financial assets the Group and the Bank determines the expected credit losses individually. The classification of balances between stage 1, 2 and 3 is based on overdue days and additional qualitative indicators available. Other financial assets with overdue period above 90 days and taking into account other qualitative indicators on impairment are classified in stage 3.

Modification

When financial asset is modified, the Group and the Bank assesses whether the modification results in derecognition. This depends on whether the changes to the contractual cash flows are significant or not. If changes are significant, the modification is accounted for as derecognition of the original asset and recognition of a new asset. If the changes are not significant, the modification is accounted for as a modification of the original loan.

The assessment is based on the following considerations:

- an assessment of whether the modification is caused as a forbearance measure (when borrower is in financial difficulties) or made on commercial terms;
- an assessment of the difference between net present values of contractual cash flows before and after modification. In general, 10% change would count as significant change.

3. Material accounting policies, continued

If the financial asset is not derecognised, the difference between the net present value of the original contractual cash flow and the modified contractual cash flows is recognised in the income statement as a modification gain or loss. When modification results in de-recognition, a derecognition gain or loss is recognised in the income statement. A new loan is recognised in stage 1 at initial recognition, unless the new loan is credit-impaired at initial recognition.

If a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together within impairment losses.

The Group and the Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write off

The gross carrying amount of a financial asset is written off when the Group and the Bank has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group and the Bank individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery.
The indicators that there are no reasonable expectations of recovering a financial asset include:
- the financial asset is past due, and no recoveries are expected for the asset;
- ECL is recognised and there are no changes in the status of the financial asset for more than a year.

The Group and the Bank expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's and the Bank's procedures for recovery of amounts due.
Recoveries of amounts previously written off are presented in note 12 - Other income, Recovery of assets written off.

(m) Impairment of non-financial assets

The carrying amounts of the Bank's and the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. The cash-generating units for non-financial assets impairment testing are payment card business and non-banking activities on individual subsidiaries level.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. Material accounting policies, continued

(n) Provisions

A provision is recognised when the Bank and the Group have a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits, which can be estimated reliably, will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

(o) Credit related commitments

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

Financial guarantees are contracts that require the Bank and the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee.

(p) Taxation

(i) Current tax

Current tax for the reporting year is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Effective as of 1 January 2018, according Law on Enterprise Income Tax of the Republic of Latvia, the tax rate 20% is deferred to when the profit is distributed and calculated as 0.2/0.8 from net distributed dividend, the taxation period is one month.

The taxable base includes:

- distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends) and
- conditionally distributed profit (non-operating expenses, doubtful debts, increased interest payments, loans to related parties, decrease of income or exceeded expenses which are incurred by entering transactions at prices other than those on the market that should be calculated using the methodology determined by the Cabinet of Ministers, benefits bestowed by the non-resident upon its staff or board (council members) regardless of whether the receiving party is a resident or a non-resident, if they relate to the operation of a permanent establishment in Latvia, liquidation quota).

A change in corporate income tax (CIT) legislation was introduced in Latvia during 2023 stipulating an advance CIT payable at 20% rate on accounting profits applicable to banks and non-banking lenders. These CIT advance payments may be offset only against future profit distribution tax due. As a result of this change, a higher tax expense was recognised for the year 2023 as the change affected Bank and its subsidiary InCredit Group SIA.

Previously CIT was payable in Latvia when the profits were distributed, not when the profits were earned. The changes in the tax legislation require advance payment of CIT based on profits earned by the Bank and other non-banking lenders in Latvia starting from year 2023 (applicable to profit earned in 2023) and applicable in all future periods. Thus, the amount of the CIT advance that will need to be paid based on the 2023 profit is expensed in the reporting period based on the IAS 12 Income taxes requirements as applicable profits on which the CIT is calculated are generated in the reporting period, despite the CIT advance being eligible for offsetting against CIT calculated upon future profit distribution.

For distributions of 2023 and later period profits from banking and non-bank lending operations in Latvia a theoretical 20% CIT rate would apply and would be calculated as 0.2/0.8 from net distributed dividend (effectively 25%), but the profit distribution tax payment would be decreased by the CIT advance already paid in 2023 and later period profits. This incremental profit distribution tax expense on 2023 and later period profits would arise only if the CIT calculated upon profit distribution exceeded the CIT advance paid.

3. Significant accounting policies, continued

(ii) Deferred tax

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

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

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

According to Law on Enterprise Income Tax of the Republic of Latvia the 20% rate is only applied to distributed profits, while the 0% rate applied to retained earnings. Therefore, deferred tax assets and liabilities are recognisable as nil.

(q) Income and expense recognition

(i) Interest income and expense

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

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

(ii) Fee and commission income and expense

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group and the Bank recognise revenue when control over a service is transferred to a customer.

Cards, payments and transactions - revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

Asset management, custody and operations with securities - revenue from asset management and custody service is recognised over time as the services are provided. Revenue related to transactions with securities is recognised at the point in time when the transaction takes place.

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

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

(r) Dividends

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

(s) Employee benefits

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

3. Material accounting policies, continued

(t) Non-current assets held for sale

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

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

(u) Changes in accounting policies

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

Standards issued or amended that affected financial year

The Group and Bank have no transactions that are affected by the newly effective standards or amendments to standards or its accounting policies are already consistent with the new requirements.

Standards issued but not yet effective

A number of new standards or amendments to standards are effective (some of which are not yet been endorsed by EU) for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Group and Bank has not early adopted the new standards or amended standards in preparing these consolidated financial statements.

The following new and amended standards are not expected to have a significant impact on the Group consolidated financial statements.

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- Non-current Liabilities with Covenants (Amendments to IAS 1).
- Lease liability in a Sale and Leaseback (Amendments to IFRS 16).
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7).
- Lack of Exchangeability (Amendments to IAS 21).

4. Risk management

(a) Risk management policies and procedures

Risk management is an integral part of the business planning process, in which the Management Board and the Supervisory Council are closely involved. Its main objective is to achieve an optimal balance between risk-related losses and potential rewards over the medium and long term, and to ensure compliance with the defined risk appetite, tolerance and capacity levels.

The Bank and the Group are constantly working to improve risk management and to meet the challenges posed by the volatile market, geopolitical and macroeconomic environment, as well as the increasing complexity resulting from the changing regulatory framework. To ensure this, the Group's and the Bank's apply a three-line of defence model across all functions, defining clear roles and responsibilities, developing and continuously improving the risk management framework, organizing internal and external training, segregating duties, implementing dual controls and the four-eyes principle, and avoiding or escalating potential conflicts of interest.

In addition, the Bank and the Group ensure that all material risks are identified, assessed, monitored, managed and controlled. The second line of defence, including the Credit Risk Department, Enterprise Risk Management Department, Information Security Division, Compliance Control Department and Internal Control Department, is an independent control function responsible for ensuring that the Bank and the Group have an appropriate risk management system in place and for verifying that all structural units operate in accordance with this system.

This note provides information on the Bank's and the Group's exposure to each risk, the Group's and the Bank's objectives, framework and processes for measuring and managing risk.

The Bank's and the Group's risk management policies are regularly reviewed to reflect changes in the regulatory environment, market conditions, products and services offered and emerging best practices.

4. Risk management, continued

- The Supervisory Council of the Bank has the overall responsibility for the oversight of the Bank's and the Group's risk management framework, including the management of key risks, the review of risk management policies and the approval of material exposures.
- The Management Board of the Bank is responsible for establishing risk management procedures, monitoring and implementing risk treatment measures and ensuring that the Bank and the Group operate within the established risk appetite, tolerance and capacity.
- The Chief Risk Officer (CRO) is responsible for the overall risk management, ensuring the implementation of common principles and methodologies for identifying, assessing, monitoring, managing and controlling both financial and non-financial risks. The CRO reports directly to the Supervisory Council.

In addition, the Bank has established committees to enhance the risk management, including the following:

- The Credit Committee is responsible for credit risk management;
- The Asset and Liability Committee is responsible for market risk, interest rate risk, credit spread risk, issuer credit risk, leverage risk and liquidity risk management;
- The Compliance Committee is responsible for the management of money laundering, terrorism and proliferation financing risk and sanctions risk.

(b) Credit risk

Credit risk is the risk that the Bank and/or Group may incur losses due from a borrower, an issuer and/or a counterparty, which will not be able or will refuse to fulfil its liabilities under contractual provisions against the Bank and/or Group. The Bank and Group divides credit risk into such sub-types as Credit portfolio credit risk, Counterparty's and issuer's credit risk and country risk. The Bank and the Group have developed policies and procedures to manage and control credit risk. The Group's and the Bank's credit policy and Risk management policy are reviewed and approved by the Council of the Bank.

Lending Department, Treasury Department and Financial Markets Department are responsible for managing the credit risk within the first line of defence, while the Credit Risk Management Department ensures and independent second line of defence control and oversight. The Bank has established the Credit Committee, chaired by the Chairman of the Management Board. It approves loan applications on the basis of submissions by the Lending Department and the Credit Risk Management Department. In addition, the Bank has established the Credit Valuation Committee, chaired by the Head of Credit Risk Management. It reviews and evaluates the quality of the existing loan and security portfolios, reviews asset classification issues, and approves changes in amount of provisions for loan and securities portfolio credit losses.

The Bank and the Group use a range of risk metrics to measure, oversee, and control the interest rate risk in the banking book, including recovery plan indicators, contingency funding indicators, risk capacity, tolerance and appetite levels, risk limits and key risk indicators, and stop-loss levels. These risk metrics are monitored on a regular basis.

The Bank and the Group use a range of risk metrics to measure, oversee and control the credit risk, including recovery plan indicators, risk capacity, tolerance and appetite levels, key risk indicators and country risk limits, limits on concentration of credit risk by industry, by collateral and by currency. These risk metrics are monitored on a regular basis.

In addition, as a part of credit risk management, the Bank and the Group use a wide range of stress tests to model financial impact of a variety of adverse market scenarios segmenting portfolios by currency, region, collateral and quality. They provide an indication of the potential size of losses that could arise under different conditions. The Bank also performs capital requirement calculations for concentration risk.

For additional information see note 3 (l).

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

4. Risk management, continued

Maximum credit risk exposure

		Gross maximum credit exposure			
31 December	**Note**	**Group**	**Bank**	**Group**	**Bank**
EUR'000		**2023**	**2023**	**2022**	**2022**
Cash and balances with the Bank of Latvia	16	350 366	350 330	248 618	248 584
Deposits and balances due from banks, gross	17	14 060	13 528	34 406	33 757
Loans and receivables due from customers, gross	19	651 761	692 155	568 160	609 066
Financial assets at fair value through profit or loss	18	9	9	119	119
Financial assets at fair value through other comprehensive income	20	268 384	268 384	351 027	351 027
Debt securities at amortised cost, gross	19	61 390	61 390	68 394	68 394
Other financial assets		5 525	11 179	2 389	7 721
Total financial assets		**1 351 495**	**1 396 975**	**1 273 113**	**1 318 668**
Loan commitments	35	52 229	60 010	92 675	101 247
Financial guarantees	35	16 566	16 566	11 499	11 178
Other commitments	35	0	0	150	150
Total guarantees and commitments		**68 795**	**76 576**	**104 324**	**112 575**
Total maximum credit risk		**1 420 290**	**1 473 551**	**1 377 437**	**1 431 243**

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

The Group's subsidiaries SIA InCREDIT GROUP and Rietumu Lizing OOO determines whether credit risk has increased significantly since initial recognition for loans and receivables due from customers on collective basis by considering overdue period. Loans and receivables that are more than 30 days past due are moved to stage 2. In the category Unrated mainly security deposits, margin loans, loan portfolio of other subsidiaries. Commitments and guarantees in stage 3 consist of conditional limit that cannot be withdrawn without Bank's approval thus no ECL for stage 3 recognised.

4. Risk management, continued

Loans and receivables due from customers

31 December 2023
The Group

EUR'000	Gross amount				Expected credit losses and provisions				Carrying amount			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loans												
Individual	250 495	58 202	155 530	2 083	(2 718)	(993)	(19 590)	(468)	**247 777**	**57 209**	**135 940**	**1 615**
Collective	49 203	32 915	-	-	(781)	(1 839)	-	-	**48 422**	**31 076**	**-**	**-**
Financial Intermediary	35 184	-	-	-	(8)	-	-	-	**35 176**	**-**	**-**	**-**
SIA "InCREDIT GROUP"	59 433	552	2 793	-	(593)	(173)	(2 267)		**58 840**	**379**	**526**	**-**
OOO Rietumu Lizing	4 895	-	476	-	(33)	-	(83)		**4 862**	**-**	**393**	**-**
Loans Total	**399 210**	**91 669**	**158 799**	**2 083**	**(4 133)**	**(3 005)**	**(21 940)**	**(468)**	**395 077**	**88 664**	**136 859**	**1 615**
Commitments and Guarantees												
Individual	45 102	1 046	37 167	-	(92)	(1)	-	-	**45 010**	**1 045**	**37 167**	**-**
Collective	28 771	2 470	-		(258)	(131)	-		**28 513**	**2 339**	**-**	**-**
Financial Intermediary	-	-	-	-	-	-	-	-	**-**	**-**	**-**	**-**
SIA "InCREDIT GROUP"	83	-	15	-	-	-	-	-	**83**	**-**	**15**	**-**
Commit-ments and Guarantees	**73 956**	**3 516**	**37 182**	**-**	**(350)**	**(132)**	**-**	**-**	**73 606**	**3 384**	**37 182**	**-**

The Bank

EUR'000	Gross amount				Expected credit losses and provisions				Carrying amount			
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI
Loans												
Individual	329 803	59 961	183 006	2 083	(3 949)	(1 162)	(27 581)	(468)	**325 854**	**58 799**	**155 425**	**1 615**
Collective	49 203	32 915	-	-	(781)	(1 839)	-	-	**48 422**	**31 076**	**-**	**-**
Financial Intermediary	35 184	-	-	-	(8)	-	-	-	**35 176**	**-**	**-**	**-**
Loans Total	**414 190**	**92 876**	**183 006**	**2 083**	**(4 738)**	**(3 001)**	**(27 581)**	**(468)**	**409 452**	**89 875**	**155 425**	**1 615**
Commitments and Guarantees												
Individual	53 300	9 177	51 326	-	(101)	(1)	-	-	**53 199**	**9 176**	**51 326**	**-**
Collective	28 771	2 470	-	-	(258)	(131)	-	-	**28 513**	**2 339**	**-**	**-**
Financial Intermediary	-	-	-	-	-	-	-	-	**-**	**-**	**-**	**-**
Commit-ments and Guarantees Total	**82 071**	**11 647**	**51 326**	**-**	**(359)**	**(132)**	**-**	**-**	**81 712**	**11 515**	**51 326**	**-**

Data for 2023 and 2022 is not comparable due to methodology changes.

4. Risk management, continued

31 December 2022
The Group

EUR'000	Gross amount				Expected credit losses and provisions				Carrying amount			
Internal rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**
Loans												
A	87 151	-	-	-	(550)	-	-	-	**86 601**	**-**	**-**	**-**
B	140 341	-	-	-	(1 129)	-	-	-	**139 212**	**-**	**-**	**-**
C	1 484	62 571	-	-	(59)	(1 549)	-	-	**1 425**	**61 022**	**-**	**-**
D	-	-	498	-	-	-	(9)	-	**-**	**-**	**489**	**-**
E	-	-	146 551	1 192	-	-	(12 214)	(21)	**-**	**-**	**134 337**	**1 171**
Unrated	54 719	1	11 401	699	-	-	41	(41)	**54 719**	**1**	**11 442**	**658**
SIA "InCREDIT GROUP"	46 374	274	2 503	-	-	-	-	-	**46 374**	**274**	**2 503**	**-**
OOO Rietumu Lizing	11 959	-	442	-	(550)	(72)	(6 856)	-	**11 409**	**(72)**	**(6 414)**	**-**
Loans Total	**342 028**	**62 846**	**161 395**	**1 891**	**(2 288)**	**(1 621)**	**(19 038)**	**(62)**	**339 740**	**61 225**	**142 357**	**1 829**
Commitments and Guarantees												
A	16 548	4 000	-	-	(25)	(4)	-	-	**16 523**	**3 996**	**-**	-
B	80 197	-	-		(737)	-			**79 460**	**-**	**-**	-
C	-	2 509	-	-	-	-	-	-	**-**	**2 509**	**-**	-
D	-	-	570		-	-			**-**	**-**	**570**	-
E	-	-	34 423	-	-	-	-	-	**-**	**-**	**34 423**	-
Unrated	9 776	-	1	-	(26)	-	-	-	**9 750**	**-**	**1**	-
SIA "InCREDIT GROUP"	80	-	15	-	-	-	-	-	**80**	**-**	**15**	-
Commit-ments and Guarantees	**106 601**	**6 509**	**35 009**	**-**	**(788)**	**(4)**	**-**	**-**	**105 813**	**6 505**	**35 009**	**-**

The Bank

EUR'000	Gross amount				Expected credit losses and provisions				Carrying amount			
Internal rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**
Loans												
A	115 589	-	-	-	(688)	-	-	-	**114 901**	**-**	**-**	**-**
B	175 900	-	-	-	(1 226)	-	-	-	**174 674**	**-**	**-**	**-**
C	1 484	93 834	-	-	(59)	(5 457)	-	-	**1 425**	**88 377**	**-**	**-**
D	-	-	5 581	-	-	-	(225)	-	**-**	**-**	**5 356**	**-**
E	-	-	146 551	1 192	-	-	(12 214)	(21)	**-**	**-**	**134 337**	**1 171**
Unrated	59 696	5 154	3 886	199	(996)	(22)	(3 785)	(41)	**58 700**	**5 132**	**101**	**158**
Loans Total	**352 669**	**98 988**	**156 018**	**1 391**	**(2 969)**	**(5 479)**	**(16 224)**	**(62)**	**349 700**	**93 509**	**139 794**	**1 329**
Commitments and Guarantees												
A	16 575	4 000	-	-	(25)	(4)	-	-	**16 550**	**3 996**	**-**	-
B	88 207	-	-	-	(747)	-	-	-	**87 460**	**-**	**-**	-
C	-	35 267	-	-	-	-	-	-	**-**	**35 267**	**-**	-
D	-	-	839	-	-	-	-	-	**-**	**-**	**839**	-
E	-	-	34 423	-	-	-	-	-	**-**	**-**	**34 423**	-
Unrated	9 778	-	1	-	(26)	-	-	-	**9 752**	**-**	**1**	-
Commit-ments and Guarantees Total	**114 560**	**39 267**	**35 263**	**-**	**(798)**	**(4)**	**-**	**-**	**113 762**	**39 263**	**35 263**	**-**

4. Risk management, continued

Debt securities at amortised cost

31 December 2023
The Group and the Bank

	Gross amount			Expected credit losses			Carrying amount		
EUR'000	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Composite credit rating									
AAA to A-	5 915	-	-	(1)	-	-	**5 914**	**-**	**-**
BBB+ to BBB-	1 528	522	-	(1)	(1)	-	**1 527**	**521**	**-**
BB+ to B-	44 785	4 645	-	(920)	(106)	-	**43 865**	**4 539**	**-**
CCC+	-	-	3 995	-	-	(2 751)	**-**	**-**	**1 244**
Total	**52 228**	**5 167**	**3 995**	**(922)**	**(107)**	**(2 751)**	**51 306**	**5 060**	**1 244**

31 December 2022
The Group and the Bank

	Gross amount			Expected credit losses			Carrying amount		
EUR'000	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Composite credit rating									
AAA to A-	5 891	-	-	(1)	-	-	**5 890**	**-**	**-**
BBB+ to BBB-	3 089	-	-	(2)	-	-	**3 087**	**-**	**-**
BB+ to B-	52 878	4 326	1 077	(1 006)	(196)	(667)	**51 872**	**4 130**	**410**
CCC+	-	441	691	-	(130)	(254)	**-**	**311**	**437**
Total	**61 858**	**4 767**	**1 768**	**(1 009)**	**(326)**	**(921)**	**60 849**	**4 441**	**847**

Deposits and balances due from banks and Bank of Latvia

The Group, EUR '000

	31 December 2023			31 December 2022		
Composite credit rating	**Gross amount**	**Expected credit losses**	**Carrying amount**	**Gross amount**	**Expected credit losses**	**Carrying amount**
	Stage 1	**Stage 1**	**Stage 1**	**Stage 1**	**Stage 1**	**Stage 1**
Balances due from the Bank of Latvia, total	**349 454**	**-**	**349 454**	**247 543**	**-**	**247 543**
AAA	349 454	-	**349 454**	247 543	-	**247 543**
Deposits and balances due from banks, total	**14 076**	**(16)**	**14 060**	**34 460**	**(54)**	**34 406**
AA to A-	7 298	-	**7 298**	28 639	(4)	**28 635**
BBB+ to B	3 495	-	**3 495**	1 090	-	**1 090**
CCC	973	(16)	**957**	3 161	(50)	**3 111**
Unrated	2 310	-	**2 310**	1 570	-	**1 570**

The Bank, EUR '000

	31 December 2023			31 December 2022		
Composite credit rating	**Gross amount**	**Expected credit losses**	**Carrying amount**	**Gross amount**	**Expected credit losses**	**Carrying amount**
	Stage 1	**Stage 1**	**Stage 1**	**Stage 1**	**Stage 1**	**Stage 1**
Balances due from the Bank of Latvia, total	**349 454**	**-**	**349 454**	**247 543**	**-**	**247 543**
AAA	349 454	-	**349 454**	247 543	-	**247 543**
Deposits and balances due from banks, total	**13 544**	**(16)**	**13 528**	**33 811**	**(54)**	**33 757**
AA to A-	7 251		**7 251**	28 639	(4)	**28 635**
BBB+ to B	3 423		**3 423**	1 090	-	**1 090**
CCC	973	(16)	**957**	3 161	(50)	**3 111**
Unrated	1 897		**1 897**	921	-	**921**

4. Risk management, continued

Deposits and balances due from bank with rating CCC are balances in RU and BY banks that are held to maintain repayments of RU and BY loans.

Loan to value of Loans and receivables due from customers

The Group and the Bank holds collateral and other credit enhancements against certain of its credit exposures. The following table LTV is calculated as the ratio of the net carrying amount of the loans and receivables to the value of the collateral. The value of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral is based on the most recent appraisals.

The Group EUR '000	**31 December 2023 Carrying amount**					**31 December 2022 Carrying amount**				
LTV	**<=50%**	**<50% <=70%**	**<70% <=90%**	**<90% <=100%**	**>100%**	**<=50%**	**<50% <=70%**	**<70% <=90 %**	**<90% <=100%**	**>100%**
Regular loans	158 010	253 895	37 616	1 857	134 659	184 574	164 413	17 414	9 504	113 787
Security deposits	-	-	-	-	35 176	-	-	-	-	42 854
Finance lease	-	-	5 168	-	48	42	-	11 927	-	48
Other loans	52	5	8	10	969	62	5	16	19	486
Total net loans to public	**158 062**	**253 900**	**42 792**	**1 867**	**170 852**	**184 678**	**164 418**	**29 357**	**9 523**	**157 175**
of which stage 3 Net	*34 382*	*57 590*	*20 420*	*1 144*	*30 149*	*55 132*	*70 698*	*6 346*	*1 142*	*10 867*
stage 3 FV of collateral	*34 382*	*57 590*	*20 027*	*1 144*	-	*55 132*	*70 698*	*6 043*	*1 142*	-

The Bank EUR '000	**31 December 2023 Carrying amount**					**31 December 2022 Carrying amount**				
LTV	**<=50%**	**<50% <=70%**	**<70% <=90%**	**<90% <=100%**	**>100%**	**<=50%**	**<50% <=70%**	**<70% <=90 %**	**<90% <=100%**	**>100%**
Regular loans	161 388	326 731	38 783	5 708	83 443	186 034	233 215	25 685	8 362	78 464
Security deposits	-	-	-	-	35 176	-	-	-	-	42 854
Other loans	52	5	8	10	5 064	62	5	16	19	9 616
Total net loans to public	**161 440**	**326 736**	**38 791**	**5 718**	**123 683**	**186 096**	**233 220**	**25 701**	**8 381**	**130 934**
of which stage 3 Net	*36 183*	*57 590*	*20 027*	*4 995*	*38 245*	*55 132*	*70 698*	*10 910*	-	*4 383*
stage 3 FV of collateral	*36 183*	*57 590*	*20 027*	*4 995*	-	*55 132*	*70 698*	*10 910*	-	-

(c) Market risk

Market risk is the risk that the Bank or its subsidiaries may incur losses due to adverse changes in market conditions, including changes in foreign exchange rates and market prices of financial instruments. Accordingly, it includes currency risk and position risk. The objective of market risk management is to manage, oversee and control the market risk exposures within the risk appetite, while optimizing the return on risk.

The Treasury Department is responsible for managing the market risk within the first line of defence, while the Enterprise Risk Management Department provides independent control and oversight as the second line of defence. In addition, the Bank has established the Asset and Liability Committee (ALCO), chaired by the Chairman of the Management Board. It approves market risk limits, interest rates for loans and deposits, stop-losses, purchases or sales of financial instruments based on the recommendations from the Treasury and Financial Markets Department and/or the second line of defence.

The Bank and the Group use a range of risk metrics to measure, oversee, and control the market risk, including recovery plan indicators, contingency funding indicators, risk capacity, tolerance and appetite levels, risk limits and key risk indicators, and stop-loss levels. These risk metrics are monitored on a regular basis.

4. Risk management, continued

In addition, the Bank and the Group use a wide range of stress tests to model the financial impact of a variety of adverse market scenarios. These provide an indication of the potential magnitude of losses that could arise under different conditions.

(i) Position risk

Position risk is the risk that the Bank or its subsidiary may incur losses as a result of unfavourable fluctuations in the prices of FVOCI and FVTPL financial instruments. The position risk may materialise when the Bank and the Group take a long or short position in a financial instrument.

The Bank and the Group use a range of risk metrics for measuring, monitoring, and controlling position risk including individual financial instrument limits, projected loss limits and overall portfolio limits. The projected loss limits are measured in terms of value-at-risk (VaR), which is a calculation of the one-day and ten-day losses caused by the historical volatility of the financial instrument with a 99% confidence interval over the past 250 business days. The results of the VaR modelling are summarized in the table below:

The Group '000 EUR	**2023**		**2022**	
	VaR 1d 99%	**VaR 10d 99%**	**VaR 1d 99%**	**VaR 10d 99%**
Financial assets at fair value through other comprehensive income	(660)	(2 086)	(1 441)	(34 382)

The Bank '000 EUR	**2023**		**2022**	
	VaR 1d 99%	**VaR 10d 99%**	**VaR 1d 99%**	**VaR 10d 99%**
Financial assets at fair value through other comprehensive income	(660)	(2 086)	(1 441)	(34 382)

In order to identify the position risk of FVOCI and FVTPL financial assets, the Bank and the Group use the following indicators:

- Changes in the SWAP and money market yield curve to measure the impact of the interest rates;
- Changes in credit spreads by the borrower type to measure the impact of the credit risk;
- VaR of FVOCI financial assets.

However, the Bank and the Group recognise the inherent limitations of the VaR model, including the following:

- Large portfolios – in order to determine the VaR of a portfolio, it is necessary to determine not only the risk and return of each asset, but also their correlations. Calculating VaR becomes increasingly challenging as the size or diversity of a portfolio increases.
- Different approaches – for the same portfolio, different methods of calculating VaR can produce different results.
- Assumptions – the Bank and the Group make certain assumptions and use them as inputs in calculating VaR. The VaR figure is invalid if the assumptions are incorrect.
- Does not reflect worst-case loss – 99% of VaR represents the possibility that the loss could be greater than the VaR amount in 1% of cases, or 2-3 days in a year for daily VaR. VaR does not represent the magnitude of losses within this 1% of days or the maximum likely loss.

The Bank and the Group recognise these limitations and take them into account when making decisions or performing calculations for stress testing.

The Enterprise Risk Management Department produces a daily, weekly and quarterly risk control report that includes the position risk data. In addition, the Treasury Department prepares a monthly report containing the main characteristics of the Bank's financial instruments portfolio, general news that may have a significant impact on the portfolio, etc. This report is submitted to the Asset and Liability Committee.

4. Risk management, continued

(ii) Currency risk

Currency risk is the risk that the Bank or its subsidiary may incur losses as a result of unfavourable fluctuations of currency exchange rate. The Bank and the Group have assets and liabilities denominated in various foreign currencies. Currency risk may arise when the actual or anticipated assets in a foreign currency are either greater or less than the liabilities in that currency, thereby creating an open currency position.

In order to identify the currency risk of open currency positions, the Bank and the Group use the following indicators:

- Changes in foreign exchange rates;
- Ability to conduct foreign exchange operations in specific currencies;
- Ability to manage technical aspects of foreign exchange positions.

The Enterprise Risk Management Department produces a daily, weekly and quarterly risk control report that includes the currency risk data.

The Bank and the Group monitor the currency risk sensitivity to upward and downward changes in exchange rates. It is measured in the form of a sensitivity analysis, i.e., a scenario of a 15% change in the USD to EUR exchange rate impact on net profit and other comprehensive income, with all other variables held constant. The results of the sensitivity analysis are summarised in the table below:

The Group **'000 EUR**	**2023**		**2022**	
	Profit for the period	**Other compre-hensive income**	**Profit for the period**	**Other compre-hensive income**
15% appreciation of USD against EUR	(204)	-	519	-
15% depreciation of USD against EUR	204	-	(519)	-

The Bank **'000 EUR**	**2023**		**2022**	
	Profit for the period	**Other compre-hensive income**	**Profit for the period**	**Other compre-hensive income**
15% appreciation of USD against EUR	(540)	-	(1 088)	-
15% depreciation of USD against EUR	540	-	1 088	-

4. Risk management, continued

The following table shows the currency structure of financial assets and liabilities of the Group as of 31 December 2023:

The Group

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances due from the Bank of Latvia	350 167	181	18	**350 366**
Financial assets at fair value through profit or loss	2 651	3 842	226	**6 719**
Deposits and balances due from banks	3 112	3 918	7 030	**14 060**
Loans and receivables due from customers	575 356	45 787	1 072	**622 215**
Financial assets at fair value through other comprehensive income	185 561	82 823	15	**268 399**
Debt securities at amortised cost	55 190	2 420	-	**57 610**
Other financial assets	5 490	12	23	**5 525**
Total financial assets	**1 177 527**	**138 983**	**8 384**	**1 324 894**
Financial liabilities				
Financial instruments at fair value through profit or loss	2 024	-	-	**2 024**
Due to Bank of Latvia	51 479	-	-	**51 479**
Deposits and balances due to banks	4 214	507	107	**4 828**
Current accounts and deposits due to customers	926 824	70 239	8 875	**1 005 938**
Other financial liabilities	20 701	498	817	**22 016**
Total financial liabilities	**1 005 242**	**71 244**	**9 799**	**1 086 285**
Net position as of 31 December 2023	**172 285**	**67 739**	**(1 415)**	
Net off balance sheet position as of 31 December 2023	**59 818**	**(69 098)**	**638**	
Net total positions as of 31 December 2023	**232 103**	**(1 359)**	**(777)**	
Net total positions as of 31 December 2022	**246 476**	**3 458**	**(1 826)**	

4. Risk management, continued

The following table shows the currency structure of financial assets and liabilities of the Group as of 31 December 2022:

The Group

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances due from the Bank of Latvia	248 318	283	17	**248 618**
Financial assets at fair value through profit or loss	1 250	4 563	153	**5 966**
Deposits and balances due from banks	21 464	6 241	6 701	**34 406**
Loans and receivables due from customers	482 117	61 132	1 902	**545 151**
Financial assets at fair value through other comprehensive income	218 669	132 358	11	**351 038**
Debt securities at amortised cost	63 049	3 088	-	**66 137**
Other financial assets	2 331	32	26	**2 389**
Total financial assets	**1 037 198**	**207 697**	**8 810**	**1 253 705**
Financial liabilities				
Financial instruments at fair value through profit or loss	551	-	-	**551**
Due to Bank of Latvia	49 811	-	-	**49 811**
Deposits and balances due to banks	1 316	241	122	**1 679**
Current accounts and deposits due to customers	826 186	101 915	12 832	**940 933**
Other financial liabilities	11 122	179	731	**12 032**
Total financial liabilities	**888 986**	**102 335**	**13 685**	**1 005 006**
Net position as of 31 December 2022	**148 212**	**105 362**	**(4 875)**	
Net off balance sheet position as of 31 December 2022	**98 264**	**(101 904)**	**3 049**	
Net total positions as of 31 December 2022	**246 476**	**3 458**	**(1 826)**	
Net total positions as of 31 December 2021	**302 485**	**4 560**	**(407)**	

4. Risk management, continued

The following table shows the currency structure of financial assets and liabilities of the Bank as of 31 December 2023:

The Bank

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances due from the Bank of Latvia	350 131	181	18	**350 330**
Financial assets at fair value through profit or loss	2 157	3 842	226	**6 225**
Deposits and balances due from banks	2 926	3 918	6 684	**13 528**
Loans and receivables due from customers	611 519	43 742	1 106	**656 367**
Financial assets at fair value through other comprehensive income	185 561	82 823	15	**268 399**
Debt securities at amortised cost	55 190	2 420	-	**57 610**
Other financial assets	11 161	7	11	**11 179**
Total financial assets	**1 218 645**	**136 933**	**8 060**	**1 363 638**
Financial liabilities				
Financial instruments at fair value through profit or loss	2 024	-	-	**2 024**
Due to Bank of Latvia	51 479	-	-	**51 479**
Deposits and balances due to banks	4 214	507	107	**4 828**
Current accounts and deposits due to customers	931 690	70 580	8 875	**1 011 145**
Other financial liabilities	35 303	346	351	**36 000**
Total financial liabilities	**1 024 710**	**71 433**	**9 333**	**1 105 476**
Net position as of 31 December 2023	**193 935**	**65 500**	**(1 273)**	
Net off balance sheet position as of 31 December 2023	**59 818**	**(69 098)**	**638**	
Net total positions as of 31 December 2023	**253 753**	**(3 598)**	**(635)**	
Net total positions as of 31 December 2022	**274 726**	**(7 252)**	**(1 946)**	

4. Risk management, continued

The following table shows the currency structure of financial assets and liabilities of the Bank as of 31 December 2022:

The Bank

	EUR '000 EUR	USD '000 EUR	Other currencies '000 EUR	Total '000 EUR
Financial assets				
Cash and balances due from the Bank of Latvia	248 284	283	17	**248 584**
Financial assets at fair value through profit or loss	806	4 563	153	**5 522**
Deposits and balances due from banks	21 232	6 241	6 284	**33 757**
Loans and receivables due from customers	529 068	53 302	1 962	**584 332**
Financial assets at fair value through other comprehensive income	218 669	132 358	11	**351 038**
Debt securities at amortised cost	63 049	3 088	-	**66 137**
Other financial assets	7 679	29	13	**7 721**
Total financial assets	**1 088 787**	**199 864**	**8 440**	**1 297 091**
Financial liabilities				
Financial instruments at fair value through profit or loss	551	-	-	**551**
Due to Bank of Latvia	49 811	-	-	**49 811**
Deposits and balances due to banks	1 316	241	122	**1 679**
Current accounts and deposits due to customers	834 025	104 958	12 841	**951 824**
Other financial liabilities	26 622	13	472	**27 107**
Total financial liabilities	**912 325**	**105 212**	**13 435**	**1 030 972**
Net position as of 31 December 2022	**176 462**	**94 652**	**(4 995)**	
Net off balance sheet position as of 31 December 2022	**98 264**	**(101 904)**	**3 049**	
Net total positions as of 31 December 2022	**274 726**	**(7 252)**	**(1 946)**	
Net total positions as of 31 December 2021	**272 557**	**(1 962)**	**(423)**	

(d) Interest rate risk in the banking book

Interest rate risk in the banking book is the risk that the Bank or its subsidiary may incur losses from a negative impact to the economic value of equity, or to the net interest income, taking market value changes into account as appropriate, which arise from adverse movements in interest rates affecting interest rate sensitive instruments.

The Bank and the Group use a range of risk metrics to measure, oversee, and control the interest rate risk in the banking book, including recovery plan indicators, contingency funding indicators, risk capacity, tolerance and appetite levels, risk limits and key risk indicators, and stop-loss levels. These risk metrics are monitored on a regular basis. It is measured in terms of stressed EVE (Economic Value of Equity) and NII (Net Interest Income):

- EVE represents the profit or loss that the Bank and the Group will experience over the selected horizon or time bucket. EVE thus represents how assets and liabilities might react to interest rate fluctuations.
- The short-term proxy for the economic value of equity is NII. NII assesses the impact of interest rate risk in the short term, while EVE assesses interest rate risk over the long term.

4. Risk management, continued

The Bank and the Group calculate EVE in accordance with FCMC Regulation No. 254 and the EBA Guidelines on the management of interest rate risk and credit spread risk arising from non-trading book activities (EBA/GL/2022/14). The Interest rate and credit spread risk management policy and the related internal regulations establish a thorough approach to the calculation of EVE and NII in the Bank and the Group.

The Enterprise Risk Management Department produces a daily, weekly and quarterly risk control report that includes the currency risk data. The results of the EVE and NII modelling are summarised in the table below:

The Group **'000 EUR**	**2023**		**2022**	
	Economic value of equity	**Net interest income**	**Economic value of equity**	**Net interest income**
Parallel shock up (+200bps)	(9 883)	2 140	(11 879)	896
Parallel shock up (-200bps)	4 111	(4 282)	2 207	(896)
Steepener shock (short rates down and long rates up)	(1 150)		(1 911)	
Flattener shock (short rates up and long rates down)	(656)		(1 043)	
Short rates shock up	(4 841)		(6 670)	
Short rates shock down	1 655		401	

The Bank **'000 EUR**	**2023**		**2022**	
	Economic value of equity	**Net interest income**	**Economic value of equity**	**Net interest income**
Parallel shock up (+200bps)	(7 039)	2 677	(9 844)	1 326
Parallel shock up (-200bps)	2 509	(5 376)	727	(1 326)
Steepener shock (short rates down and long rates up)	(6)		(1 448)	
Flattener shock (short rates up and long rates down)	(1 202)		(1 482)	
Short rates shock up	(4 133)		(6 502)	
Short rates shock down	1 281		48	

In order to identify the interest rate risk in the banking book, the Bank and the Group use the following indicators:

- GAP analysis, including the revaluation gap method and the full revaluation approach, parallel gap analysis and non-parallel gap analysis;
- Duration analysis, including the calculation of modified duration and semi-modified duration;
- Curvature analysis;
- Grouping of interest rate sensitive instruments by different interest rates or options;
- Stress testing results.

4. Risk management, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as of 31 December 2023, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 EUR	**1 to 3 months '000 EUR**	**3 months to 1 year '000 EUR**	**1 to 5 years '000 EUR**	**More than 5 years '000 EUR**	**Non-interest bearing '000 EUR**	**Total '000 EUR**
Financial assets							
Cash and balances due from the Bank of Latvia	349 341	-	-	-	-	1 025	**350 366**
Financial assets at fair value through profit or loss	2 033	-	-	-	-	4 686	**6 719**
Deposits and balances due from banks	6 915	-	-	-	-	7 145	**14 060**
Loans and receivables due from customers	117 385	236 949	31 354	182 452	17 995	36 080	**622 215**
Financial assets at fair value through other comprehensive income	44 809	17 578	53 563	152 391	-	58	**268 399**
Debt securities at amortised cost	26 918	12 842	6 367	11 483	-	-	**57 610**
Total financial assets	**547 401**	**267 369**	**91 284**	**346 326**	**17 995**	**48 994**	**1 319 369**
Financial liabilities							
Financial instruments at fair value through profit or loss	60	9	-	1 955	-	-	**2 024**
Due to Bank of Latvia	-	-	-	50 000	-	1 479	**51 479**
Deposits and balances due to banks	4 828	-	-	-	-	-	**4 828**
Current accounts and deposits due to customers	288 824	59 088	329 987	306 852	1 657	19 530	**1 005 938**
Total financial liabilities	**293 712**	**59 097**	**329 987**	**358 807**	**1 657**	**21 009**	**1 064 269**
Net position as at 31 December 2023	**253 689**	**208 272**	**(238 703)**	**(12 481)**	**16 338**	**27 985**	
Net position as at 31 December 2022	**(75 032)**	**191 379**	**(11 149)**	**103 315**	**10 956**	**38 873**	

4. Risk management, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Group as of 31 December 2022, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month ’000 EUR	**1 to 3 months ’000 EUR**	**3 months to 1 year ’000 EUR**	**1 to 5 years ’000 EUR**	**More than 5 years ’000 EUR**	**Non-interest bearing ’000 EUR**	**Total ’000 EUR**
Financial assets							
Cash and balances due from the Bank of Latvia	248 588	-	-	-	-	30	**248 618**
Financial assets at fair value through profit or loss	670	-	-	-	-	5 296	**5 966**
Deposits and balances due from banks	26 159	-	-	-	-	8 247	**34 406**
Loans and receivables due from customers	127 846	167 345	14 307	167 738	23 478	44 437	**545 151**
Financial assets at fair value through other comprehensive .	8 988	27 535	60 618	253 886	-	11	**351 038**
Debt securities at amortised cost	982	31 592	14 311	19 170	82	-	**66 137**
Total financial assets	**413 233**	**226 472**	**89 236**	**440 794**	**23 560**	**58 021**	**1 251 316**
Financial liabilities							
Financial instruments at fair value through profit or loss	551	-	-	-	-	-	**551**
Due to Bank of Latvia	-	-	-	49 811	-	-	**49 811**
Deposits and balances due to banks	1 679	-	-	-	-	-	**1 679**
Current accounts and deposits due to customers	486 035	35 093	100 385	287 668	12 604	19 148	**940 933**
Total financial liabilities	**488 265**	**35 093**	**100 385**	**337 479**	**12 604**	**19 148**	**992 974**
Net position as at 31 December 2022	**(75 032)**	**191 379**	**(11 149)**	**103 315**	**10 956**	**38 873**	
Net position as at 31 December 2021	**(57 937)**	**178 019**	**(105 948)**	**214 739**	**5 053**	**26 204**	

4. Risk management, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as of 31 December 2023, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 EUR	**1 to 3 months '000 EUR**	**3 months to 1 year '000 EUR**	**1 to 5 years '000 EUR**	**More than 5 years '000 EUR**	**Non-interest bearing '000 EUR**	**Total '000 EUR**
Financial assets							
Cash and balances due from the Bank of Latvia	349 341	-	-	-	-	989	**350 330**
Financial assets at fair value through profit or loss	2 033	-	-	-	-	4 192	**6 225**
Deposits and balances due from banks	6 383	-	-	-	-	7 145	**13 528**
Loans and receivables due from customers	115 106	309 633	25 621	160 733	-	45 274	**656 367**
Financial assets at fair value through other comprehensive income	44 809	17 578	53 563	152 391	-	58	**268 399**
Debt securities at amortised cost	26 918	12 842	6 367	11 483	-	-	**57 610**
Total financial assets	**544 590**	**340 053**	**85 551**	**324 607**	**-**	**57 658**	**1 352 459**
Financial liabilities							
Financial instruments at fair value through profit or loss	60	9	-	1 955	-	-	**2 024**
Due to Bank of Latvia	-	-	-	50 000	-	1 479	**51 479**
Deposits and balances due to banks	4 828	-	-	-	-	-	**4 828**
Current accounts and deposits due to customers	295 693	60 133	330 637	303 452	1 657	19 573	**1 011 145**
Total financial	**300 581**	**60 142**	**330 637**	**355 407**	**1 657**	**21 052**	**1 069 476**
Net position as at 31 December 2023	**244 009**	**279 911**	**(245 086)**	**(30 800)**	**(1 657)**	**36 606**	
Net position as at 31 December 2022	**(82 823)**	**252 587**	**(14 967)**	**80 591**	**(728)**	**50 845**	

4. Risk management, continued

The following table shows the interest rate contracted re-pricing risk of financial assets and liabilities of the Bank as of 31 December 2022, based on the earlier of contractual interest rate repricing or maturity:

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years '000 EUR	Non-interest bearing '000 EUR	Total '000 EUR
Financial assets							
Cash and balances due from the Bank of Latvia	248 554	-	-	-	-	30	**248 584**
Financial assets at fair value through profit or loss	670	-	-	-	-	4 852	**5 522**
Deposits and balances due from banks	25 510	-	-	-	-	8 247	**33 757**
Loans and receivables due from customers	127 729	228 626	7 688	151 640	11 794	56 855	**584 332**
Financial assets at fair value through other comprehensive	8 988	27 535	60 618	253 886	-	11	**351 038**
Debt securities at amortised cost	982	31 592	14 311	19 170	82	-	**66 137**
Total financial assets	**412 433**	**287 753**	**82 617**	**424 696**	**11 876**	**69 995**	**1 289 370**
Financial liabilities							
Financial instruments at fair value through profit or loss	551	-	-	-	-	-	**551**
Due to Bank of Latvia	-	-	-	49 811	-	-	**49 811**
Deposits and balances due to banks	1 679	-	-	-	-	-	**1 679**
Current accounts and deposits due to customers	493 026	35 166	97 584	294 294	12 604	19 150	**951 824**
Total financial liabilities	**495 256**	**35 166**	**97 584**	**344 105**	**12 604**	**19 150**	**1 003 865**
Net position as at 31 December 2022	**(82 823)**	**252 587**	**(14 967)**	**80 591**	**(728)**	**50 845**	
Net position as at 31 December 2021	**(63 789)**	**240 255**	**(115 487)**	**209 072**	**(9 332)**	**31 231**	

(e) Liquidity risk

Liquidity risk is the risk that the Bank or its subsidiary may incur losses when it is not able to fulfil its liabilities due to the clients because of the lack of highly liquid assets (cash, balance on Nostro accounts) or in situations when the amount of the Bank's liabilities due from at a certain date is considerably lower than the amount of the liabilities due to at the same date.

The Bank and the Group use a range of risk metrics to measure, oversee, and control the liquidity risk, including recovery plan indicators, contingency funding indicators, risk capacity, tolerance and appetite levels, risk limits and key risk indicators, and stop-loss levels. These risk metrics are monitored on a regular basis.

Treasury Department is responsible for managing liquidity risk as the first line of defence, while Enterprise Risk Management provides independent control and oversight as the second line of defence. In addition, the Bank has established the Asset and Liability Committee (ALCO), which is chaired by the Chairman of the Management Board. It approves the purchase or sale of financial instruments to ensure an adequate liquidity reserve, based on recommendations from the Bank and the Group uses a number of risk measures to measure, monitor and manage liquidity risk, including the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR), the Internal Liquidity Ratio (ILR).

4. Risk management, continued

The Enterprise Risk Management Department produces a daily, weekly and quarterly risk control report that includes the currency risk data.

In addition, the Bank and the Group use a wide range of stress tests to model the financial impact of a variety of adverse market scenarios. These provide an indication of the potential magnitude of losses that could arise under different conditions.

To identify the liquidity risk, the Bank and the Group use the following indicators:

- Changes in the deposit outflows;
- Changes in the value of the portfolio of financial instruments;
- Operational risk events related to reputational risk;
- Changes in the channels for attracting deposits.

In addition, the Enterprise Risk Management Department prepares a monthly report, which includes regulatory and internal liquidity risk metrics, deposit structure, maturity structure of assets and liabilities, comparison with the banking sector, etc. The report is discussed with the Treasury Department and presented to the Asset Liability Committee.

Liquidity coverage ratio

The Group and the Bank comply with the Capital Requirements Regulation (CRR) and the LCR Delegated Regulation in relation to liquidity risk management. The Bank and the Group identifies liquid assets in accordance with these regulatory requirements. Table below shows the Bank's and the Group's liquidity coverage ratio % (minimum requirement 100%, however, the Bank and the Group maintains higher ratios than set by regulatory requirements):

	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Liquidity buffer	409 709	409 672	345 053	345 021
Net liquidity outflow	104 175	102 845	112 584	113 607
LCR	**393.29%**	**398.34%**	**306.49%**	**303.70%**
Max for period	**469.21%**	**475.06%**	**475.54%**	**479.93%**
Min for period	**189.56%**	**189.40%**	**293.44%**	**290.83%**
Average for period	**314.23%**	**316.39%**	**359.83%**	**358.23%**

Net stable funding ratio

In order to ensure the long-term resilience of the Bank's and the Group's liquidity risk profile, a Net Stable Funding Ratio (NSFR) is calculated. The following table shows the Bank's and the Group's Net Stable Funding Ratio in % (minimum requirement 100%, however the Bank and the Group maintain higher ratios than required by the regulatory framework:

	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Available stable funding	1 228 061	1 219 292	1 087 257	1 084 940
Required stable funding	985 928	980 930	950 508	947 129
NSFR	**124.56%**	**124.30%**	**114.39%**	**114.55%**
Max for period	**124.56%**	**124.30%**	**124.85%**	**124.31%**
Min for period	**105.06%**	**105.22%**	**114.39%**	**114.55%**
Average for period	**114.30%**	**114.76%**	**120.51%**	**120.43%**

4. Risk management, continued

Breakdown of assets, liabilities and off-balance sheet items by contractual maturity as at 31 December 2023:

The Group	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years or no maturity '000 EUR	Total '000 EUR
Financial assets						
Cash and balances due from the Bank of Latvia	350 366	-	-	-	-	**350 366**
Financial assets at fair value through profit or loss	6 226	-	-	-	493	**6 719**
Deposits and balances due from banks	14 060	-	-	-	-	**14 060**
Loans and receivables due from customers	51 238	15 395	98 047	378 832	78 703	**622 215**
Financial assets at fair value through other comprehensive income	204 295	-	63 520	584	-	**268 399**
Debt securities at amortised cost	14 091	501	6 400	36 416	202	**57 610**
Other financial assets	1 680	-	3 550	295	-	**5 525**
Total financial assets	**641 956**	**15 896**	**171 517**	**416 127**	**79 398**	**1 324 894**
Financial liabilities						
Financial instruments at fair value through profit or loss	60	9	-	1 955	-	**2 024**
Due to Bank of Latvia	-	-	-	51 479	-	**51 479**
Deposits and balances due to banks	4 828	-	-	-	-	**4 828**
Current accounts and deposits due to customers	476 151	45 225	279 766	200 239	4 557	**1 005 938**
Lease liability	21	33	145	524	138	**861**
Other financial liabilities	19 044	-	2 029	73	9	**21 155**
Total financial liabilities	**500 104**	**45 267**	**281 940**	**254 270**	**4 704**	**1 086 285**
Total financial liabilities and equity	**500 104**	**45 267**	**281 940**	**254 270**	**4 704**	**1 086 285**
Net balance sheet position as at 31 December 2023	**141 852**	**(29 371)**	**(110 423)**	**161 857**	**74 694**	**238 609**
Off balance sheet position as at 31 December 2023	**114 174**	**-**	**-**	**-**	**-**	**114 174**

The Bank	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years or no maturity '000 EUR	Total '000 EUR
Financial assets						
Cash and balances due from the Bank of Latvia	350 330	-	-	-	-	**350 330**
Financial assets at fair value through profit or loss	6 225	-	-	-	-	**6 225**
Deposits and balances due from banks	13 528	-	-	-	-	**13 528**
Loans and receivables due from customers	48 942	14 703	94 212	411 987	86 523	**656 367**
Financial assets at fair value through other comprehensive income	204 295	-	63 520	584	-	**268 399**
Debt securities at amortised cost	14 091	501	6 400	36 416	202	**57 610**
Other financial assets	1 108	-	3 550	6 521	-	**11 179**
Total financial assets	**638 519**	**15 204**	**167 682**	**455 508**	**86 725**	**1 363 638**
Financial liabilities						
Financial instruments at fair value through profit or loss	60	9	-	1 955	-	**2 024**
Due to Bank of Latvia	-	-	51 479	-	-	**51 479**
Deposits and balances due to banks	4 828	-	-	-	-	**4 828**
Current accounts and deposits due to customers	483 050	46 271	280 429	196 839	4 556	**1 011 145**
Lease liability	109	218	982	7 337	16 277	**24 923**
Other financial liabilities	9 065	-	2 010	2	-	**11 077**
Total financial liabilities	**497 112**	**46 498**	**334 900**	**206 133**	**20 833**	**1 105 476**
Total financial liabilities and equity	**497 112**	**46 498**	**334 900**	**206 133**	**20 833**	**1 105 476**
Net balance sheet position as at 31 December 2023	**141 407**	**(31 294)**	**(167 218)**	**249 375**	**65 892**	**258 162**
Off balance sheet position as at 31 December 2023	**145 044**	**-**	**-**	**-**	**-**	**145 044**

4. Risk management, continued

Breakdown of assets, liabilities and off-balance sheet items by contractual maturity as at 31 December 2022:

The Group

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years or no maturity '000 EUR	Total '000 EUR
Financial assets						
Cash and balances due from the Bank of Latvia	248 618	-	-	-	-	**248 618**
Financial assets at fair value through profit or loss	5 522	-	-	-	444	**5 966**
Deposits and balances due from banks	34 406	-	-	-	-	**34 406**
Loans and receivables due from customers	66 646	16 881	53 109	318 074	90 441	**545 151**
Financial assets at fair value through other comprehensive income	288 507	-	-	62 531	-	**351 038**
Debt securities at amortised cost	34 259	-	-	31 878	-	**66 137**
Other financial assets	2 298	-	25	66	-	**2 389**
Total financial assets	**680 256**	**16 881**	**53 134**	**412 549**	**90 885**	**1 253 705**
Financial liabilities						
Financial instruments at fair value through profit or loss	551	-	-	-	-	**551**
Due to Bank of Latvia	-	-	-	49 811	-	**49 811**
Deposits and balances due to banks	1 679	-	-	-	-	**1 679**
Current accounts and deposits due to customers	644 520	34 002	95 004	154 633	12 774	**940 933**
Lease liability	15	33	144	457	365	**1 014**
Other financial liabilities	3 118	966	27	6 881	26	**11 018**
Total financial liabilities	**649 883**	**35 001**	**95 175**	**211 782**	**13 165**	**1 005 006**
Total financial liabilities and equity	**649 883**	**35 001**	**95 175**	**211 782**	**13 165**	**1 005 006**
Net balance sheet position as at 31 December 2022	**30 373**	**(18 120)**	**(42 041)**	**200 767**	**77 720**	**248 699**
Off balance sheet position as at 31 December 2022	**147 327**	**-**	**-**	**-**	**-**	**147 327**

The Bank

	Less than 1 month '000 EUR	1 to 3 months '000 EUR	3 months to 1 year '000 EUR	1 to 5 years '000 EUR	More than 5 years or no maturity '000 EUR	Total '000 EUR
Financial assets						
Cash and balances due from the Bank of Latvia	248 584	-	-	-	-	**248 584**
Financial assets at fair value through profit or	5 522	-	-	-	-	**5 522**
Deposits and balances due from banks	33 757	-	-	-	-	**33 757**
Loans and receivables due from customers	61 691	21 393	46 611	349 029	105 608	**584 332**
Financial assets at fair value through other comprehensive income	288 507	-	-	62 531	-	**351 038**
Debt securities at amortised cost	34 259	-	-	31 878	-	**66 137**
Other financial assets	1 170	-	25	6 526	-	**7 721**
Total financial assets	**673 490**	**21 393**	**46 636**	**449 964**	**105 608**	**1 297 091**
Financial liabilities						
Financial instruments at fair value through profit or loss	551	-	-	-	-	**551**
Due to Bank of Latvia	-	-	-	49 811	-	**49 811**
Deposits and balances due to banks	1 679	-	-	-	-	**1 679**
Current accounts and deposits due to	658 512	34 002	91 904	154 633	12 773	**951 824**
Lease liability	76	152	686	5 156	12 699	**18 769**
Other financial liabilities	1 508	117	3	6 710	-	**8 338**
Total financial liabilities	**662 326**	**34 271**	**92 593**	**216 310**	**25 472**	**1 030 972**
Total financial liabilities and equity	**662 326**	**34 271**	**92 593**	**216 310**	**25 472**	**1 030 972**
Net balance sheet position as at 31 December 2022	**11 164**	**(12 878)**	**(45 957)**	**233 654**	**80 136**	**266 119**
Off balance sheet position as at 31 December 2022	**189 090**	**-**	**-**	**-**	**-**	**189 090**

4. Risk management, continued

Analysis of undiscounted cash flows of financial activities:

The Group

31 December 2023 EUR'000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 year to 5 years**	**More than 5 years**	**Total gross amount outflow/ (inflow)**	**Carrying amount**
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	53 446	-	**53 446**	**51 479**
Deposits and balances due to banks	4 828	-	-	-	-	**4 828**	**4 828**
Current accounts and deposits due to customers	476 108	45 309	285 461	218 446	5 723	**1 031 047**	**1 005 938**
Lease liability	21	35	167	458	504	**1 185**	**861**
Other financial liabilities	17 962	-	2 122	1 061	10	**21 155**	**21 155**
Derivative liabilities settled on a net basis	60	9	-	1 955	-	**2 024**	**2 024**
Total	**498 979**	**45 353**	**287 750**	**275 366**	**6 237**	**1 113 685**	**1 086 285**
Guarantees (maximum credit risk exposure)	**147**	**947**	**9 701**	**2 176**	**3 595**	**16 566**	**16 566**
Credit related commitments (maximum credit risk exposure)	**52 229**	**-**	**-**	**-**	**-**	**52 229**	**52 229**

31 December 2022 EUR'000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 year to 5 years**	**More than 5 years**	**Total gross amount outflow/ (inflow)**	**Carrying amount**
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	52 361	-	**52 361**	**49 811**
Deposits and balances due to banks	1 679	-	-	-	-	**1 679**	**1 679**
Current accounts and deposits due to customers	644 548	34 087	95 924	160 790	16 886	**952 235**	**940 933**
Lease liability	22	34	164	465	604	**1 289**	**1 014**
Other financial liabilities	3 118	966	28	6 882	24	**11 018**	**11 018**
Derivative liabilities settled on a net basis	551	-	-	-	-	**551**	**551**
Total	**649 918**	**35 087**	**96 116**	**220 498**	**17 514**	**1 019 133**	**1 005 006**
Guarantees (maximum credit risk exposure)	**-**	**-**	**-**	**-**	**11 649**	**11 649**	**11 649**
Credit related commitments (maximum credit risk exposure)	**92 675**	**-**	**-**	**-**	**-**	**92 675**	**92 675**

4. Risk management, continued

Analysis of undiscounted cash flows of financial activities:

The Bank

31 December 2023 EUR'000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 year to 5 years**	**More than 5 years**	**Total gross amount outflow/ (inflow)**	**Carrying amount**
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	53 446	-	**53 446**	**51 479**
Deposits and balances due to banks	4 828	-	-	-	-	**4 828**	**4 828**
Current accounts and deposits due to customers	483 081	46 478	286 560	214 211	5 725	**1 036 055**	**1 011 145**
Lease liability	183	365	1 643	8 758	21 493	**32 442**	**24 923**
Other financial liabilities	9 065	-	2 010	2	-	**11 077**	**11 077**
Derivative liabilities settled on a net basis	60	9	-	1 955	-	**2 024**	**2 024**
Total	**497 217**	**46 852**	**290 213**	**278 372**	**27 218**	**1 139 872**	**1 105 476**
Guarantees (maximum credit risk exposure)	**147**	**947**	**9 701**	**2 176**	**3 595**	**16 566**	**16 566**
Credit related commitments (maximum credit risk exposure)	**60 010**	**-**	**-**	**-**	**-**	**60 010**	**60 010**

31 December 2022 EUR'000	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 year to 5 years**	**More than 5 years**	**Total gross amount outflow/ (inflow)**	**Carrying amount**
Non-derivative liabilities							
Due to Bank of Latvia	-	-	-	52 361	-	**52 361**	**49 811**
Deposits and balances due to banks	1 679	-	-	-	-	**1 679**	**1 679**
Current accounts and deposits due to customers	658 520	34 051	92 662	160 790	16 887	**962 910**	**951 824**
Lease liability	132	264	1 187	6 330	16 902	**24 815**	**18 769**
Other financial liabilities	1 508	117	3	6 710	-	**8 338**	**8 338**
Derivative liabilities settled on a net basis	551	-	-	-	-	**551**	**551**
Total	**662 390**	**34 432**	**93 852**	**226 191**	**33 789**	**1 050 654**	**1 030 972**
Guarantees (maximum credit risk exposure)	**160**	**1 249**	**9 704**	**215**	**-**	**11 328**	**11 328**
Credit related commitments (maximum credit risk exposure)	**101 247**	**-**	**-**	**-**	**-**	**101 247**	**101 247**

4. Risk management, continued

Breakdown of assets, liabilities and off-balance sheet items by geographical profile:

The Group **31 December 2023** **EUR'000**	**Latvia**	**Other Baltic countries**	**Other EU countries**	**Other countries**	**Total**
Cash and due from Bank of Latvia	350 366	-	-	-	**350 366**
Financial instruments at fair value through profit or loss	566	-	85	6 068	**6 719**
Deposits and balances due from banks	185	-	8 443	5 432	**14 060**
Loans and receivables due from customers	371 513	50 758	65 495	134 449	**622 215**
Financial instruments at fair value through other comprehensive income	5 285	6 994	126 557	129 563	**268 399**
Financial instruments at amortised costs	5 771	3 848	38 995	8 996	**57 610**
Investments in associates and subsidiaries	36 955	-	-	-	**36 955**
Property and equipment	41 348	-	-	1 200	**42 548**
Intangible assets	1 557	-	-	7	**1 564**
Deferred tax asset	-	-	-	43	**43**
Investment property	83 662	-	-	14 091	**97 753**
Non-current assets held for sale	300	-	-	3	**303**
Current tax asset	10	-	-	50	**60**
Other assets	8 471	34	3 816	896	**13 217**
Total Assets	**905 989**	**61 634**	**243 391**	**300 798**	**1 511 812**
Financial instruments at fair value through profit or loss	2 024	-	-	-	**2 024**
Due to Bank of Latvia	51 479	-	-	-	**51 479**
Deposits and balances due to banks	-	-	256	4 572	**4 828**
Current accounts and deposits due to customers	261 696	12 578	474 712	256 952	**1 005 938**
Provisions	477	-	-	32 931	**33 408**
Current tax liabilities	3 056	-	-	-	**3 056**
Deferred tax liability	750	-	-	-	**750**
Other liabilities and accruals	13 507	7	681	16 363	**30 558**
Total Liabilities	**332 989**	**12 585**	**475 649**	**310 818**	**1 132 041**
Commitments and Guarantees	75 559	-	13	39 082	**114 654**

The Bank **31 December 2023** **EUR'000**	**Latvia**	**Other Baltic countries**	**Other EU countries**	**Other countries**	**Total**
Cash and due from Bank of Latvia	350 330	-	-	-	**350 330**
Financial instruments at fair value through profit or loss	113	-	44	6 068	**6 225**
Deposits and balances due from banks	-	-	8 443	5 085	**13 528**
Loans and receivables due from customers	396 450	50 712	65 423	143 782	**656 367**
Financial instruments at fair value through other comprehensive income	5 285	6 994	126 557	129 563	**268 399**
Financial instruments at amortised costs	5 771	3 848	38 995	8 996	**57 610**
Investments in associates and subsidiaries	66 884	-	320	2 363	**69 567**
Property and equipment	28 532	-	-	368	**28 900**
Intangible assets	1 555	-	-	2	**1 557**
Deferred tax asset	-	-	-	-	**-**
Investment property	42 117	-	-	-	**42 117**
Non-current assets held for sale	300	-	-	-	**300**
Other assets	9 333	34	3 810	527	**13 704**
Total Assets	**906 670**	**61 588**	**243 592**	**296 754**	**1 508 604**
Financial instruments at fair value through profit or loss	2 024	-	-	-	**2 024**
Due to Bank of Latvia	51 479	-	-	-	**51 479**
Deposits and balances due to banks	-	-	256	4 572	**4 828**
Current accounts and deposits due to customers	265 724	12 578	475 693	257 150	**1 011 145**
Provisions	487	-	-	32 931	**33 418**
Current tax liabilities	3 048	-	-	-	**3 048**
Other liabilities and accruals	26 206	4	48	15 937	**42 195**
Total Liabilities	**348 968**	**12 582**	**475 997**	**310 590**	**1 148 137**
Commitments and Guarantees	86 349	-	13	58 682	**145 044**

4. Risk management, continued

Breakdown of assets, liabilities and off-balance sheet items by geographical profile:

The Group 31 December 2022 EUR'000	**Latvia**	**Other Baltic countries**	**Other EU countries**	**Other countries**	**Total**
Cash and due from Bank of Latvia	248 618	-	-	-	**248 618**
Financial instruments at fair value through profit or loss	2 013	-	44	3 909	**5 966**
Deposits and balances due from banks	232	-	8 663	25 511	**34 406**
Loans and receivables due from customers	251 488	53 081	75 339	165 243	**545 151**
Financial instruments at fair value through other comprehensive income	12 008	11 077	140 687	187 266	**351 038**
Financial instruments at amortised costs	5 741	3 828	45 493	11 075	**66 137**
Investments in associates and subsidiaries	775	-	-	-	**775**
Property and equipment	36 160	-	-	1 361	**37 521**
Intangible assets	1 234	10	-	11	**1 255**
Deferred tax asset	-	-	-	531	**531**
Investment property	78 491	-	-	15 105	**93 596**
Non-current assets held for sale	1 366	-	-	12	**1 378**
Current tax asset	36	-	-	-	**36**
Other assets	7 132	34	388	1 342	**8 896**
Total Assets	**645 294**	**68 030**	**270 614**	**411 366**	**1 395 304**
Financial instruments at fair value through profit or loss	-	-	-	551	**551**
Due to Bank of Latvia	49 811	-	-	-	**49 811**
Deposits and balances due to banks	-	-	-	1 679	**1 679**
Current accounts and deposits due to customers	351 464	14 404	296 029	279 036	**940 933**
Provisions	3 715	-	30 000	4	**33 719**
Current tax liabilities	73	-	-	39	**112**
Deferred tax liability	750	-	-	-	**750**
Other liabilities and accruals	16 187	20	645	2 080	**18 932**
Total Liabilities	**422 000**	**14 424**	**326 674**	**283 389**	**1 046 487**
Commitments and Guarantees	107 591	317	18	40 193	**148 119**

The Bank 31 December 2022 EUR'000	**Latvia**	**Other Baltic countries**	**Other EU countries**	**Other countries**	**Total**
Cash and due from Bank of Latvia	248 584	-	-	-	**248 584**
Financial instruments at fair value through profit or loss	1 571	-	43	3 908	**5 522**
Deposits and balances due from banks	-	-	8 663	25 094	**33 757**
Loans and receivables due from customers	277 928	53 020	75 287	178 097	**584 332**
Financial instruments at fair value through other comprehensive income	12 008	11 077	140 687	187 266	**351 038**
Financial instruments at amortised costs	5 741	3 828	45 493	11 075	**66 137**
Investments in associates and subsidiaries	34 979	-	2 920	2 363	**40 262**
Property and equipment	22 542	-	-	415	**22 957**
Intangible assets	1 233	10	-	3	**1 246**
Investment property	36 258	-	-	-	**36 258**
Non-current assets held for sale	1 343	-	-	-	**1 343**
Current tax asset	5	-	-	-	**5**
Other assets	10 060	34	387	654	**11 135**
Total Assets	**652 252**	**67 969**	**273 480**	**408 875**	**1 402 576**
Financial instruments at fair value through profit or loss	-	-	-	551	**551**
Due to Bank of Latvia	49 811	-	-	-	**49 811**
Deposits and balances due to banks	-	-	-	1 679	**1 679**
Current accounts and deposits due to customers	358 696	14 404	299 688	279 036	**951 824**
Provisions	3 725	-	30 000	4	**33 729**
Other liabilities and accruals	29 748	18	608	810	**31 184**
Total Liabilities	**441 980**	**14 422**	**330 296**	**282 080**	**1 068 778**
Commitments and Guarantees	116 077	317	18	72 678	**189 090**

4. Risk management, continued

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

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

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

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

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

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

According to the AML requirements the Bank has designated Member of the Executive Board, whose area of responsibility is the activity of the Bank in AML/CTPF and who controls the Bank's compliance with requirements of the Bank's policy and other external and internal AML/CTPF regulations, and together with the Board makes strategic decisions within the framework of the Bank's policy to be implemented.

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

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

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

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

4. Risk management, continued

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

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

Applying sanctions requirements, the Bank performs actions to freeze accounts, funds and economic resources belonging to, owned, held or controlled by designated natural or legal persons, entities or bodies, or natural or legal persons, entities or bodies associated with them. The Bank effectively denies access to funds or economic resources directly or indirectly, to or for the benefit of designated natural or legal persons, entities or bodies, or natural or legal persons, entities or bodies associated with them. The Bank has implemented the procedure for reporting sanctions circumvention and violation as well as attempts of such activity to the competent authorities. The Bank ensures that the execution of all operations related to sanctions subjects is conducted in full compliance with the normative acts and licences issued by the Latvian/EU/US regulators as well as consultations with the Latvian regulator: Latvijas Banka.

To ensure that the sanctions requirements are met and the risks are effectively mitigated, the Bank has implemented the automated IT solutions/tools, that perform screening checks on customers, beneficial owners, representatives and other related persons, business partners, transactions details and counterparties. Due to the massive expansion of sanctions requirements and changes in the geopolitical situation during 2022, the Bank has integrated additional measures and tools in sanctions risk management area to further strengthen its internal control system.

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

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

- The Bank according to its activity type by assessing and understanding ML/TPF risk and the risk of breaching applicable national and international sanction restrictions, associated with its activity and customers, develops AML/CTPF internal control system, which includes drafting respective policies and procedures;
- The Bank allocates and contributes sufficient financial, material and intellectual resources to ensure due activity, to monitor its customers' activity and to implement the Bank's policy;
- The Bank ensures that the employees in charge with identification, registration, servicing, monitoring and due diligence of the Bank's customers understand and acknowledge risks associated with ML/TPF and breach of sanctions regimes, AML/CTPF legislation and organises regular personnel training to improve their skills to meet requirements of the internal control system, raise their qualification and quality of work.

The Bank has established a whistle-blowing system and enabled the possibility of internal and external, including anonymous, reporting on violations of AML/CTPF or sanctions requirements.

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

The Bank, in compliance with the requirements of the legislation ensures the activity of the internal control system, including KYC standards, CDD/EDD processes, transactions monitoring and screening to secure itself against the risk to get involved in possible ML/TPF transactions and breaches of the national and international sanctions restrictions.

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

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

4. Risk management, continued

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

In order to improve the Bank's compliance with AML/CTPF and sanctions requirements regular external reviews are performed by independent parties. In addition, Internal Audit Service performs internal reviews of the Bank's AML risks management system on a regular basis.

The latest completed comprehensive independent AML review for compliance with the requirements of the Latvian legislation has been performed by KPMG Baltics SIA from November 2021 to March 2022. The review concluded 6 main topics: AML/CPFT internal control system's compliance with Latvian Regulatory requirements, Sanctions risk management internal control system's compliance with Latvian Regulatory requirements, Bank's AML/CPFT and sanctions risk scoring model, Bank's IT system's compliance with Latvia's AML/CPFT regulatory requirements, Review of the Bank's Action Plan stemming from the previous KPMG review for improvement of the Bank's AML internal control system and Review of the Bank's Action Plan stemming from the FCMC 2019 audit for improvement of the Bank's AML internal control system.

As a result of the above referred review KPMG concluded that the core elements of the Bank's AML/CPFT and sanctions internal control system are compliant with applicable regulatory requirements (e.g. internal policies and procedures, EDD and KYC measures in the field of AML/CPFT and sanctions risk management, resources, organization and structure, training, IT-systems for management of ML and sanctions risks, transaction monitoring and others). In total, 256 indicators were reviewed and 77% of them were assessed as in full compliance. For the remaining part of indicators the most of the received recommendations were of low or medium impact.

In November 2023 KPMG Baltics SIA performed the review on the completed measures of Bank's action plan to improve the Bank's AML/CTPF internal control system based on the received recommendations. As the result of this review KPMG Baltics SIA admitted, that the Bank has fully completed all significant and 90% of medium and low influence recommendations. With regard to remaining part of medium and low influence recommendations, it was not necessary to perform additional actions, taking into account the already existing elements of Bank's internal control system.

Furthermore, Latvijas Banka (central bank of Latvia) regularly performs on-site inspections and various off-site activities to assess the compliance of the Bank's AML/CPFT and Sanctions risk management internal control system with Latvian Regulatory requirements.

In August 2023 – January 2024 Latvijas Banka carried out a target onsite review of the internal control system of the Bank in the field of AML/CPFT and Sanctions risk management, focusing on specific customer types – payment institutions and electronic money institutions – and assessing the risk of servicing these customers as well as quality of controls used for managing these risks. According to the results of the review, the Bank has established an internal control system in relation to the servicing of payment institutions and electronic money institutions. Separate areas requiring improvements were identified. Based on the results of the review, the Bank has prepared an Action Plan for the implementation of defined improvements.

(g) Operational risk

Operational risk is the risk that the Bank or its subsidiary may incur losses due to the course of non-compliant or incomplete internal processes, human or system activity, or due to the impact of external circumstances.

The business and support units are responsible for managing operational risk within the first line of defence, while the Enterprise Risk Management, Information Security Division and Compliance Control functions provide an independent second line of defence oversight and control.

The Bank and the Group use a range of risk metrics to measure, oversee, and control the liquidity risk, including recovery plan indicators, contingency funding indicators, risk capacity, tolerance and appetite levels, risk limits and key risk indicators, and stop-loss levels. These risk metrics are monitored on a regular basis. The Bank and the Group develop and maintain business continuity plans to manage the business in the event of a disruption. The business continuity plans are reviewed at least annually or following any significant change in the affected processes.

In addition, the Bank and the Group use a wide range of stress tests to model the financial impact of a variety of adverse operational risk scenarios. These provide an indication of the potential magnitude of losses that could arise under different conditions.

To identify the operational risk, the Bank and the Group use the following indicators:

- Approved changes (including new products and processes, IT systems, outsourcing, etc.);

4. Risk management, continued

- Issued findings (including regulatory and second and third line of defence findings);
- Operational risk incidents;
- Other known or emerging issues.

In addition, the Enterprise Risk Management Department prepares a quarterly report that includes operational risk metrics, reported operational risk incidents, stress test results, etc. This report is discussed and presented to the Management Board and the Supervisory Council.

(h) Capital Management

The Bank and the Group maintain a strong capital base to meet regulatory capital and liquidity requirements at all times.

As of 31 December 2023, the regulator (Central Bank of Latvia) has set the individual minimum capital adequacy ratio for the Bank and the Group at 10.9% (2022: 11.1%). The Bank and the Group are also required to maintain a minimum common equity tier 1 capital ratio of 4.5% and a minimum tier 1 capital ratio of 6.0%.

In addition to the minimum capital adequacy ratios, the Group and the Bank must comply with the following additional capital adequacy requirements in accordance with regulatory requirements:

- the capital conservation buffer, which is set at 2.5% and must be met by common equity tier 1 capital;
- the O-SII capital buffer, which is set at 1.0% as the Bank and the Group have been identified as other systemically important institutions;
- the countercyclical capital buffer, which is set at 0.15% based on the regional distribution of the Bank's and Group's exposures;
- the pillar 2 guidance (P2G), which is set at 2.0% to be maintained in addition to the mandatory capital requirements.

The Bank and the Group use the standardized approach to calculate the capital requirements for credit risk and market risk. For the operational risk, the Bank and the Group use the basic indicator approach. The Group and the Bank complied with all external regulatory capital requirements in 2023.

The following table shows the composition of the Bank's and the Group's capital position calculated in accordance with the requirements of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR):

	2023 '000 EUR Group	**2023 '000 EUR Bank**	**2022 '000 EUR Group**	**2022 '000 EUR Bank**
Tier 1 capital				
Share capital	168 916	168 916	168 916	168 916
Share premium	52 543	52 543	52 543	52 543
Other reserves	23	23	23	23
Accumulated other comprehensive income	(11 644)	(14 995)	(26 821)	(29 130)
Other transitional adjustment to CET1 Capital	-	-	1 658	1 875
Value adjustments due to the requirements for	(277)	(277)	(357)	(356)
Insufficient coverage for non-performing exposures	(228)	(224)	-	-
Retained earnings from prior years	149 455	141 447	131 838	122 335
Current year profit	15 064	12 534	17 660	19 111
Intangible assets	(1 564)	(1 557)	(1 255)	(1 246)
Deferred tax assets	(43)	-	(531)	-
Additional deductions of CET1 Capital due to Article 3 (CRR)	(69 814)	(61 687)	(77 527)	(67 432)
Total tier 1 capital	**302 431**	**296 723**	**266 147**	**266 639**
Tier 2 capital				
Long term deposits qualifying as regulatory capital	15 345	15 345	18 909	18 909
Total tier 2 capital	**15 345**	**15 345**	**18 909**	**18 909**
Total capital	**317 776**	**312 068**	**285 056**	**285 548**
Total risk exposure amount	**1 222 384**	**1 216 538**	**1 146 996**	**1 157 981**
Total capital ratio	**26.00%**	**25.65%**	**24.85%**	**24.66%**

4. Risk management, continued

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

(i) Impact of Russia – Ukraine conflict

In light of the current events in respect of the conflict between Russia and Ukraine, the Bank has taken the necessary actions to minimize the impact of this geopolitical event on the Group, the Bank and its customers.

Compliance

The new requirements regarding sanctions are implemented, procedures established to ensure compliance. The Bank has reviewed its customer base to reveal all accounts of the Russian and Belarussian citizens and residents - companies established in Russia and Belarus. The Bank also reviewed its customer base for presence of any sanctioned legal entities and private individuals which are residents of other jurisdictions. As a result, all these accounts have been placed under the manual control for all incoming payments in order to be compliant with the EU regulation's limitation of EUR 100,000 deposits. The necessary controls of transactions are in place in coordination with Latvijas Banka and other competent authorities. The Internal Control Department is monitoring changes in sanctions and is holding regular meetings with the top management of the Bank in order to communicate all new sanctions, consequent issues and necessary actions. All confirmed sanctions cases and issues are reported to the competent authorities. The Bank takes the following steps to ensure compliance with the sanctions – freeze of accounts, funds and economic resources belonging to, owned, held or controlled by listed natural or legal persons, entities or bodies, or natural or legal persons, entities or bodies associated with them (as required by the EU/US regulations), execution of all further operations in full compliance with the normative acts, licences issued by the Latvian/EU/US. regulators and consultations with the local regulator, deny access to funds or economic resources directly or indirectly, to or for the benefit of natural or legal persons, entities or bodies, or natural or legal persons, entities or bodies associated with them.

The Bank regularly participates in Public-Private Sector meetings discussing actual trends and typologies of economic and sectoral sanctions and it's high-quality reports on sanctions cases have received high appreciation of competent authorities.

Exposure towards RU, BY, UA

During the year 2023 the Bank continued to closely monitor and assess its direct and indirect exposure Russia, Belarus and Ukraine. During the year 2023, from RU/BY loans EUR 32,7 million were received through repayments, refinancing. The Bank is actively working on amortisation and reduction of RU/BY exposure.

The Bank has stopped issuing new loans in Russia and Belarus. The Bank has reclassified all loans with a country risk of Russia and Belarus to at least Stage 2 and applied a risk weight of 150%. As part of the asset quality assessment process, in 2023, the Bank used the Russian ruble exchange rate, which is different from the rate of the Central Bank of the Russian Federation - 102.2485 (2022: 96.0085), which is different from the rate of the Central Bank of the Russian Federation – 98.51 (2022: 78.561), as an additional discount on collateral located in Russia, thus applying the conservative approach.

The Bank's net risk exposure to Russia is EUR 95,1 million, Belarus EUR 14,3 million, Ukraine EUR 1,6 million (2022: EUR 129 million, EUR 18 million, EUR 3 million accordingly).

A decision was made to terminate financing of new leasing deals and to start full amortisation of leasing portfolio of the Group's Belorussian leasing company in order to decrease an overall exposure to Belarus.

In year 2024, the Bank plans to significantly reduce the Russian and Belarusian credit exposure by refinancing loans or selling them to professional market participants. The entire real estate portfolio repossessed by the Bank's subsidiary KI INVEST OOO is on active sale, and it is planned that it will be completely sold by the end of 2024.

4. Risk management, continued

Exposure to RU/BY/UA according risk country:

The Group
'000 EUR

	2023			2022		
	BY	**RU**	**UA**	**BY**	**RU**	**UA**
Deposits and balances due from banks	30	1 281	-	352	3 255	-
Financial assets at fair value through profit or loss	-	226	-	-	153	-
Financial assets at amortised cost	15 404	80 535	1 651	24 786	102 806	2 615
Debt securities	-	2 697	-	-	3 051	-
Loans and receivables due from customers	15 404	77 838	1 651	24 786	99 755	2 615
Property and equipment	443	757	-	491	1 286	-
Investment property	244	13 847	-	252	14 853	-
Other assets	405	97	23	675	593	-
	16 526	**96 743**	**1 674**	**26 556**	**122 946**	**2 615**

The Bank
'000 EUR

	2023			2022		
	BY	**RU**	**UA**	**BY**	**RU**	**UA**
Deposits and balances due from banks	5	959	-	6	3 184	-
Financial assets at fair value through profit or loss	-	226	-	-	153	-
Financial assets at amortised cost	11 942	93 472	1 600	15 793	124 775	2 532
Debt securities	-	2 697	-	-	3 051	-
Loans and receivables due from customers	11 942	90 775	1 600	15 793	121 724	2 532
Investments in subsidiaries	2 362	-	-	2 362	-	-
Property and equipment	-	368	-	-	415	-
Other assets	22	34	-	1	32	-
	14 331	**95 059**	**1 600**	**18 162**	**128 559**	**2 532**

To assess potential losses from exposures in Russia, Belarus and Ukraine, the Bank regularly conducts in-depth risk assessments and stress testing, which includes geopolitical aspects. Range of scenarios that were assumed indicate different scale of impact on the Bank's financial position and/or operational activity. The base scenario assumes that all loans to Russia and Belarus will become non-performing loans. In turn pessimistic scenario assumes complete expropriation of all assets at risk from Russia and Belarus. The Bank has enough resources to cover the potential losses calculated under stress testing. All regulatory requirements, including liquidity and capital adequacy ratios, are met and stable. The results are regularly monitored, presented, and discussed with the Bank of Latvia.

The Bank has no significant exposure towards Russia, Belarus or Ukraine on the liability side. Liquidity is not affected.

5. Use of estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. Use of estimates and judgements, continued

Key sources of estimation uncertainty and judgement:

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

The estimation of impairment allowances under IFRS9, which is largely based on the evaluation of credit risk of financial instruments, is an important aspect of credit risk management. ECL measurement requires judgement, particularly the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and assessing a significant increase in credit risk. A variety of factors can influence these estimates, resulting in varying levels of allowances.

The ECL calculations for the Bank and the Group are the outcome of complex models with multiple underlying assumptions about variable input selection and interdependence. The following elements of the ECL models are considered accounting, judgments and estimates:

- the criteria for determining the significance of an increase in credit risk, as well as the criteria for classification into Stage 1, Stage 2 or Stage 3;

In determining the expected credit losses, management is required to exercise judgement in defining what is considered a significant increase in credit risk. Significant increase in credit risk is mainly determined by overdue period. Forbearance, breach of financial covenants, dependence of client's activities on import/export from/to Russia/Belarus, susceptibility to energy crisis and other qualitative factors are also considered as significant increase in credit risk. Loans and advances that are more than 30 days past due are moved to stage 2. Collectively estimated impairment allowance would not change significantly for the Bank and the Group if 15 days past due period was considered a significant increase in credit risk instead of 30 days past due period.

- development of ECL models, including calculation of key parameters - probability of default (PD), loss given default (LGD) and exposure at default (EAD);

The Bank and the Group use the approach PD*LGD*EAD to calculate ECL. The approach focuses on each variable (PD, LGD and EAD) separately. The Bank and the Group actualize the PD, LGD and EAD models at least once a year. The calculation of collective impairments is carried out by applying a statistical models. The Bank and the Group calculates PD rates using the Markov Chain approach, which describes a stochastic/random process with Markov property, where the probability of a random process transitioning to the next state is only dependent on the current state and it is independent of states that preceded the current state. PD rates are calculated separately for each homogeneous group using historical data of the Bank's and the Group loan portfolio at the end of each month for at least 60 months. LGD rates are calculated at the level of homogeneous portfolio groups and are based on the historical data of the Banks' and the Group's. Calculation is updated at least once a year. The Bank and the Group calculates LGD rates using vintage analysis approach, where data is collected at each month after the default date for at least 60 months. Every time the Bank calculates ECL, it models EAD considering unused credit lines using credit conversion factor (CCF) based on the historical data of the Bank's loan portfolio.

Changes in all applied LGD rates by 5 percentage points would result in change in collectively estimated impairment allowance by EUR + /- 777 thousand for the Bank and EUR +/- 857 thousand for the Group. Changes in the PD rates by 1 percentage point would result in change in collectively estimated impairment allowance by EUR +/- 4,762 thousand for the Bank and EUR +/- 5,070 thousand for the Group and provisions for off-balance sheet commitments and guarantees by EUR +/- 99 thousand for the Bank and EUR +/- 99 thousand for the Group.

- Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The difference between the loan's gross carrying amount and the present value of projected future cash flows discounted at the loan's initial effective interest rate represents the predicted credit losses for a loan that is credit-impaired at the reporting date. The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. In order to calculate projected future cash flows, at least two gone concern scenarios must be considered. The estimated credit losses for a loan that is individually significant but not credit-impaired at the reporting date may be calculated using a going concern approach if the Group and the Bank have access to the borrower's business strategy and current, trustworthy information on expected cash flows.

The chance of a given scenario is determined by subtracting the probability of default, which is derived from past defaults using the Markov Chain model. The second scenario involves the gone concern principle. The loss is recorded in full on the income statement.

5. Use of estimates and judgements, continued

In determining impairment allowance for Russian and Belarusian exposures, the management has used the precautionary approach regarding to Russian ruble and Belarusian ruble exchange rate. Thus, the Bank has recognized an impairment overlay for its exposures in Russia and Belarus. The impairment overlay represents an additional loss reserve over the modelled ECL amounts to account for the economic and political uncertainty in the region in relation to the ongoing war in Ukraine were the key driving factors for the Group and the Bank to determine an impairment overlay. The impairment overlay was primarily quantified by assuming lower recoveries through a lower Russian ruble and Belarusian ruble exchange rate from loans as the Group and the Bank continues its controlled exit from the loan exposures. As of 31 December 2023, impairment overlay of EUR 1.3 million for the Bank and the Group was determined and approved by the Credit evaluation committee. The overlay will be released if risks do not materialize as exposures are recovered.

- the Bank and the Group includes forward-looking information in the measurement of expected credit losses.

The Bank and the Group conduct statistical calculations that take into account historical correlations between macroeconomic indicators and the observed default rates in order to adjust the ECL with macroeconomic forecasts. Based on forecasts of macroeconomic indicators, the Banka and the Group determine the appropriate adjustments for PD rates. To adjust the PD of the loan portfolio taking into account forward-looking information, the Bank uses a statistical model based on linear regression. Three distinct economic scenarios are included in the forward-looking adjustment: a base case scenario that includes the most likely future economic development, a less likely adverse scenario, and a positive scenario. Each scenario has its own unique economic repercussions. One of the key variables is the Consumer price index which are derived from a combination of external macroeconomic forecasts.

The current forward-looking adjustment, based on an expert judgement, weights base case scenario with 50% probability that consumer price index will indicate a 2.00% price increase for year 2024, the adverse scenario at 30% probability that consumer price index will indicate a price increase of 2.2% and positive scenario at 20% probability that consumer price index for the 2024 will indicate a 1.60% price increase.

As of 31 December 2023, incorporation of forward-looking macroeconomic scenarios resulted in additional impairment allowances EUR 776 thousand for the Bank and EUR 948 thousand for the Group. Should only the pessimistic development scenario apply (downside) instead of the used weighted base, downside and upside scenario, then ECLs would increase by EUR 147 thousand for the Bank and by EUR 165 thousand for the Group.

(ii) Determining fair value of financial instruments

All financial instruments that are carried at fair value were valued based on their market value. Fair value of financial instruments carried at amortised cost is stated at present value of future estimated cash flows discounted by a market interest rate. For short term financial assets and liabilities, the fair value approximate amortised cost. The fair value of financial instruments is disclosed in note 40.

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

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

Exposure to risks from price changes of investment property can be expressed as follows based on 5% shifts in real estate prices:

As at 31 December 2023

Segment of property	**5% price increase**	**5% price decrease**
Residential property in Latvia	932	(932)
Residential property in Russia	16	(16)
Land in Latvia	1,156	(1,156)
Commercial property in Latvia	2,094	(2,094)
Commercial property in Russia	677	(677)

5. Use of estimates and judgements, continued

As at 31 December 2022

Segment of property	5% price increase	5% price decrease
Residential property in Latvia	763	(763)
Residential property in Russia	16	(16)
Land in Latvia	632	(632)
Commercial property in Latvia	2,530	(2,530)
Commercial property in Russia	739	(739)

(iv) Impairment of investments in subsidiaries

Investments in subsidiaries are valued at cost less accumulated impairment losses in the Bank's separate financial statements. On a regular basis, the Bank compares the cost of investment with the carrying amount of net assets of a subsidiary to see whether any impairment indication exists. In addition, the management assessed future cash flows to be generated by the subsidiaries and as a result of this assessments concluded that there is no objective evidence of impairment of the investment. If impairment indication exists, the recoverable amount of the investment is calculated based on discounted estimated future cash flows of the subsidiary. Future cash flows are based on budgets and projections prepared by the subsidiary and assessed for reasonableness. Mainly changes in value of investment properties would result in change of carrying amount of net assets of subsidiaries. Thus, change in value of investment properties by 5% would result in change in impairment allowance of Bank's investments in subsidiaries by EUR +/- 1,000 thousand in year 2023 and in year 2022.

(v) Determination of control over investees

Subsidiaries are entities controlled by the Group and the Bank. The Group and the Bank controls an entity (including investment fund) if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group and the Bank reassesses whether it has control if there are changes to one or more of the elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The Group and the Bank has not identified any restrictions regarding control of subsidiaries located in Russia and Belarus and financial statements of subsidiaries located in Russia and Belarus are included in the consolidated financial statements. No significant contractual or regulatory restrictions identified, no restrictions regarding ability to make payments within the Group, to transfer cash or other assets to (or from) other entities within the Group.

Determination of significant influence over investee

The Group has significant influence over Investees if it has the *power* to participate in an entity's financial and operating policy decisions, but does not have control or joint control of those policies. Significant influence is presumed to exist when an investor holds 20 percent or more of the voting power of another entity. Conversely, it is presumed that significant influence does not exist with a holding of less than 20 percent. These presumptions may be overcome if an ability, or lack of ability, to exercise significant influence is clearly demonstrated through additional contractual arrangements or otherwise. Management of the Group and the Bank has assessed the Group's and the Bank's investments and determined that the Group and the Bank has significant influence over the investees recognized as associates.

(vi) Estimating provisions

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

6. Net interest income

	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
Interest income				
Loans and receivables due from customers	48 988	41 568	37 566	28 534
Debt securities at amortised Cost	5 280	5 280	7 906	4 800
Financial assets at fair value through other comprehensive income	5 356	5 356	1 461	4 567
Loans and receivables due from financial institutions	8 316	8 286	1 734	1 703
Other interest income	10	-	-	-
	67 950	**60 490**	**48 667**	**39 604**
Interest expense				
Current accounts and deposits due to customers	11 221	11 315	6 893	6 932
Deposits and balances due to banks	1 894	1 668	1 074	879
Other interest expense	2 952	3 229	3 581	3 278
	16 067	**16 212**	**11 548**	**11 089**

7.Fee and commission income

	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
Commission from account servicing	4 102	4 104	5 161	5 167
Money transfers	898	900	1 344	1 370
Revenue from customer asset management and brokerage commissions	825	779	1 207	733
Commission income from payment cards	1 023	1 023	1 171	1 171
Commissions for trust services provided	488	488	509	509
Commisson income from operation with securities	323	323	11	11
Safe usage	198	198	213	213
Commission from documentary operations	11	11	43	43
Cash withdrawals	53	53	68	68
Other	1 604	1 604	1 769	1 352
	9 525	**9 483**	**11 496**	**10 637**

8.Fee and commission expense

	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
Payment card expenses	585	585	824	824
Agent commissions	357	1	-	-
Brokerage fees	454	454	494	494
On correspondent accounts	69	69	98	98
E-commerce	572	572	828	827
Other	66	105	228	197
	2 103	**1 786**	**2 472**	**2 440**

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

	2023 '000 EUR Group	**2023 '000 EUR Bank**	**2022 '000 EUR Group**	**2022 '000 EUR Bank**
Equity instruments	863	863	2 738	2 738
Debt securities	(602)	(602)	7	7
Other	1	1	1	1
	262	**262**	**2 746**	**2 746**

10. Net foreign exchange gain/(loss)

	2023 '000 EUR Group	**2023 '000 EUR Bank**	**2022 '000 EUR Group**	**2022 '000 EUR Bank**
Gain on spot transactions and derivatives	236	240	1 364	1 351
Gain/(loss) from revaluation of financial assets and liabilities	(4 290)	92	2 183	(249)
	(4 054)	**332**	**3 547**	**1 102**

Loss from revaluation of financial assets mainly arises from revaluation of assets in Russian Federation.

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

	2023 '000 EUR Group	**2023 '000 EUR Bank**	**2022 '000 EUR Group**	**2022 '000 EUR Bank**
Debt securities	(829)	(829)	1 185	1 185
	(829)	**(829)**	**1 185**	**1 185**

12. Other income/(expense)

	2023 '000 EUR Group	**2023 '000 EUR Bank**	**2022 '000 EUR Group**	**2022 '000 EUR Bank**
Operating lease income from investment property and fixed assets	3 326	44	3 632	78
Fair value change of Investment property (note 26)	7 582	5 012	1 498	1 186
Gain from sale of investment property	420	370	1 346	499
Income from steel processing	-	-	3 561	-
Penalties received	423	105	538	203
Dividends received	103	1 672	116	8 278
Loss from sale of property and equipment	(92)	(129)	(30)	-
Gain/(loss) from derecognition of subsidiary (note 21)	1 039	(881)	(1 177)	-
Recovery of assets written off	2 652	2 655	7 160	7 156
Other	5 662	384	3 351	1 185
	21 115	**9 232**	**19 995**	**18 585**

Other income includes EUR 4,8 million income (2022: 5,0 million) from operations related to aircraft services, for Year 2022 represented net amount of 1,2 million in position "other".

13. Impairment losses

	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
Impairment losses				
Loans and receivables due from customers	(16 484)	(21 180)	(6 796)	(9 585)
Financial assets at fair value through other comprehensive income	(772)	(772)	(3 008)	(3 008)
Debt securities at amortised cost	(2 215)	(2 215)	(1 125)	(1 125)
Property and equipment	-	-	(105)	-
Loans and advances due from banks	(517)	(517)	(51)	(51)
Investments in subsidiaries	-	-	-	(1 641)
Other assets	(8)	-	(78)	(79)
	(19 996)	**(24 684)**	**(11 163)**	**(15 489)**
Reversals of impairment losses				
Loans and receivables due from customers	6 019	6 314	3 158	3 630
Financial assets at fair value through other comprehensive income	2 152	2 152	-	-
Debt securities at amortised cost	733	733	-	-
Loans and advances due from banks	555	555	11	11
Investments in subsidiaries	-	-	-	1 587
Other assets	77	9	74	19
	9 536	**9 763**	**3 243**	**5 247**
Net impairment losses	**(10 460)**	**(14 921)**	**(7 920)**	**(10 242)**

14. General and administrative expenses

Services provided by the statutory auditor	31 Dec 2023 Group	31 Dec 2023 Bank	31 Dec 2022 Group	31 Dec 2022 Bank
Annual and interim audit fees (KPMG Baltics SIA)	270	191	220	169
Consulting and advisory fees (KPMG Baltics SIA)	112	112	180	169
Certification task related to the conclusion whether the Bank has complied with the requirements of the Deposit Guarantee Law, and certification task related to the conclusion whether the Bank has complied with the requirements of the Financial Instruments Market Law (KPMG Baltics SIA)	14	14	13	13

14. General and administrative expenses, continued

	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
Employee compensation	14 474	11 340	15 731	10 675
Repairs and maintenance	7 414	1 530	4 841	1 519
Payroll related taxes on employee remuneration	3 863	3 112	4 134	2 884
Salaries to the Executive Board and the Council	2 273	1 927	1 985	1 616
Taxes other than on corporate income and payroll	2 895	1 571	2 579	1 108
Depreciation and amortisation	2 008	2 220	2 053	1 677
Provision for bonus and payroll related taxes	1 422	1 340	1 825	1 825
Travel and transport expenses	846	788	1 535	1 021
Expenses related to credit risk	368	611	466	755
IT related costs	2 010	2 009	1 267	1 261
Advertising and marketing	614	119	682	262
Communications and information services	740	650	741	633
Insurance	551	430	806	597
Charity and sponsorship	-	-	265	-
Subscription of information	599	427	688	548
Rent	89	73	377	76
Professional services	527	347	501	369
Audit services	270	191	336	214
Representative office	292	214	312	236
Income tax expense from conditionally distributed profit	276	273	372	304
Change in accruals for annual leave	98	98	(42)	(42)
Employee health insurance	208	205	146	131
Security	118	3	130	3
Credit card service	119	119	136	136
Representation	184	184	84	80
Office supplies (Stationery)	54	22	83	20
Reversal of provisions for the management bonus	(2 727)	(2 727)	(640)	(640)
Other	2 765	2 365	3 220	2 769
	42 350	**29 441**	**44 613**	**30 037**

The amount of reversed provision for bonuses represents the part of potential bonuses which, in addition to bonuses annually paid out by the Bank and the Group, might be paid discretionary by the Bank, subject to certain conditions which were not fulfilled.

Number of employees

	31 Dec 2023 Group	31 Dec 2023 Bank	31 Dec 2022 Group	31 Dec 2022 Bank
The Council	6	6	8	6
The Executive Board	11	5	15	5
Investment services	6	6	6	6
Servicing of SMEs or individuals	67	33	78	22
Asset management	9	9	5	5
Corporate support function	222	192	215	196
Internal control function	94	60	100	70
Other operations	108	77	99	79
Total number of employees	**523**	**388**	**526**	**389**

15. Income tax expenses

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

	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
Current tax				
Current tax	4 146	3 368	922	279
Deferred tax	346	-	805	-
Total income tax expense in the profit or loss	**4 492**	**3 368**	**1 727**	**279**

The tax rate applicable in countries in which group entities operate:	**2023**	**2022**
Latvia	20.00%	20.00%
Belarus	18.00%	18.00%
Cyprus	12.50%	12.50%
Russia	20.00%	20.00%

According new Corporate Income tax legislation changes for financial institutions effective from 1st January 2024, the Bank has recognised CIT charge of EUR 3,1 million

(b) Reconciliation of effective tax rate:

As of 1 January 2018, according to Law on Enterprise Income Tax of the Republic of Latvia, the tax rate for non-financial institutions of 20% is deferred to when the profit is distributed and calculated as 0.2/0.8 from net distributed dividend. Before 2018 corporate income tax in Latvia was payable for financial year taxable profit. Due to the Corporate Income Tax (CIT) legislative changes in Latvia introduced during 2023 and described in more details in note 3 (p)(i), starting from 2023 banks and non-banking lenders in Latvia are subject to 20% CIT payable on their accounting profit before tax which has resulted in a change of the impact of retained earnings taxable on distribution presented below:

	31 Dec 2023 Group	31 Dec 2023 Bank	31 Dec 2022 Group	31 Dec 2022 Bank
Profit before corporate income tax	21 505	15 902	19 183	19 390
Corporate income tax (at 20%)	4 301	3 180	3 837	3 878
Retained earnings taxable on distribution	(1 084)	-	(2 417)	(3 878)
Non-taxable income	-	(358)	-	-
Effect of tax rates in foreign jurisdictions	4	-	12	-
Tax paid abroad	510	314	279	279
Non-deductible expenses	761	232	16	-
Total effective corporate income tax	**4 492**	**3 368**	**1 727**	**279**

16. Cash and balances due from the Bank of Latvia

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

	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Balances due from the Bank of Latvia	349 454	349 454	247 543	247 543
Cash	912	876	1 075	1 041
	350 366	**350 330**	**248 618**	**248 584**

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

In accordance with the Bank of Latvia's regulations, the Bank is required to maintain a compulsory reserve. As at 31 December 2023 the compulsory reserve amounted to EUR 7,225 thousand (31 December 2022: EUR 7,289 thousand). The compulsory reserve is compared to the Bank's average monthly correspondent account balance in EUR. The Bank's average correspondent balance should exceed the compulsory reserve requirement. The Bank was in compliance with the aforementioned compulsory reserve requirement during the reporting year.

17. Deposits and balances due from banks

	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Demand accounts	14 076	13 544	14 456	13 807
Term deposits	-	-	20 004	20 004
Expected credit losses	(16)	(16)	(54)	(54)
Total accounts	**14 060**	**13 528**	**34 406**	**33 757**

Concentration of placements with banks

As at 31 December 2023 the Bank and the Group had 2 balances (2022: 2), which exceeded 10% of total loans and receivables from banks.

The largest balances due from credit institutions as of 31 December 2023 in the Bank and the Group were as follows:

	31 Dec 2023	%
Euroclear Bank SA/NV	5 686	41.98
Eurasian bank JSC	2 350	17.35
Total	**8 036**	**59.33**

The largest balances due from credit institutions as of 31 December 2022 in the Bank and the Group were as follows:

	31 Dec 2022	%
Thurgauer Kantonalbank	20 004	59.16
Euroclear Bank SA/NV	7 211	21.33
Total	**27 215**	**80.49**

18. Financial assets and liabilities at fair value through profit or loss

	31 Dec 2023		31 Dec 2022	
	'000 EUR Group	'000 EUR Bank	'000 EUR Group	'000 EUR Bank
Equity instruments	4 686	4 192	5 296	4 852
Derivative financial instruments	2 033	2 033	670	670
Financial assets at fair value through profit or loss	**6 719**	**6 225**	**5 966**	**5 522**
Derivative financial instruments	(2 024)	(2 024)	(551)	(551)
Financial liabilities at fair value through profit or loss	**(2 024)**	**(2 024)**	**(551)**	**(551)**

The Bank and the Group classify derivative financial instruments and trading portfolio under this category.

19. Financial assets at amortised cost

Derivative financial assets and liabilities

The Group and the Bank **'000 EUR**	**31 Dec 2023** Carrying amount	**31 Dec 2023** Notional amount	**31 Dec 2022** Carrying amount	**31 Dec 2022** Notional amount
Assets				
GDP-linked derivative securities	2	630	1	630
Forward contracts	30	3 348	96	27 283
Futures contracts	2 001	85 779	573	110 551
Total derivative financial assets	**2 033**		**670**	
Liabilities				
Forward contracts	69	8 145	-	-
Futures contracts	-	-	551	110 551
Options	1 955	1 955	-	-
Total derivative financial liabilities	**2 024**		**551**	

a. Debt securities

The Group and the Bank

EUR'000	**31 December 2023**			**31 December 2022**		
	Gross amount	**Expected credit loss**	**Net carrying amount**	**Gross amount**	**Expected credit loss**	**Net carrying amount**
Government and municipal bonds	891	-	891	908	-	908
Corporate bonds	60 499	(3 780)	56 719	67 485	(2 256)	65 229
Total	**61 390**	**(3 780)**	**57 610**	**68 393**	**(2 256)**	**66 137**

Analysis of movements in the allowance for expected credit losses:

31 December 2023
The Group and the Bank

EUR'000	**Opening balance as at 1 Jan 2023**	**Origination and acquisition**	**Derecog-nition and repayments**	**Changes in credit risk, net**	**Other adjustments**	**Closing balance as at 31 Dec 2023**
Stage 1	1 009	-	(18)	(78)	9	922
Stage 2	326	66	(100)	(193)	8	107
Stage 3	921	9	(133)	1 929	25	2 751
Total	**2 256**	**75**	**(251)**	**1 658**	**42**	**3 780**

31 December 2022
The Group and the Bank

EUR'000	**Opening balance as at 1 Jan 2022**	**Origination and acquisition**	**Derecog-nition and repayments**	**Changes in credit risk, net**	**Other adjustments**	**Closing balance as at 31 Dec 2022**
Stage 1	601	12	(5)	406	(5)	1 009
Stage 2	467	-	(97)	(49)	5	326
Stage 3	64	-	(348)	1 206	(1)	921
Total	**1 132**	**12**	**(450)**	**1 563**	**(1)**	**2 256**

19.Financial assets at amortised cost, continued

b. Loans and receivables due from customers

The Group EUR'000	**31 December 2023**			**31 December 2022**		
	Gross amount	**Expected credit loss**	**Net carrying amount**	**Gross amount**	**Expected credit loss**	**Net carrying amount**
Companies	**543 940**	**(22 697)**	**521 243**	**468 936**	**(15 847)**	**453 089**
Finance leases	3 097	(101)	2 996	7 352	(182)	7 170
Loans	540 843	(22 596)	518 247	461 584	(15 665)	445 919
Individuals	**107 821**	**(6 849)**	**100 972**	**99 224**	**(7 162)**	**92 062**
Finance leases	2 186	(14)	2 172	4 877	(30)	4 847
Loans	105 635	(6 835)	98 800	94 347	(7 132)	87 215
Total	**651 761**	**(29 546)**	**622 215**	**568 160**	**(23 009)**	**545 151**

The Bank EUR'000	**31 December 2023**			**31 December 2022**		
	Gross amount	**Expected credit loss**	**Net carrying amount**	**Gross amount**	**Expected credit loss**	**Net carrying amount**
Companies	**648 120**	**(31 956)**	**616 164**	**562 566**	**(20 130)**	**542 436**
Loans	648 120	(31 956)	616 164	562 566	(20 130)	542 436
Individuals	**44 035**	**(3 832)**	**40 203**	**46 500**	**(4 604)**	**41 896**
Loans	44 035	(3 832)	40 203	46 500	(4 604)	41 896
Total	**692 155**	**(35 788)**	**656 367**	**609 066**	**(24 734)**	**584 332**

c. Finance leases

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

	31 Dec 2023 '000 EUR Group	**31 Dec 2022 '000 EUR Group**
Gross investment in finance leases, receivable		
Less than one year	3 535	7 209
More than one year	2 733	7 792
Total gross investment in finance leases	6 268	15 001
Unearned finance income	(985)	(2 772)
Net investment in finance lease before allowance	**5 283**	**12 229**
Expected credit losses	(115)	(212)
Net investment in finance lease	**5 168**	**12 017**
The net investment in finance leases comprises:		
Less than one year	2 855	5 605
Between one and five years	2 313	6 412
Net investment in finance lease	**5 168**	**12 017**

19.Financial assets at amortised cost, continued

(a) Credit quality of loan portfolio

(i) Ageing structure of loan portfolio

The Group, 31 Dec 2023

	Gross amount					
EUR'000	**Stage 1**	**Stage 2**	**Stage 3**	**Expected credit loss**	**Net carrying amount**	**Uncollateralised exposure of net carrying amount**
Not past due	396 612	89 709	71 546	(14 287)	543 580	113 122
Past due > 0 days <= 30 days	2 598	1 397	32 434	(2 056)	34 373	3 117
Past due > 30 days <= 90 days	-	562	12 603	(2 464)	10 701	386
Past due > 90 days	-	-	44 300	(10 739)	33 561	4 297
Total	**399 210**	**91 668**	**160 883**	**(29 546)**	**622 215**	**120 922**

The Bank, 31 Dec 2023

	Gross amount					
EUR'000	**Stage 1**	**Stage 2**	**Stage 3**	**Expected credit loss**	**Net carrying amount**	**Uncollateralised exposure of net carrying amount**
Not past due	414 126	91 468	99 022	(23 152)	581 464	64 206
Past due > 0 days <= 30 days	64	1 397	32 340	(1 887)	31 914	765
Past due > 30 days <= 90 days	-	10	12 173	(2 204)	9 979	-
Past due > 90 days	-	-	41 555	(8 545)	33 010	3 752
Total	**414 190**	**92 875**	**185 090**	**(35 788)**	**656 367**	**68 723**

(i) Ageing structure of loan portfolio, continued

The Group, 31 Dec 2022

	Gross amount					
EUR'000	**Stage 1**	**Stage 2**	**Stage 3**	**Expected credit loss**	**Net carrying amount**	**Uncollateralised exposure of net carrying amount**
Not past due	337 842	55 682	70 797	(12 664)	451 657	129 292
Past due > 0 days <= 30 days	4 186	6 890	33 266	(1 286)	43 056	1 423
Past due > 30 days <= 90 days	-	274	15 774	(1 534)	14 514	204
Past due > 90 days	-	-	43 449	(7 525)	35 924	5 098
Total	**342 028**	**62 846**	**163 286**	**(23 009)**	**545 151**	**136 017**

The Bank, 31 Dec 2022

	Gross amount					
EUR'000	**Stage 1**	**Stage 2**	**Stage 3**	**Expected credit loss**	**Net carrying amount**	**Uncollateralised exposure of net carrying amount**
Not past due	350 850	92 098	67 717	(17 260)	493 405	97 024
Past due > 0 days <= 30 days	1 819	6 890	32 900	(1 128)	40 481	4
Past due > 30 days <= 90 days	-	-	15 744	(1 454)	14 290	-
Past due > 90 days	-	-	41 048	(4 892)	36 156	69
Total	**352 669**	**98 988**	**157 409**	**(24 734)**	**584 332**	**97 097**

19.Financial assets at amortised cost, continued

(ii) Analysis of loan portfolio by type of collateral

The following table provides the analysis of the loan portfolio, net of impairment, by main types of collateral as at 31 December 2023:

The Group **EUR'000**	**31 Dec 2023**	**% of loan portfolio**	**31 Dec 2022**	**% of loan portfolio**
Commercial buildings	217 201	34.91	192 184	35.26
Without collateral	120 922	19.42	136 017	24.95
Commercial assets pledge	103 346	16.62	80 369	14.74
Land mortgage	49 345	7.93	58 769	10.78
Traded securities	10 413	1.67	10 094	1.85
Mortgage on residential properties	41 869	6.73	30 315	5.56
Finance lease	5 168	0.83	11 928	2.19
Deposit	130	0.02	1 528	0.28
Other	73 821	11.87	23 947	4.39
Total	**622 215**	**100.00**	**545 151**	**100.00**

The Bank **EUR'000**	**31 Dec 2023**	**% of loan portfolio**	**31 Dec 2022**	**% of loan portfolio**
Commercial buildings	262 258	39.96	243 007	41.59
Commercial assets pledge	149 808	22.82	121 983	20.87
Without collateral	68 723	10.47	94 690	16.20
Land mortgage	49 345	7.52	58 769	10.06
Traded securities	10 413	1.59	10 094	1.73
Mortgage on residential properties	41 869	6.38	30 315	5.19
Deposit	130	0.02	1 528	0.26
Other mortgage	73 821	11.24	23 946	4.10
Total	**656 367**	**100.00**	**584 332**	**100.00**

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

19.Financial assets at amortised cost, continued

(iii) Movements in the expected credit losses, loans and receivable due from customers

The following tables show reconciliation from the opening to the closing balance of the expected credit losses, loans and receivables due from customers for the year 2023:

The Group

	Expected credit losses					Loans and receivables due from customers (gross amount)				
'000 EUR	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Opening balance, 31 Dec 2022	**(2 287)**	**(1 621)**	**(19 064)**	**(37)**	**(23 009)**	**342 028**	**62 846**	**161 396**	**1 890**	**568 160**
To stage 1 from stage 2 or 3	(69)	20	49	-	-	188	(76)	(112)	-	-
To stage 2 from stage 1 or 3	250	(255)	5	-	-	(31 170)	31 178	(8)	-	-
To stage 3 from stage 1 or 2	143	136	(279)	-	-	(4 921)	(24 037)	28 958	-	-
Origination and acquisition	(2 538)	(1 162)	(1 160)	(120)	(4 980)	127 891	25 193	5 592	739	159 415
Disposals and repayments	603	53	1 305	-	1 961	(28 507)	(3 436)	(27 133)	(500)	(59 576)
Changes in credit risk, net	(267)	(177)	(6 989)	(286)	(7 719)	-	-	-	-	-
Decrease due to write-offs	-	-	4 127	-	4 127	-	-	(4 146)	-	(4 146)
Other adjusments	33	-	64	(23)	74	(6 299)	-	(5 746)	(47)	(12 092)
Closing balance, 31 Dec 2023	**(4 132)**	**(3 006)**	**(21 942)**	**(466)**	**(29 546)**	**399 210**	**91 668**	**158 801**	**2 082**	**651 761**

The Bank

	Expected credit losses					Loans and receivables due from customers (gross amount)				
'000 EUR	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Opening balance, 31 Dec 2022	**(2 969)**	**(5 478)**	**(16 250)**	**(37)**	**(24 734)**	**352 669**	**98 987**	**156 020**	**1 390**	**609 066**
To stage 1 from stage 2 or 3	-	-	-	-	-	-	-	-	-	-
To stage 2 form stage 1 or 3	245	(245)	-	-	-	(30 885)	30 885	-	-	-
To stage 3 from stage 1 or 2	102	3 208	(3 310)	-	-	(4 189)	(47 087)	51 276	-	-
Origination and acquisition	(2 199)	(1 001)	(722)	(120)	(4 042)	102 596	24 873	6 578	739	134 786
Disposals and repayments	411	37	1 010	-	1 458	(4 761)	(14 783)	(26 563)	-	(46 107)
Changes in credit risk, net	(328)	479	(12 377)	(286)	(12 512)	-	-	-	-	-
Decrease due to write-offs	-	-	4 042	-	4 042	-	-	(4 059)	-	(4 059)
Other adjusments	-	-	24	(24)	-	(1 240)	-	(245)	(46)	(1 531)
Closing balance, 31 Dec 2023	**(4 738)**	**(3 000)**	**(27 583)**	**(467)**	**(35 788)**	**414 190**	**92 875**	**183 007**	**2 083**	**692 155**

19.Financial assets at amortised cost, continued

The following tables show reconciliation from the opening to the closing balance of the expected credit losses, loans and receivables due from customers for the year 2022:

The Group

'000 EUR	Expected credit losses					Loans and receivables due from customers (gross amount)				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Opening balance, 31 Dec 2021	**(2 396)**	**(2 668)**	**(17 118)**	**(40)**	**(22 222)**	**405 617**	**61 195**	**151 958**	**153**	**618 923**
To stage 1 from stage 2 or 3	(92)	57	35	-	-	1 248	(553)	(695)	-	-
To stage 2 form stage 1 or 3	126	(157)	31	-	-	(41 766)	42 950	(1 184)	-	-
To stage 3 from stage 1 or 2	175	591	(766)	-	-	(3 817)	(25 445)	29 262	-	-
Origination and acquisition	(873)	(366)	(437)	(21)	(1 697)	84 283	3 246	543	1 746	89 818
Disposals and repayments	504	652	524	-	1 680	(98 980)	(17 859)	(18 895)	(23)	(135 757)
Changes in credit risk, net	247	(428)	(3 543)	24	(3 700)	-	-	-	-	-
Decrease due to write-offs	-	688	2 344	-	3 032	-	(688)	(2 805)	-	(3 493)
Other adjusments	22	10	(134)	-	(102)	(4 557)	-	3 212	14	(1 331)
Closing balance, 31 Dec 2022	**(2 287)**	**(1 621)**	**(19 064)**	**(37)**	**(23 009)**	**342 028**	**62 846**	**161 396**	**1 890**	**568 160**

The Bank

'000 EUR	Expected credit losses					Loans and receivables due from customers (gross amount)				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Opening balance, 31 Dec 2021	**(3 107)**	**(3 296)**	**(15 163)**	**(40)**	**(21 606)**	**423 245**	**80 686**	**156 004**	**153**	**660 088**
To stage 1 from stage 2 or 3	(54)	42	12	-	-	1 134	(479)	(655)	-	-
To stage 2 form stage 1 or 3	169	(190)	21	-	-	(65 105)	68 541	(3 436)	-	-
To stage 3 from stage 1 or 2	37	553	(590)	-	-	(1 778)	(25 296)	27 074	-	-
Origination and acquisition	(665)	(304)	-	(21)	(990)	60 753	8 308	-	1 246	70 307
Disposals and repayments	301	634	330	-	1 265	(68 144)	(32 244)	(23 299)	(23)	(123 710)
Changes in credit risk, net	350	(3 614)	(3 046)	24	(6 286)	-	-	-	-	-
Decrease due to write-offs	-	688	2 314	-	3 002	-	(688)	(2 774)	-	(3 462)
Other adjusments	-	9	(128)	-	(119)	2 564	159	3 106	14	5 843
Closing balance, 31 Dec 2022	**(2 969)**	**(5 478)**	**(16 250)**	**(37)**	**(24 734)**	**352 669**	**98 987**	**156 020**	**1 390**	**609 066**

Loans and receivables due from customers with a contractual amount of 3,052 thousand EUR for the Group and the Bank were written off during 2023 and are still subject to enforcement activity (2022: 3,052).

19.Financial assets at amortised cost, continued

(b)Industry analysis of the loan portfolio

The Group **EUR'000**	**31 December 2023**				**31 December 2022**			
	Gross amount	**Expected credit loss**	**Net carrying amount**	**Commit-ments, guarantees, Net after ECL**	**Gross amount**	**Expected credit loss**	**Net carrying amount**	**Commit-ments, guarantees, Net after ECL**
Financial services	180 744	(10 358)	170 386	61 996	185 235	(6 356)	178 879	46 669
Real estate management	216 565	(7 349)	209 216	2 993	179 202	(5 810)	173 392	17 074
Individuals	107 821	(6 849)	100 972	2 075	99 434	(7 372)	92 062	4 112
Electricity, gas, water supply	20 302	(347)	19 955	382	33 599	(433)	33 166	44 328
Transport and communication	25 988	(1 042)	24 946	833	27 611	(1 138)	26 473	16 077
Wholesale and retailing	9 598	(1 487)	8 111	350	9 488	(1 196)	8 292	2 157
Manufacturing	31 826	(1 127)	30 699	4 487	9 603	(132)	9 471	4 639
Tourism	27 456	(645)	26 811	489	3 925	(76)	3 849	-
Construction	7 772	(193)	7 579	8 156	545	(19)	526	12 270
Other	23 689	(149)	23 540	32 413	19 518	(477)	19 041	1
	651 761	**(29 546)**	**622 215**	**114 174**	**568 160**	**(23 009)**	**545 151**	**147 327**

The Bank **EUR'000**	**31 December 2023**				**31 December 2022**			
	Gross amount	**Expected credit loss**	**Net carrying amount**	**Commit-ments, guarantees, Net after ECL**	**Gross amount**	**Expected credit loss**	**Net carrying amount**	**Commit-ments, guarantees, Net after ECL**
Financial services	232 406	(10 704)	221 702	78 198	232 847	(7 342)	225 505	75 231
Real estate management	271 426	(16 046)	255 380	16 995	232 226	(9 529)	222 697	29 294
Individuals	44 035	(3 832)	40 203	1 977	46 500	(4 604)	41 896	4 016
Electricity, gas, water supply	22 770	(135)	22 635	32 413	33 591	(433)	33 158	44 329
Transport and communication	25 853	(1 362)	24 491	1 106	24 939	(1 047)	23 892	16 350
Wholesale and retailing	9 114	(1 482)	7 632	350	8 410	(1 183)	7 227	2 157
Manufacturing	31 256	(1 055)	30 201	4 487	8 035	(57)	7 978	4 639
Tourism	27 450	(644)	26 806	489	3 893	(75)	3 818	-
Construction	7 543	(181)	7 362	8 156	273	(8)	265	12 270
Other	20 302	(347)	19 955	383	18 352	(456)	17 896	2
	692 155	**(35 788)**	**656 367**	**144 554**	**609 066**	**(24 734)**	**584 332**	**188 288**

(c) Significant credit exposures

According to regulatory requirements, the Bank and the Group are not allowed to have a credit exposure to one client or group of related clients more than 25% of its equity. As of 31 December 2023, and 2022 the Bank and the Group were in compliance with this requirement.

20. Financial assets at fair value through other comprehensive income

	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
Debt securities				
- with rating from AAA to A	120 259	120 259	178 144	178 144
- with rating from BBB+ to BBB-	101 903	101 903	111 737	111 737
- non-investment grade	46 215	46 215	61 142	61 142
- without rating	7	7	4	4
Equity investments	**15**	**15**	**11**	**11**
Total fair value	**268 399**	**268 399**	**351 038**	**351 038**
Acquisition cost	286 932	286 932	385 184	385 184
Revaluation	(14 995)	(14 995)	(34 146)	(34 146)
Impairment allowance	(3 538)	(3 538)	-	-
Total fair value	**268 399**	**268 399**	**351 038**	**351 038**
Of which pledged to Bank of Latvia under the TLTRO III programme (note 28)	65 424	65 424	62 531	62 531

Analysis of movements in the allowance for expected credit losses:

31 December 2023
The Group and the Bank

EUR'000	Opening balance, 1 Jan 2023	Origination and acquisition	Derecognition and repayments	Changes in credit risk, net	Other adjustments	Closing balance, 31 Dec 2023
Stage 1	334	4	(37)	29	(70)	260
Stage 2	256	1	(1)	(3)	49	302
Stage 3	4 426	-	(769)	(603)	(78)	2 976
Total	**5 016**	**5**	**(807)**	**(577)**	**(99)**	**3 538**

31 December 2022
The Group and the Bank

EUR'000	Opening balance, 1 Jan 2022	Origination and acquisition	Derecognition and repayments	Changes in credit risk, net	Other adjustments	Closing balance, 31 Dec 2022
Stage 1	436	29	(67)	(71)	7	334
Stage 2	187	1	(9)	73	4	256
Stage 3	1 483	3	-	3 049	(109)	4 426
Total	**2 106**	**33**	**(76)**	**3 051**	**(98)**	**5 016**

21. Investments in subsidiaries

Investment in subsidiaries at 31 December 2023 ('000 EUR):

Company	Address	Share Capital	Equity	Bank's share of total share capital, %	Gross carrying amount	Impair-ment allowance	Net invest-ments in subsi-diaries
SIA "RB Investments"	Vesetas str.7, Riga, Latvia	14 229	6 316	100.00%	14 229	(4 051)	10 178
RB Securities Ltd.	Stasinou str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia	9 002	387	99.99%	8 355	(8 036)	319
SIA "OVERSEAS Estates"	Dzintaru str.3A, Ventspils, Latvia	9 480	1 590	100.00%	7 346	(5 759)	1 587
Rietumu Lizing OOO	Odoevskogo str.117, 6th floor, office 9, Minsk, Belarus	275	4 488	99.50%	2 362	-	2 362
SIA "InCREDIT GROUP"	Krisjana Barona str.130, Riga,	500	8 617	51.00%	255	-	255
SIA "RB Drosiba"	Vesetas str.7, Riga, Latvia	71	299	100.00%	71	-	71
SIA "Vesetas 7"	Vesetas str.7, Riga, Latvia	142	7 429	100.00%	3 263	-	3 263
NOD "Nakotnes Atbalsta Fonds"	Vesetas str.7, Riga, Latvia	-	667	100.00%	-	-	-
SIA "Euro Textile Group"	Vesetas str.7, Riga, Latvia	887	(1 595)	100.00%	1 000	(1 000)	-
SIA "KI Fund"	Vesetas str. 7, Riga, Latvia	5 719	3 834	100.00%	5 719	(2 145)	3 574
SIA "Second Sky Management"	Vesetas str. 7, Riga, Latvia	11 003	11 243	100.00%	11 003	-	11 003
Total Bank's investment in subsidiaries					**53 603**	**(20 991)**	**32 612**

During 2023 Bank reduced investment in RB Securities Ltd for EUR 2,6 million. The Group had no restrictions to the ability to access or use assets, and settle liabilities, of the Group with respect to entities included in the consolidated financial statements.
The Group had no restrictions to the ability to access or use assets, and settle liabilities, of the Group with respect to entities included in the consolidated financial statements.

21. Investments in subsidiaries, continued

Investment in subsidiaries at 31 December 2022 (‘000 EUR):

Company	**Address**	**Share Capital**	**Equity**	**Bank’s share of total share capital, %**	**Gross carrying amount**	**Impair-ment allowance**	**Net invest-ments in subsi-diaries**
SIA “RB Investments”	Vesetas str.7, Riga, Latvia	14 229	8 055	100.00%	14 229	(4 051)	10 177
RB Securities Ltd.	Stasinou str.1, Mitsi Building 1, 2nd floor, Flat/office 5, Plateia	11 602	3 027	99.99%	10 956	(8 036)	2 920
SIA “OVERSEAS Estates”	Dzintaru str.3A, Ventspils, Latvia	9 480	1 600	100.00%	7 346	(5 759)	1 587
Rietumu Lizing OOO	Odoevskogo str.117, 6th floor, office 9, Minsk, Belarus	275	4 483	99.50%	2 362	-	2 362
AS “Rietumu Asset	Vesetas str.7, Riga, Latvia	500	663	100.00%	500	-	500
SIA “InCREDIT GROUP”	Krisjana Barona str.130, Riga,	500	8 592	51.00%	255	-	255
SIA “RB Drosiba”	Vesetas str.7, Riga, Latvia	71	293	100.00%	71	-	71
SIA “Vesetas 7”	Vesetas str.7, Riga, Latvia	142	6 854	100.00%	3 263	-	3 263
NOD “Nakotnes Atbalsta Fonds”	Vesetas str.7, Riga, Latvia	-	1 177	100.00%	-	-	-
SIA “Euro Textile Group”	Vesetas str.7, Riga, Latvia	887	(1 550)	100.00%	1 000	(1 000)	-
SIA “KI Fund”	Vesetas str. 7, Riga, Latvia	5 719	3 578	100.00%	5 719	(2 145)	3 574
SIA “RB ELG”	Vesetas str. 7, Riga, Latvia	4 550	4 542	100.00%	4 550	-	4 550
SIA “Second Sky Management”	Vesetas str. 7, Riga, Latvia	11 003	11 590	100.00%	11 003	-	11 003
Total Bank’s investment in subsidiaries					**61 254**	**(20 991)**	**40 262**

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

Disposed subsidiaries

Disposal of SIA “RB ELG”

In October 2023, an agreement was signed on the sale of the capital shares of SIA “RB ELG”, as a result of which the investment in the associated company SIA “European Lingerie Group” was also sold. At the time of the sale, the equity of SIA “RB ELG” was 4,5 million EUR, as a result of sale losses of 1 million EUR and the debtor’s balance at 3,5 million EUR were recognized in Bank books under position other debtors (note 27). According to the terms of the contract, the transaction amount must be paid by October 26, 2024. At moment of sale, consolidated net assets of SIA “European Lingerie Group” disposed from Group’s consolidated results was 775 thousand EUR. The Bank has entered in an option agreement regarding potential purchase of SIA “RB ELG” shares, however the fair value of the option is assessed as being close to 0.

21. Investments in subsidiaries, continued

Discontinuation of AS "Rietumu Asset Management"

According to the decision made by the Bank's board in 2022, the liquidation of AS "Rietumu Asset Management" IPS was completed in 2023, as a result of which Bank's investment in subsidiary's equity was fully recovered and revenues from the liquidation quota in amount of EUR 119 thousand were recognized in the Bank's income (Note 12).

22. Investments in associates

Name	Country of incorporation	Principal activities	Ownership	Amount of investment	Ownership	Amount of investment
			31 Dec 2023		**31 Dec 2022**	
			%	**'000 EUR**	%	**'000 EUR**
AS "Latvijas gāze"	Latvia	Trade of gas through mains	28.97%	36 955	-	-
SIA "European Lingerie Group"	Latvia	Textile articles, wholesale	-	-	30.00%	775
SIA "AED Rail Service"	Latvia	Railway information services	43.00%	-	43.00%	-
Total				**36 955**		**775**

Investment in associate SIA "European Lingerie Group" disposed with the subsidiary SIA "RB ELG" disposal, see note 21. Share of associate loss recognized in 2023 was EUR 775 thousand (2022: EUR 1,185 thousand).

During 2023, the Group became an owner of 28.97% of AS "Latvijas Gāze", one of the leaders of the Baltic energy industry, providing natural gas wholesales and sales to business customers in Latvia, Estonia, Lithuania and Finland, with shares listed in on the Nasdaq Riga stock exchange since 1999.

Associated company related to railway information services is not material to the Group.

Acquisition of associate AS "Latvijas Gāze"

On 29 November 2023, the Bank acquired 28.97% of shares of AS "Latvijas Gāze", publicly traded in Nasdaq Riga with ISIN code: LV0000100899, in exchange for cash consideration. According Share purchase agreement, seller has rights for buy-back option in 36 months period.

The Bank believes the interests in acquiree are stated at fair value.

Long term assets are measured at fair value, revaluation is performed regularly according to company internal policies. Inventories are stated at the lower of cost and net realizable value. The cost of natural gas is composed of the gas purchase price and is determined using FIFO (first in first out) method. Other liabilities (leases) are measured on a present value basis. Right-of-use assets are measured at cost of payments made, initial direct costs and restoration costs. Trade and other payables present unsecured liabilities, usually settled within 30 days of recognition.

Buy-back option in amount of EUR 1,955 million is recognized in liabilities as Financial Instruments at fair value through profit or loss. The value of the option is dependent on the fair value of underlying equity investment and the pre-set buy-back prices that increase over time.

The Group has assessed that the result of the acquired associate from the date of acquisition and 31 December 2023 is not material to the performance of the Group and no gain or loss from the transactions has been recognized in the consolidated and separate profit or loss statement.

22. Investments in associates, continued

	Fair value recognized on acquisition
Assets	**'000 EUR**
Long term assets	6 389
Current assets	101 516
Cash and cash equivalent	53 497
Total assets	**161 402**
Liabilities	
Trade creditors	3 387
Unpaid dividends	23 212
Other liabilities	7 239
Total liabilities	**33 838**
Total identifiable net assets at fair value	**127 564**
Share of total identifiable net assets	36 955
Cash consideration	35 000
Option buy back liabilities	1 955
Total Consideration transferred	**36 955**
Goodwill/Negative goodwill	**0**

**There were no major costs related to acquisition.*

23. Property and equipment

The Group **'000 EUR**	**Right of use assets**	**Land and buildings**	**Construc-tion in progress**	**Vehicles**	**Office equipment and machinery**	**Advances**	**Total**
Cost/Revalued amount							
At 1 January 2023	**1 474**	**29 949**	**8**	**13 128**	**15 440**	**56**	**60 055**
Additions	114	-	-	242	502	106	**964**
Disposals	(78)	-	-	(341)	(779)		**(1 198)**
Transfer	-	8	(8)		56	(56)	**-**
Reclassification (to)/from investment property	-	6 020	-	-	-	-	**6 020**
Sale of subsidiary	-	-	-	-	-	-	**-**
Revaluation	-	55	-	-	-	-	**55**
FX translation effect	-	(216)	-	(6)	(14)	-	**(236)**
At 31 December 2023	**1 510**	**35 816**	**-**	**13 023**	**15 205**	**106**	**65 660**
Depreciation							
At 1 January 2023	**460**	**8 989**	**8**	**2 706**	**10 371**	-	**22 534**
Depreciation charge	216	427	-	721	352	-	**1 716**
Disposals	(33)	-	-	(303)	(769)	-	**(1 105)**
Transfer	-	8	(8)	-	-	-	**-**
FX translation effect	-	(19)	-	(3)	(11)	-	**(33)**
At 31 December 2023	**643**	**9 405**	**-**	**3 121**	**9 943**	**-**	**23 112**
Net carrying amount							
At 31 December 2023	**867**	**26 411**	**-**	**9 902**	**5 262**	**106**	**42 548**
At 31 December 2022	**1 014**	**20 960**	**-**	**10 422**	**5 069**	**56**	**37 521**

In relation with the expansion of the Bank's leased premises from its subsidiary, a reclassification from Investment Property to Property and equipment in amount of EUR 6,020 was recognised.

23. Property and equipment, continued

The Group, continued '000 EUR	**Right of use assets**	**Land and buildings**	**Construc-tion in progress**	**Vehicles**	**Office equipment and machinery**	**Advances**	**Total**
Cost/Revalued amount							
At 1 January 2022	**1 389**	**37 963**	**8**	**12 837**	**16 795**	**4**	**68 996**
Additions	294	-	-	456	799	52	**1 601**
Disposals	(209)	-	-	(165)	(756)	-	**(1 130)**
Transfers	-	(12 923)	-	-	-	-	**(12 923)**
Reclassification (to)/from investment property	-	-	-	-	(1 397)	-	**(1 397)**
Revaluation	-	4 848	-	-	-	-	**4 848**
FX translation effect	-	61	-	-	(1)	-	**60**
At 31 December 2022	**1 474**	**29 949**	**8**	**13 128**	**15 440**	**56**	**60 055**
Depreciation							
At 1 January 2022	**504**	**8 552**	**8**	**2 169**	**11 595**	-	**22 828**
Depreciation charge	233	439	-	701	430	-	**1 803**
Disposals	(196)	-	-	(164)	(701)	-	**(1 061)**
Sale of subsidiary	-	-	-	-	(951)	-	**(951)**
FX translation effect	-	(2)	-	-	(2)		**(4)**
Other	(81)	-	-	-	-	-	**(81)**
At 31 December 2022	**460**	**8 989**	**8**	**2 706**	**10 371**	**-**	**22 534**
Net carrying amount							
At 31 December 2022	**1 014**	**20 960**	**-**	**10 422**	**5 069**	**56**	**37 521**
At 31 December 2021	**885**	**29 411**	**-**	**10 668**	**5 200**	**4**	**46 168**

Revalued assets

As at 31 December 2023 and 2022, properties consisting of office buildings and land were revalued based on report by external independent and qualified property appraisers with recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the property portfolio every year.

The fair value measurement for property (land and buildings) has been categorised as a Level 3 in the fair value hierarchy. If revaluation was not applied the net carrying value of land and buildings would be EUR 19,178 thousand as at 31 December 2023 and EUR 14,330 thousand as at 31 December 2022.

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

Type	**Valuation technique**	**Significant unobser-vable inputs**	**Inter-relation between significant unobservable inputs and fair value measurement**
Office premises in administrative building in the net carrying amount of EUR 422 thousand (2022: EUR 455 thousand) located in Minsk, Belarus	Market comparison technique: the fair value was based on results of comparable sales of similar buildings	Price per m2 – 660 EUR (2022: EUR 711)	The fair value would increase (decreased) if the price per m2 was higher (lower).
Office building (17,071 m2) and land in the amount of EUR 36,600 thousand located in Riga, Latvia	Discounted cash flows technique: the model is based on discounted cash flows from rental income.	Rental income per m2 of EUR 15.50 (2022: EUR 14.36) Discount rate of 7.8	The estimated fair value would increase (decrease) if: - Rental income per m2 was higher (lower) - The discount rate was lower (higher) - Annual capital expense are lower (higher) - The occupancy rate was higher (lower)

23. Property and equipment, continued

The Bank

'000 EUR	Right of use assets	Vehicles	Office equipment	Advances	Total
Cost/Revalued amount					
At 1 January 2023	**22 745**	**3 118**	**11 558**	**8**	**37 429**
Additions	7 332	242	344		**7 918**
Disposals	-	(334)	(723)	-	**(1 057)**
At 31 December 2023	**30 077**	**3 026**	**11 179**	**8**	**44 290**
Depreciation and impairment losses					
At 1 January 2023	**5 122**	**1 950**	**7 400**	-	**14 472**
Depreciation charge	1 581	218	136	-	**1 935**
Disposals	-	(296)	(721)	-	**(1 017)**
At 31 December 2023	**6 703**	**1 872**	**6 815**	**-**	**15 390**
Net carrying amount					
At 31 December 2023	**23 374**	**1 154**	**4 364**	**8**	**28 900**
At 31 December 2022	**17 623**	**1 168**	**4 158**	**8**	**22 957**

'000 EUR	Right of use assets	Vehicles	Office equipment	Advances	Total
Cost/Revalued amount					
At 1 January 2022	**25 055**	**2 817**	**11 847**	**3**	**39 722**
Additions	-	456	305	5	**766**
Disposals	(2 310)	(155)	(594)	-	**(3 059)**
At 31 December 2022	**22 745**	**3 118**	**11 558**	**8**	**37 429**
Depreciation and impairment losses					
At 1 January 2022	**3 999**	**1 910**	**7 878**	-	**13 787**
Depreciation charge	1 123	195	113	-	**1 431**
Disposals	-	(155)	(591)	-	**(746)**
At 31 December 2022	**5 122**	**1 950**	**7 400**	**-**	**14 472**
Net carrying amount					
At 31 December 2022	**17 623**	**1 168**	**4 158**	**8**	**22 957**
At 31 December 2021	**21 056**	**907**	**3 969**	**3**	**25 935**

24. Intangible assets

The Group

'000 EUR	Goodwill	Software	Other	Advances	Total
Cost/Revalued amount					
At 1 January 2023	**1 069**	**12 180**	**65**	**55**	**13 369**
Additions	-	177	-	420	**597**
Disposals	-	(630)	-	-	**(630)**
FX translation effect	-	-	(4)	-	**(4)**
At 31 December 2023	**1 069**	**11 727**	**61**	**475**	**13 332**
Amortisation and impairment losses					
At 1 January 2023	**289**	**11 771**	**54**	**-**	**12 114**
Amortisation charge	-	284	2	-	**286**
Disposals	-	(629)	-	-	**(629)**
FX translation effect	-	-	(3)	-	**(3)**
At 31 December 2023	**289**	**11 426**	**53**	**-**	**11 768**
Net carrying amount					
At 31 December 2023	**780**	**301**	**8**	**475**	**1 564**
At 31 December 2022	**780**	**409**	**11**	**55**	**1 255**

'000 EUR	Goodwill	Software	Other	Advances	Total
Cost/Revalued amount					
At 1 January 2022	**1 069**	**13 788**	**65**	**35**	**14 957**
Additions	-	48	1	20	**69**
Disposals	-	(1 656)	**(1)**		**(1 657)**
At 31 December 2022	**1 069**	**12 180**	**65**	**55**	**13 369**
Amortisation and impairment losses					
At 1 January 2022	**289**	**13 181**	**51**	**-**	**13 521**
Amortisation charge	-	246	4	-	**250**
Disposals	-	(1 656)	(1)	-	**(1 657)**
At 31 December 2022	**289**	**11 771**	**54**	**-**	**12 114**
Net carrying amount					
At 31 December 2022	**780**	**409**	**11**	**55**	**1 255**
At 31 December 2021	**780**	**607**	**14**	**35**	**1 436**

Goodwill of EUR 780 thousand (2022: EUR 780 thousand) originated on the acquisition of a payment card business unit in 2001. No impairment losses on goodwill were recognized as of 31 December 2023. Payment card business value as of 31 December 2023 EUR 1,003 thousand (2022: 782 EUR thousand).

24. Intangible assets, continued

The Bank

'000 EUR	Goodwill	Software	Other	Advances	Total
Cost/Revalued amount					
At 1 January 2023	**1 069**	**12 173**	**36**	**56**	**13 334**
Additions	-	178	-	420	**598**
Disposals	-	(631)	-	-	**(631)**
Transfers	-	37	-	(37)	**-**
At 31 December 2023	**1 069**	**11 757**	**36**	**439**	**13 301**
Amortisation and impairment					
At 1 January 2023	**289**	**11 764**	**35**	**-**	**12 088**
Amortisation charge	**-**	285	-	**-**	**285**
Disposals	-	(629)	-	**-**	**(629)**
At 31 December 2023	**289**	**11 420**	**35**	**-**	**11 744**
Net carrying amount					
At 31 December 2023	**780**	**337**	**1**	**439**	**1 557**
At 31 December 2022	**780**	**409**	**1**	**56**	**1 246**

'000 EUR	Goodwill	Software	Other	Advances	Total
Cost/Revalued amount					
At 1 January 2022	**1 069**	**13 780**	**36**	**35**	**14 920**
Additions	-	49	-	21	**70**
Disposals	-	(1 656)	-	-	**(1 656)**
At 31 December 2022	**1 069**	**12 173**	**36**	**56**	**13 334**
Amortisation and impairment					
At 1 January 2022	**289**	**13 174**	**35**	**-**	**13 498**
Amortisation charge	**-**	246	-	**-**	**246**
Disposals	-	(1 656)	-	**-**	**(1 656)**
At 31 December 2022	**289**	**11 764**	**35**	**-**	**12 088**
Net carrying amount					
At 31 December 2022	**780**	**409**	**1**	**56**	**1 246**
At 31 December 2021	**780**	**606**	**1**	**35**	**1 422**

Goodwill of EUR 780 thousand (2022: EUR 780 thousand) originated on the acquisition of a payment card business unit in 2001. No impairment losses on goodwill were recognized as of 31 December 2023. Payment card business value as of 31 December 2023 EUR 1,003 thousand (2022: 782 EUR thousand).

25. Right-of-use assets and Lease liabilities

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

	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Property and equipment owned	41 681	-	36 507	-
Right-of-use assets	867	23 374	1 014	17 623
Total	**42 548**	**23 374**	**37 521**	**17 623**

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

Right-of-use assets

	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Balance at 1 January	**1 014**	**17 623**	**885**	**21 056**
ROU change	36	7 332	85	(2 310)
Depreciation charge for the period	(183)	(1 581)	44	(1 123)
Balance at 31 December	**867**	**23 374**	**1 014**	**17 623**

Lease liabilities

	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
Opening balance	**1 014**	**18 769**	**915**	**22 083**
Lease payments	(253)	(1 052)	(234)	(1 053)
Interest calculated	29	897	46	704
Interest paid	(27)	(897)	(46)	(704)
Changes due to terms of the lease agreement	98	7 206	333	(2 261)
Closing balance	**861**	**24 923**	**1 014**	**18 769**

Amounts recognized in profit or loss

	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Depreciation charge	183	1 581	(44)	1 123
Interest expense on lease liabilities	29	897	46	704
Total	**212**	**2 478**	**2**	**1 827**

26. Investment property

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

	31 Dec 2023 '000 EUR Group	**31 Dec 2023 '000 EUR Bank**	**31 Dec 2022 '000 EUR Group**	**31 Dec 2022 '000 EUR Bank**
Balance at 1 January	**93 596**	**36 258**	**77 877**	**34 726**
Transferred to property and equipment	(6 020)	-	-	-
Transferred from property and equipment	-	-	12 923	-
Transferred from Non-current assets held for	-	-	474	364
Transferred to Non-current assets held for sale	-	-	(1 366)	(1 343)
Transferred from Other assets	734	734	-	-
Additions	7 394	2 315	3 127	2 850
Disposals/Sales	(2 413)	(2 202)	(2 427)	(1 525)
Revaluations	7 582	5 012	1 498	1 186
Currency revaluation	(3 120)	-	1 490	-
Balance at 31 December	**97 753**	**42 117**	**93 596**	**36 258**

Rental income and operating expense for the year ended 31 December 2023, the Group:

	Carrying amount '000 EUR	**Rental and other income '000 EUR**	**Operating expenses '000 EUR**
Investment property rented out	52 305	3 063	1 406
Investment property held for capital appreciation	45 448	-	923
Total	**97 753**	**3 063**	**2 329**

Rental income and operating expense for the year ended 31 December 2022, the Group:

	Carrying amount '000 EUR	**Rental and other income '000 EUR**	**Operating expenses '000 EUR**
Investment property rented out	55 680	3 253	1 338
Investment property held for value appreciation	37 916	-	876
Total	**93 596**	**3 253**	**2 214**

Rental income and operating expenses are presented under Other income (Other expenses) in the statements of profit or loss. All investment properties represent Level 3 fair value hierarchy.

26. Investment property, continued

The following table shows the valuation technique used in measuring fair value of investment property of the Group and significant unobservable inputs used as of 31 December 2023:

Type	Valuation technique	Significant unobservable inputs	Carrying amount `000 EUR
Residential property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m2 *	
- Riga		EUR 109-3,303	8 831
- Jurmala		EUR 1,256-3,705	8 183
- Other areas in Latvia		EUR 1,047-1,425	1 641
- Moscow, Russia		EUR 1,358-1,441	317
Land	Market comparison technique: The fair value was based on results of comparable sales of similar land plots	Average price per m2 *	
- Riga		EUR 3 – 145	10 665
- Jurmala		EUR 1-516	1 315
- Other areas in Latvia		EUR 1 – 599	11 139
Commercial property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m2 *	
- Riga		EUR 66-1,565	9 700
- Other areas in Latvia		EUR 11-737	1 552
- Belarus		EUR 271	244
- Moscow, Russia		EUR 63-2,809	13 530
- Riga	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Rental income per m2 of premises EUR 8. Annual discount rate 9 %, capitalization rate 8 %.	1 868
- Riga region		Rental income per m2 of premises EUR 9. Annual discount rate 8 %, capitalization rate 7.5 %.	182
- Other areas in Latvia		Rental income per m2 of premises EUR 3. Annual discount rate 11.1 %, capitalization rate 9 %. Average level of physical deterioration of equipment ranging from 27 % to 69 %. Adjustment of demand in the range 0,5 to 0,8.	1 713
Commercial property - Office building (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Average rental income of premises per m2 EUR 15.50 Annual discount rate 8.50% Capitalization rate 6.25%	10 816
- Hotels (Latvia)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 9,4-11%, capitalization rate of 7-9,3 %, Adjusted average rent, EUR/sq.m., excluding VAT is 3 - 9.3 EUR. Average hotel occupancy 30%-97 %. Average price per room EUR 46-85	4 594
- Port terminal (Ventspils)	Discounted cash flows technique: The model is based on discounted cash flows from transhipment, storage and blending of palm oil products	Rental income from operator for food oils products transhipment and storage. Transhipment rates from 15,50 - 18,30 EUR per tonne; Estimated transhipment volumes from 48 669 - 80 669 tonnes (up to 40,33 % of the authorised volume); Storage price per cubic metre from 5,50 - 6,49 EUR; Occupancy/rents not taken risk factor from 0,25 - 0,65, annual discount rate 11.68%, capitalization rate 8.5%.	4 472
-Construction site for commercial premises (Riga)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m2 EUR 157,42 -302,60. Average adjusted value of residential properties after completion of construction from EUR 2906.8/sq.m. - EUR 3727.72/sq.m. Annual discount rate 11 %, discount factor 0,59345 - 0,81162.	6 991
Total			**97 753**

26. Investment property, continued

The following table shows the valuation technique used in measuring fair value of investment property of the Group and significant unobservable inputs used as of 31 December 2022:

Type	Valuation technique	Significant unobservable inputs	Carrying amount `000 EUR
Residential property	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m2 *	
- Riga		EUR 290-2,440	6 858
- Jurmala		EUR 2,230-2,375	6 722
- Other areas in Latvia		EUR 517 – 1,370	1 519
- Moscow, Russia		EUR 1,405-1,469	326
Land	Market comparison technique: The fair value was based on results of comparable sales of similar land plots	Average price per m2 *	
- Riga		EUR 4 – 56	4 757
- Jurmala		EUR 23-25	1 069
- Other areas in Latvia		EUR 1 – 30	6 808
Commercial	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m2 *	
- Riga		EUR 420 – 987	16 712
- Other areas in Latvia		EUR 2111 - 3125	2 995
- Belarus		EUR 172	252
- Moscow, Russia		EUR 1,106 - 2,910	14 527
- Riga region	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Rental income per EUR 6.83 a parking lot EUR 15 Annual discount rate 9.4-15%	806
Commercial property - Office building (Riga)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Average rental income of premises per m2 EUR 14.36 Annual discount rate 7.8% Capitalization rate 6.0%	16 836
- Hotels (Latvia)	Discounted cash flows technique: The model is based on discounted cash flows from rental income	Annual discount rate of 9-13% Average hotel occupancy 30-53%	4 815
- Port terminal (Ventspils)	Discounted cash flows technique: The model is based on discounted cash flows from transhipment, storage and blending of palm oil products	Rental income from operator for food oils products transhipment and storage. Annual discount rate of EBITDA 10.05%. Capitalization rate 9.5%.	4 400
-Construction site for commercial premises (Riga)	Market comparison technique: The fair value was based on results of comparable sales of similar properties	Average price per m2 EUR 123	4 194
Total			**93 596**

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

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

27. Other assets

	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Other financial assets				
Cash in transit	508	508	746	746
Other debtors	1 373	1 137	2 027	1 003
Receivable due to sale of subsidiary	3 550	3 550	-	-
Dividends receivable	-	6 332	-	6 332
Other	664	10	278	10
Impairment allowance - other debtors	(570)	(358)	(662)	(370)
Other non-financial assets				
Prepayments	4 370	399	1 886	247
Recoverable VAT	133	40	50	9
Deferred expenses	1 475	1 290	2 768	2 377
Accrued income	1 182	563	1 156	580
Other	532	233	647	201
	13 217	**13 704**	**8 896**	**11 135**

The prepayments amounting to EUR 3,3 million as at 31 December 2023 relate to development of certain real estate projects to give some context for the increase in the balance

Analysis of movements in the impairment allowance

	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
Balance at 1 January	**662**	**370**	**924**	**288**
Charge for the year	8	-	78	79
Currency revaluation	(4)	-	27	27
Disposal of subsidiary	-	-	(10)	-
Recovery	(81)	(9)	(74)	(19)
Written off	(15)	(3)	(283)	(5)
Balance at 31 December	**570**	**358**	**662**	**370**

28. Deposits and balances due to banks

	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Due to Bank of Latvia	51 479	51 479	49 811	49 811
Deposits and balances due to banks	4 828	4 828	1 679	1 679
	56 307	**56 307**	**51 490**	**51 490**

TLTRO-III

On 24 December 2021, the Bank participated in the ECB's latest targeted longer-term refinancing operations (TLTRO-III) borrowing EUR 50 million. The maturity date of the facility is 24 December 2024 with recalibration to the TLTRO program being made in October 2022 following multiple rate increases by the ECB. Three additional voluntary early repayment dates have been introduced for banks wishing to terminate or reduce borrowings before maturity. Starting from 23 November 2022, interest rate on TLTRO-III is indexed to average applicable key ECB interest rates from that date onward.

Interest rate by the end of 2022 was 1.80%, and by the end of 2023 was 4%.

Bank's debt securities in the amount of 65 431 thousand EUR are placed as collateral with the Bank of Latvia to secure financing received in the ECB's targeted longer-term refinancing operations (TLTRO-III). Standard TLTRO-III terms apply to this collateral.

28.Deposits and balances due to banks, continued

Concentration of deposits and balances due to banks

As of 31 December 2023, the Bank and the Group had balances with three clients (two as at 31 December 2022), which exceeded 10 % of total deposits and balances from banks. The gross value of these balances as of 31 December 2023 was EUR 2,131 thousand, EUR 1,229 thousand, EUR 542 thousand accordingly (2022: EUR 1,032 thousand, EUR 251 thousand).

29. Current accounts and deposits due to customers

	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Private companies				
- current accounts	274 111	280 482	356 018	370 030
- term deposits	48 278	50 514	45 734	45 712
Total private companies	**322 389**	**330 996**	**401 752**	**415 742**
Government				
- current accounts	102	102	91	91
- term deposits	-	-	1 365	1 365
Total government	**102**	**102**	**1 456**	**1 456**
Private individuals				
- current accounts	166 085	166 085	245 229	245 229
- term deposits	517 362	513 962	292 496	289 397
Total private individuals	**683 447**	**680 047**	**537 725**	**534 626**
Total current accounts and deposits due to customers	**1 005 938**	**1 011 145**	**940 933**	**951 824**

(a) Concentrations of current accounts and customer deposits

As of 31 December 2023 and 2022, the Bank and the Group had no customers, whose balances exceeded 10% of total customer accounts.

(b) Subordinated deposits

As of 31 December 2023 the Bank and the Group had subordinated deposits of EUR 23,133 thousand (2022: EUR 26,127 thousand).

Subordinated deposit - deposit for a certain period (minimum term 5 years) with interest payment. Subordinated deposit cannot be claimed upon expiry of the deposit term. Subordinated deposits are not covered by the state deposit guarantee scheme.

Analysis of movements in the subordinated deposits

	'000 EUR Group	'000 EUR Bank
Balance at 31 December 2021	**31 040**	**31 040**
Receipts	519	519
Repayments	(6 294)	(6 294)
Changes in accrued interest	(53)	(53)
Currency revaluation	916	916
Balance at 31 December 2022	**26 128**	**26 128**
Repayments	(2 974)	(2 974)
Changes in accrued interest	21	21
Currency revaluation	(43)	(43)
Balance at 31 December 2023	**23 133**	**23 133**

30. Other liabilities and accruals

	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Other financial liabilities				
Management bonus accrual	3 534	3 534	6 607	6 607
Accounts payable to suppliers	9 861	1 335	2 520	1 149
Lease liability	861	24 923	1 014	18 769
Accrued liability for quarterly deposit guarantee fund fee	369	369	290	290
Accrued liabilities for Bank of Latvia regulatory levy	115	115	115	115
Dividends payable	6	6	6	6
Other	7 270	5 718	1 480	171
Other non-financial liabilities				
Accrued liabilities	4 804	4 086	2 760	2 225
Annual leave accrual	2 220	1 366	2 306	1 268
Prepayments	98	98	213	95
Deferred income	371	277	419	289
VAT payable	417	-	136	-
Other	632	368	1 066	200
Other liabilities Total	**30 558**	**42 195**	**18 932**	**31 184**

Growth in Other Financial Liabilities in amount of EUR 3,1 million is due to for amounts temporarily withheld for clarification.

31. Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2023 and 2022.

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

The Group

	Assets		Liabilities		Net	
EUR '000	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Loans and advances to customers	26	84	-	-	26	84
Property and equipment	69	-	-	(41)	69	(41)
Investment property	-	441	(49)	(311)	(49)	130
Other assets	-	853	(10)	(7)	(10)	846
Other liabilities	7	38	-	(526)	7	(488)
Distributable profit	-	-	(750)	(750)	(750)	(750)
Total recognised deferred tax assets/(liabilities)	**102**	**1 416**	**(809)**	**(1 635)**	**(707)**	**(219)**
Recognised deferred tax					**(707)**	**(219)**

Deferred tax asset and liability arises in subsidiary of the Group Rietumu Lizing OOO. The rate of tax applicable for deferred taxes equals tax rates applicable in countries in which subsidiaries operate, as disclosed in Note 15. The Group has recognized a deferred tax liability of EUR 0,7 million (2022: Eur 0,7 million) as it anticipates distributing already accumulated profit of certain subsidiaries in Latvia. The respective dividends will become taxable at distribution.

31.Deferred tax asset and liability , continued

Movement in temporary differences during the year ended 31 December 2023

	2023 '000 EUR	2022 '000 EUR
Balance at 1 January – deferred tax liability	(750)	(20)
Balance at 1 January – deferred tax asset	531	551
Charge to profit for the year	(346)	(805)
Currency revaluation	(142)	55
Balance at 31 December	**(707)**	**(219)**
Deferred tax asset	**43**	**531**
Deferred tax liability	**(750)**	**(750)**

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

32. Share capital and reserves

(a) Issued capital and share premium

The authorised, issued and fully paid share capital comprises 101,633,700 A category ordinary shares and 19,020,308 B category ordinary shares. All shares have a par value of EUR 1.40 per share. The share premium represents amounts that were paid by shareholders in excess to the par value of shares.

The largest shareholders of the Bank as of 31 December 2023 and 31 December 2022 are as follows:

	2023 Number of shares	2023 '000 EUR	%
A category registered shares			
Companies non-residents			
Boswell (International) Consulting Limited	33 650 918	47 111	33.11%
Companies residents			
SIA "Esterkin Family	33 660 627	47 125	33.12%
SIA "Suharenko Family Investments"	17 618 202	24 666	17.34%
Other	16 703 953	1 579	1.11%
Private persons		21 807	15.33%
A category registered	**101 633 700**	**142 288**	**100%**
B category registered shares			
Companies	10 223 780	14 313	
Private persons	8 796 528	12 315	
B category registered	19 020 308	**26 628**	
Issued capital	**120 654 008**	**168 916**	
Share premium		**52 543**	

The ultimate controlling parties of the Bank are Esterkin Family Investments Ltd (beneficiary - Leonid Esterkin), Boswell (International) Consulting Limited (beneficiary - Dermot Desmond) and Suharenko Family Investments Ltd (beneficiary - Arkady Suharenko). The holders of A category registered shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank and to residual assets.

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

32. Share capital and reserves, continued

(b) Dividends

	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
Change from financing cash flows				
Dividends paid to non-controlling interest	(980)	-	1 470	-
Total changes from financing cash flows	**(980)**	**-**	**1 470**	**-**

(c) Other reserves

Out of all Other reserves those amounting to EUR 23 thousand at the Bank (2022: EUR 23 thousand) and the Group EUR 40 thousand (2022: EUR 40 thousand) mainly represent contributions made by shareholders in previous years. Other reserves cannot be distributed.

(d) Fair value reserve

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

Movements in fair value reserve

Movements in the fair value reserve net of tax for the year ended 31 December 2023 and 2022 are as follows:

	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
Balance at 1 January	**(29 130)**	**(29 130)**	**(2 317)**	**(2 317)**
Revaluation during the period	14 964	14 964	(26 646)	(26 646)
Reclassified to profit or loss	(829)	(829)	(167)	(167)
Balance at 31 December	**(14 995)**	**(14 995)**	**(29 130)**	**(29 130)**

(e)Revaluation reserve

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

	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
Revaluation reserve as at 1 January	**6 735**	**-**	**1 840**	**-**
Transfer to retained earnings	(120)	-	(27)	-
Revaluation of property and equipment	55	-	4 922	-
Revaluation reserve as at 31 December	**6 670**	**-**	**6 735**	**-**

33. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Balances due from the Bank of Latvia	349 454	349 454	247 543	247 543
Cash	912	876	1 075	1 041
	350 366	**350 330**	**248 618**	**248 584**
Demand loans and receivables due from banks	14 060	13 528	34 406	33 757
Demand deposits and balances due to banks	(4 828)	(4 828)	(1 679)	(1 679)
Total	**359 598**	**359 030**	**281 345**	**280 662**

34. Commitments and guarantees

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

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

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

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

	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Contracted amount				
Loan commitments	97 923	128 313	136 470	177 441
Financial guarantees	16 731	16 731	11 499	11 499
Other commitments	-	-	150	150
Total commitments and guarantees	**114 654**	**145 044**	**148 119**	**189 090**
Provisions	(482)	(491)	(792)	(802)
Net exposure	**114 172**	**144 553**	**147 327**	**188 288**

Movements in the provisions for commitments and guarantees, 31 Dec 2023:

The Group

EUR'000	Opening balance, 1 Jan 2023	Origination and acquisition	Repayments and disposals	Changes in credit risk, net	Other adjustments	Closing balance, 31 Dec 2023
Stage 1	788	1 152	(586)	(1 003)	-	351
Stage 2	4	51	(8)	84	-	131
Total	**792**	**1 203**	**(594)**	**(919)**	**-**	**482**

The Bank

EUR'000	Opening balance, 1 Jan 2023	Origination and acquisition	Repayments and disposals	Changes in credit risk, net	Other adjustments	Closing balance, 31 Dec 2023
Stage 1	798	1 157	(586)	(1 009)	-	360
Stage 2	4	51	(8)	84	-	131
Total	**802**	**1 208**	**(594)**	**(925)**	**-**	**491**

34. Commitments and guarantees, continued

Movements in the provisions for commitments and guarantees, 31 Dec 2022:

The Group

EUR'000	Opening balance, 1 Jan 2022	Origination and acquisition	Repayments and disposals	Changes in credit risk, net	Other adjustments	Closing balance, 31 Dec 2022
Stage 1	99	1 057	(116)	(256)	4	788
Stage 2	14	6	(8)	(8)	-	4
Total	**113**	**1 063**	**(124)**	**(264)**	**4**	**792**

The Bank

EUR'000	Opening balance, 1 Jan 2022	Origination and acquisition	Repayments and disposals	Changes in credit risk, net	Other adjustments	Closing balance, 31 Dec 2022
Stage 1	126	1 057	(116)	(269)	-	798
Stage 2	14	6	(8)	(9)	1	4
Stage 3	-	21	(100)	79	-	-
Total	**140**	**1 084**	**(224)**	**(199)**	**1**	**802**

35. Provisions

	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Litigation provisions (Note 36 (b))	30 000	30 000	30 000	30 000
Litigation provisions	2 927	2 927	2 927	2 927
Provisions for commitments and guarantees (Note 34)	482	491	792	802
Total	**33 409**	**33 418**	**33 719**	**33 729**

Movements in the provisions:

EUR'000	2023 '000 EUR Group	2023 '000 EUR Bank	2022 '000 EUR Group	2022 '000 EUR Bank
Balance at 1 January	**33 719**	**33 729**	**34 191**	**33 067**
Increase/(decrease) of provisions for commitments and guarantees (Note 34)	(310)	(311)	(472)	662
Balance at 31 December	**33 409**	**33 418**	**33 719**	**33 729**

36. Litigations

(a) Ordinary legal proceedings

In the ordinary course of business, the Bank is involved in judicial proceedings in which the Bank is a defendant or plaintiff. In court cases in which the Bank is the defendant, claims against the Bank are brought by its clients, former clients or third persons, in respect of matters such as challenge of the transactions or contracts and monetary claims. As of December 31, 2023, there were 10 pending legal proceedings against the Bank (of which 3 cases have already been terminated or rejected), and 10 pending legal proceedings initiated by the Bank. The Bank`s subsidiary companies are involved in 11 legal proceedings, in 5 cases the bank`s subsidiary company is the claimant and in 6 cases is the defendant.

36. Litigations, continued

The total amount in all legal proceedings in which the Bank was the defendant as of December 31, 2023, was EUR 568 thousand (as of December 31, 2022, the total amount was EUR 3 thousand). In one of the cases on recovery of compensation in the amount of EUR 3 thousand the claim against the Bank was already rejected in two court instances and the decision of the court of cassation is currently awaited. Another legal proceeding against the Bank in the amount of EUR 361 thousand has already been terminated due to the withdrawal of the claim by a plaintiff.

(b) Litigation in France

The Bank is defendant in a court case for alleged involvement in tax evasion and aggravated money laundering. Criminal investigation in France started in July 2011 against entity - France Offshore focusing on alleged tax evasion offences committed by that entity.

Within that investigation the Bank, and former head of the Bank`s representative office in Paris were placed under investigation for suspicion of aggravated money laundering on December 12, 2012.

On July 6, 2017, the 32nd section of the Paris Criminal Court (first instance court) decided that the Bank was guilty of aggravated money laundering by providing assistance, as a Bank, to placement, concealment or conversion operations of the proceed of an offence.
The first instance court ordered the Bank to pay a criminal fine of EUR 80 million and damages, jointly and severally with the other defendants in the amount of EUR 10 million to the French State and EUR 100 thousand court expenses. In addition, the Bank was ordered to stop any banking activities in France for 5 years. The Bank lodged its appeal against the first instance court judgement on July 12, 2017.
On April 6, 2021, the Paris Court of Appeal has agreed with the Bank's arguments and changed the decision of the first instance court in favour of the Bank. Thereby, a potential fine imposed on the Bank has been reduced by 75% to EUR 20 million. International mass media considered it as the success of the Bank (*Latvian lender Rietumu Banka won a 75% reduction in what was once France's highest criminal fine for a company* – Bloomberg).

The Bank filed a cassation appeal against the decision of the Court of Appeal regarding compensation of EUR 10 million to the French State. Despite motivated and justified cassation complaints on January 5, 2023, the Supreme Court issued the ruling on the dismissal of the cassation appeal of the Bank.
Therefore, the decision of the Paris Court of Appeal of April 6, 2021, to reduce the fine imposed on the Bank by 75% to EUR 20 million entered into legal force on January 5, 2023, and remains in force.
The Executive Board and Council of the Bank have mutually agreed on the following further action, which is based on the Latvian Criminal Procedure Law, the Criminal Law and the opinions provided by the sworn law firm "Bļugers und Plaude" and "Kiejman & Marembert", namely:
1) chapter 73 of the Law on Criminal Procedure determines the procedure for the execution of a decision on property recovery made in Latvia as an EU member state. In order for a judgment passed in an EU member state to be enforceable in Latvia, the following conditions must be met:
a) the competent authority of France must submit a request to the Ministry of Justice of the Republic of Latvia for the recognition and enforcement of the judgment of the Paris Court of Appeal of April 6, 2021, in Latvia;
b) the Ministry of Justice examines the received request and if the submitted documents are sufficient and in accordance with the requirements of the regulatory acts, then they are sent to the court for examination upon approval;
c) the court, having received the ruling on property recovery and the evaluated materials attached to it, finds out whether the judgment is enforceable and decides on the property recovery to be enforced in Latvia or on the refusal to execute the relevant ruling;
2) the amount of compensation in the amount of EUR 10 million is to be collected jointly and severally from the 13 convicts. According to Latvian legislation, if the Bank pays the entire amount, the Bank can later demand appropriate compensation from the other jointly and severally liable parties;
3) the Bank will comply with the judgment of the Paris Court of Appeal of April 6, 2021, after the adoption of the relevant decision of the Latvian court in accordance with the procedures specified in Chapter 73 of the Criminal Procedure Law of the Republic of Latvia and the entry into force of this decision.

As of December 31, 2023, the total amount of provisions amounted to EUR 30 million (31 December 2022: EUR 30 million) which Bank believes to be the best estimate of the expenditure to be ultimately required to settle the obligation, including fines, damages, procedural expenditure and expected legal expenses.

37. Trust and custody activities

Funds under trust management represent securities and other assets managed and held by the Bank and the Group on behalf of customers accounted for off-balance sheet. The Bank and the Group earn commission income for holding such assets. The Bank and the Group are not subject to interest, credit, liquidity, price and currency risk with respect of these securities in accordance with the agreements concluded with the customers. As at 31 December 2023 the total assets held by the Group and the Bank on behalf of customers and assets under management were EUR 255,266 thousand (2022: EUR 180,312 thousand).

38. Involvement with unconsolidated structured entities

The following table describes the types of structured entities that the Group and the Bank do not consolidate but in which they hold an investment:

			Carrying amount of interest held		Total assets	
	Nature and purpose	**Interest held by the Group and the Bank**	**2023**	**2022**	**2023**	**2022**
			'000 EUR	**'000 EUR**	**'000 EUR**	**'000 EUR**
Investment funds	To generate fees from managing assets on behalf of third party investors	Investments in units issued by the funds	-	1 380	-	3 601
Investments in the capital of the entities that relate to loans issued by the Bank and other investments	To minimize the risk of non-repayment of the loan obligations and to control the repayment of the loans where borrowers fail to fullfil their credit obligations, other investments with the aim of recovering the investment in the future	Investments in the capital of borrowers	351	388	2 456	4 793

Investment in structured entities is part of the portfolio of equity securities carried at fair value through profit or loss.

39. Related party transactions

Related parties are defined as shareholders who have significant influence over the Bank, other related parties - companies in which they have a controlling interest, members of the Council and the Executive Board, key management personnel, their close relatives and companies in which they have a controlling interest, as well as subsidiaries and associated companies. All transactions have been conducted on an arm's length basis.

39.Related party transactions, continued

The Bank '000 EUR	**31 Dec 2023**					**31 Dec 2022**				
	Subsidi-aries	**Associ-ates**	**Key mana-gement**	**Share-holders with signifi-cant influ-ence over the Bank**	**Other related parties**	**Subsidi-aries**	**Associ-ates**	**Key mana-gement**	**Share-holders with signifi-cant influ-ence over the Bank**	**Other related parties**
Loans and receivables due from customers	101 307	22 665	161	-	36 419	105 114	23 149	156	-	36 336
Expected credit losses	(9 596)	(1 606)	(3)	-	(819)	(5 359)	(93)	(3)	-	(729)
Current accounts and deposits due to customers	8 629	12 634	4 740	971	21 881	14 012	1	15 239	4 763	18 907
Dividends receivable	6 332	-	-	-	-	6 332	-	-	-	-
Loan commitments	30 488	-	518	-	1 516	41 066	-	552	-	2 816
Provisions	(9)	-	(9)	-	(3)	(10)	-	(10)	-	(3)
Interest income	6 137	2 185	10	-	2 264	5 431	1 781	7	-	1 159
Interest expense	(43)	-	(84)	-	(77)	-	-	(46)	-	(146)
Fee and commission income	24	2	22	-	96	5	1	22	-	88
Fee and commission expense	-	-	-	-	137	-	-	-	-	229
Impairment investments in subsidiaries	-	-		-	-	(55)	-	-	-	-
Impairment losses (ECL)	(4 237)	(1 512)	-	-	(90)	(3 236)	(44)	1	-	(496)
Lease payments	1 954	-	-	-		1 737	-	-	-	-

The Group '000 EUR	**31 Dec 2023**				**31 Dec 2022**			
	Associates	**Key mana-gement**	**Share-holders with signifi-cant influ-ence over the Bank**	**Other related parties**	**Associates**	**Key mana-gement**	**Share-holders with signifi-cant influ-ence over the Bank**	**Other related parties**
Loans and receivables due from customers	22 665	161	-	36 419	23 149	156	-	36 336
Expected credit losses	(1 606)	(3)	-	(819)	(93)	(3)	-	(729)
Current accounts and deposits due to customers	12 634	7 840	971	21 881	1	18 339	4 763	18 907
Loan commitments	-	518	-	1 516	-	552	-	2 816
Provisions	-	(9)	-	(3)	-	(10)	-	(3)
Interest income	2 185	7	-	1 159	1 781	7	-	1 159
Interest expense	-	(201)	-	(146)	-	(201)	-	(146)
Fee and commission income	2	22	-	88	1	22	-	88
Fee and commission expense	-	-	-	229	-	-	-	229
Impairment losses (ECL)	(1 512)	1	-	(496)	(44)	1	-	(496)

Loans and receivables due from related parties are secured by real estate pledges and commercial pledges.

39.Related party transactions, continued

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

	31 Dec 2023 '000 EUR Group	31 Dec 2023 '000 EUR Bank	31 Dec 2022 '000 EUR Group	31 Dec 2022 '000 EUR Bank
Short-term employee benefits				
Members of the Council	655	637	878	848
Members of the Executive Board	1 618	1 290	1 107	768
taxes	537	455	459	372
Total	**2 810**	**2 382**	**2 444**	**1 988**

During the year 2023, the Bank received dividends from its subsidiary SIA "InCREDIT GROUP" in the amount of EUR 1,020 thousand (2022: EUR 1,530 thousand) and from SIA "Second Sky Management" in the amount of EUR 548 thousand (2022: 0).

40.Fair value of financial assets

(a) Financial assets measured at fair value

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

The Group

31 Dec 2023	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Financial assets at fair value through other comprehensive income	231 569	33 333	3 497	**268 399**
Financial assets at fair value through profit or loss	-	2 033	4 686	**6 719**
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	69	1 955	**2 024**

31 Dec 2022	Level (1)	Level (2)	Level (3)	Total
Financial assets				
Financial assets at fair value through other comprehensive income	280 912	69 932	194	**351 038**
Financial assets at fair value through profit or loss	1 380	670	3 916	**5 966**
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	551	-	**551**

40. Fair value of financial assets, continued

The Bank

31 Dec 2023	**Level (1)**	**Level (2)**	**Level (3)**	**Total**
Financial assets				
Financial assets at fair value through other comprehensive income	231 569	33 333	3 497	**268 399**
Financial assets at fair value through profit or loss	-	2 033	4 192	**6 225**
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	69	1 955	**2 024**

31 Dec 2022	**Level (1)**	**Level (2)**	**Level (3)**	**Total**
Financial assets				
Financial assets at fair value through other comprehensive income	280 912	69 932	194	**351 038**
Financial assets at fair value through profit or loss	1 380	670	3 472	**5 522**
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	551	-	**551**

In the reporting period debt securities of the Group measured at fair value through other comprehensive income and presented as Level 2 with a fair value of EUR 15.5 million have been reclassified from Level 1. Similarly, debt securities of the Group measured at fair value through other comprehensive income and presented as Level 1 with a fair value of EUR 31 million in the reporting period have been reclassified from Level 2. There were no significant movements between Level 1 and Level 2 financial assets during year 2023 and 2022.

Changes in Fair Value of financial instruments classified as Level 3

	The Group			**The Bank**		
	Assets		**Liabilities**	**Assets**		**Liabilities**
	FVOCI	FVTPL	FVTPL	FVOCI	FVTPL	FVTPL
	'000 EUR	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**	**'000 EUR**
Balance at 31 December 2021	**28**	**6 600**	-	**28**	**6 201**	-
Total gains or losses:			-			-
in profit or loss	-	8	-	-	8	-
Change in Fair Value Level	166	-	-	166	-	-
(Settlements)/Additions	-	(2 692)	-	-	(2 737)	-
Balance at 31 December 2022	**194**	**3 916**	-	**194**	**3 472**	-
Total gains or losses:			-			-
in profit or loss	-	720	-	-	720	-
in OCI	(61)	-	-	(61)	-	-
Change in Fair Value Level	3 364	-	-	3 364	-	-
(Settlements)/Additions	-	50	1 955	-	-	1 955
Balance at 31 December 2023	**3 497**	**4 686**	**1 955**	**3 497**	**4 192**	**1 955**

40. Fair value of financial assets, continued

(b) Financial assets not measured at fair value

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

The Group

31 December 2023	**Level 1 '000 EUR**	**Level 2 '000 EUR**	**Level 3 '000 EUR**	**Total fair values '000 EUR**	**Total carrying amount '000 EUR**
Financial assets					
Cash and balances due from the Bank of Latvia	-	-	350 366	350 366	350 366
Deposits and balances due from banks	-	-	14 060	14 060	14 060
Loans and receivables due from customers	-	-	619 291	619 291	622 215
Debt securities at amortised cost	11 582	33 253	10 702	55 537	57 610
Other financial assets	-	-	5 525	5 525	5 525
Financial liabilities					
Due to the Bank of Latvia	-	-	51 479	51 479	51 479
Deposits and balances due to banks	-	-	4 828	4 828	4 828
Current accounts and deposits due to customers	-	-	1 005 938	1 005 938	1 005 938
Other financial liabilities	-	-	22 016	22 016	22 016

31 December 2022	**Level 1 '000 EUR**	**Level 2 '000 EUR**	**Level 3 '000 EUR**	**Total fair values '000 EUR**	**Total carrying amount '000 EUR**
Financial assets					
Cash and balances due from the Bank of Latvia	-	-	248 618	248 618	248 618
Deposits and balances due from banks	-	-	34 406	34 406	34 406
Loans and receivables due from customers	-	-	543 704	543 704	545 151
Debt securities at amortised cost	11 857	36 776	13 094	61 727	66 137
Other financial assets	-	-	2 389	2 389	2 389
Financial liabilities					
Due to the Bank of Latvia	-	-	49 811	49 811	49 811
Deposits and balances due to banks	-	-	1 679	1 679	1 679
Current accounts and deposits due to customers	-	-	936 995	936 995	940 933
Other financial liabilities	-	-	12 032	12 032	12 032

40. Fair value of financial assets, continued

The Bank

31 December 2023	**Level 1 '000 EUR**	**Level 2 '000 EUR**	**Level 3 '000 EUR**	**Total fair values '000 EUR**	**Total carrying amount '000 EUR**
Financial assets					
Cash and balances due from the Bank of Latvia	-	-	350 330	350 330	350 330
Deposits and balances due from banks	-	-	13 528	13 528	13 528
Loans and receivables due from customers	-	-	653 856	653 856	656 367
Debt securities at amortised cost	11 852	33 253	10 702	55 807	57 610
Other financial assets	-	-	11 179	11 179	11 179
Financial liabilities					
Due to the Bank of Latvia	-	-	51 479	51 479	51 479
Deposits and balances due to banks	-	-	4 828	4 828	4 828
Current accounts and deposits due to customers	-	-	1 011 145	1 011 145	1 011 145
Other financial liabilities	-	-	36 000	36 000	36 000

31 December 2022	**Level 1 '000 EUR**	**Level 2 '000 EUR**	**Level 3 '000 EUR**	**Total fair values '000 EUR**	**Total carrying amount '000 EUR**
Financial assets					
Cash and balances due from the Bank of Latvia	-	-	248 584	248 584	248 584
Deposits and balances due from banks	-	-	33 757	33 757	33 757
Loans and receivables due from customers	-	-	580 321	580 321	584 332
Debt securities at amortised cost	11 857	36 776	13 094	61 727	66 137
Other financial assets	-	-	7 721	7 721	7 721
Financial liabilities				-	
Due to the Bank of Latvia	-	-	49 811	49 811	49 811
Deposits and balances due to banks	-	-	1 679	1 679	1 679
Current accounts and deposits due to customers	-	-	947 885	947 885	951 824
Other financial liabilities	-	-	27 107	27 107	27 107

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

41.Non-controlling interest

Non-controlling interest in subsidiaries

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

`000 EUR	**SIA "InCREDIT GROUP"**	**SIA "InCREDIT GROUP"**
	31 Dec 2023	**31 Dec 2022**
Percentage of Non-controlling interest	**49%**	**49%**
Loans and advances due from customers	59 745	46 385
Deposits and balances due from banks	185	232
Other assets	668	958
Deposits and balances due to financial banks	(45 080)	(34 078)
Current accounts and deposits due to customers	(3 400)	(3 100)
Other liabilities	(3 500)	(2 554)
Net assets	**8 618**	**7 843**
Carrying amount of Non-controlling interest	**4 223**	**3 843**
Revenue	12 263	11 256
Profit after tax	2 775	2 219
Total comprehensive income	**2 775**	**2 219**
Profit/(loss) allocated to Non-controlling interest	**1 360**	**1 087**

42. Events after the reporting date

The European Central Bank president Christine Lagarde at a last interest rate decision meeting at 7th March 2024 pointed out that discussions over easing monetary policy have begun, however, plenty of relevant information would become available by June. This is the first official statement about possible pivot in European Central Bank monetary policy.

In the first quarter of 2024, some negative trends in the global economy have become visible, such as the depreciation of commercial real estate in both Europe and the U.S., the slowdown in economic growth in Europe, including the key European Union member state - Germany, and the increase in U.S. government debt and interest payments, which puts serious pressure on bonds and their yields to maturity, increasing the volatility of this asset.

On this basis, the Bank expects a slight deterioration in economic activity in the first half of 2024 and a smooth recovery in the second half of the year.

There are no other reportable events after the reporting date.