BluOr Bank

Group's Consolidated and Bank's Separate Annual Report for the year ended 31 December 2023

This is a translation in pdf format without the European Single Electronic Format (ESEF) markups of the digitally signed original which was prepared in Latvian and submitted in machine-readable .xhtml format to the Nasdaq Riga Stock Exchange (link: https://nasdaqbaltic.com/)

CONTENT

Report of the Council and the Board

BluOr Bank AS (Bank) is a joint–stock company established on 22 June 2001 and entered into the Register of Enterprises of the Republic of Latvia under uniform registration No. 40003551060. The bank's address is Smilšu iela 6, Rīga, LV–1050, Republic of Latvia. On 8 June 2001, the Bank received a license for conducting the activities of a credit institution, which was re-registered on 28 June 2011, on 14 September 2017 and on 22 March 2022 – license No. 06.01.05.002/543 at the license register of the Latvijas Banka. The Bank operates in accordance with the applicable legislation of the Republic of Latvia and the European Union.

The Group consists of the Bank, which is a Parent company of the Group and a number of subsidiaries. Those were set up to manage repossessed collaterals and real estate property.

BluOr Bank continues to grow steadily and strengthens its position in the financial market

BluOr Bank's activities in 2023 are characterized by stability and targeted development in accordance with the Bank's business model and strategic goals.

The Bank completed 2023 with a profit of EUR 12.6 million, which is 20.1% more than in 2022. Net operating income of the Bank during the reporting period amounted to EUR 37.5 million. The amount of the Bank's equity capital is EUR 84.7 million. Total assets of the Bank increased by 35% and amounted to EUR 924 million by the end of 2023.

At the end of 2023, the Bank's liquidity coverage ratio reached 176.6%, the capital adequacy ratio was 16.19% (Common Equity Tier 1 adequacy ratio 14.97%). Other key indicators of the Bank's financial performance are also successful: return on equity (ROE) – 14.68% and return on assets (ROA) – 1.67%.

Considering the important role of lending in the growth of the national economy of Latvia, BluOr Bank, in accordance with its business strategy, continued to provide financing to domestic enterprises as a priority in 2023, as evidenced by a significant increase in lending. During the reporting period, the Bank has signed new loan agreements worth EUR 227 million, which is 51% more than originally planned. Corporate lending has doubled compared to 2022: it has increased by 118%.

During the reporting period, the Bank provided support for the growth of enterprises in various sectors and actively supported enterprises in industries such as manufacturing, agriculture and food production. In 2023, the Bank's loan portfolio again included projects to reduce environmental impact and sustainability projects focused on green energy that are receiving increasing attention in the global context.

The total loan portfolio has increased by 38% over the past year, reaching EUR 503 million at the end of the reporting period.

Considering the importance of maintaining the growth potential of small and medium-sized enterprises (SMEs) in the context of the Latvian economy, the Bank continued to ensure the availability of financial resources for the mentioned segment of enterprises and business promotion not only in Riga, but also in several regions of Latvia. In 2023, lending to SMEs and microenterprises accounted for 80% of the total volume of loans issued by the Bank. Several of these projects were implemented in successful cooperation with the state-owned development finance institution ALTUM.

In 2023, when multiple increases in the EURIBOR rate had a significant impact on the companies' business, the Bank, within its support measures, offered solutions that would help clients adapt to the market situation, thereby demonstrating that each client is important to the Bank and that it is interested in customer business continuity.

As a bank founded by Latvian entrepreneurs, BluOr Bank focuses on long-term relationships with its clients, therefore it continuously improves and develops existing financial services in accordance with customer needs. During the reporting period, a number of new products were introduced for entrepreneurs as well as the remote identification system was improved, providing even more convenient, secure and efficient cooperation between entrepreneurs and the Bank.

BluOr Bank successfully continues to implement its business strategy, which is focused on providing services to Latvian corporate clients. As a result, for several years there has been a steady increase in the number of the Bank's clients – Latvian legal entities: during the reporting period, their number has increased by another 19.5%. In turn, 95% of BluOr Bank's total client base consists of clients from Latvia, the Baltic States and Europe.

During the reporting period, the Bank has closely followed economic developments both in Latvia and internationally. Assessing the current market situation, BluOr Bank raised the term deposit rates several times during 2023, keeping them in top positions in the overall market valuation.

For several years, the Bank has been successfully cooperating with a number of European fintech companies, attracting deposits from countries such as Germany, Austria, the Netherlands and Spain. These deposits are significant additional investments in the economy of the state of Latvia – for the Bank this means the availability of additional resources and diversification of resources, and for enterprises – additional funds for development. As part of this cooperation during the reporting period, technological integration has been developed, which has provided an opportunity to offer new short-term deposits on even more favourable terms for clients.

In 2023, the Bank actively developed its e-commerce area of activity and improved the online payment function for settlements via the Internet Bank (Bankpay). In the reporting period, the total turnover of Bankpay services, compared to the previous year, has grown almost tenfold, exceeding EUR 10 million. Thanks to the increase in turnover, the number of unique transactions using Bankpay has also increased tenfold. The total e-commerce revenue has grown eight times compared to the previous year, which confirms the correctness of the service development strategy. Since last year, BluOr Bank is one of the few banks that provides support for e-commerce customers in the much-needed 24/7 mode, which has already been highly appreciated by clients.

Last December, BluOr Bank raised financial resources in the amount of almost EUR 5 million as a result of the issuance of Additional Tier 1 (AT1) bonds. Attracting additional capital is one of the prerequisites for the Bank's further growth, which, in turn, allows it to continue providing a wider range of financial services to companies whose business development is an essential driving force for the entire national economy.

As sanctions imposed on Russia, Belarus and other countries intensify, the Bank maintains a high priority status for all risk management and operational compliance issues. It continuously improves its internal processes and information systems in the field of prevention of money laundering, terrorist financing and proliferation, and sanctions risk management, while improving the client transaction monitoring and due diligence processes.

BluOr Bank has included additional sustainability objectives in its operational strategy, in line with the environmental, social and governance (ESG) criteria. These include a clear definition of the requirements for projects that the bank is ready to support, considering global trends in achieving climate protection goals. Thus, the bank also sets out clear basic operating principles for its clients, companies and organisations, which includes environmentally friendly practices, social responsibility and good governance, promoting sustainable development and a positive impact on society and the environment.

In 2024, BluOr Bank will continue to provide financing to Latvian enterprises as a priority area of activity, as well as maintain the development and implementation of products and services promoting the business development of companies.

As at issuance of the annual report the Board proposes to distribute part of the profit amounting to EUR 7 million as dividends and the rest to keep as retained earnings to strengthen the capital position of the Group.

Corporate Governance Statement can be found on the Bank's website in the section "information disclosure" (https://www.bluorbank.lv/en/compliance).

On behalf of the Bank,

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

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Council and Board of the Bank

Council as of 31 December 2023

Name, Surname	Position	Date of Appointment
Aleksandrs Peškovs	Chairman of the Council	22 June 2001
Sergejs Peškovs	Member of the Council	22 June 2001
	Deputy Chairman of the Council	25 July 2002
Andrejs Kočetkovs	Member of the Council	22 June 2001
Nataļja Zolova	Member of the Council	25 August 2022

Board as of 31 December 2023

Name, Surname	Position	Date of Appointment
Dmitrijs Latiševs	Member of the Board	1 July 2002
	Deputy Chairman of the Board	25 April 2003
	Chairman of the Board	27 April 2011
Inga Preimane	Member of the Board	11 January 2016
Dmitrijs Feldmans	Member of the Board	13 June 2019
Vadims Morozs	Member of the Board	12 August 2019

On 08 December 2023, Igors Petrovs was released from his duties of a Member of the Board, changes registered at the Register of Enterprises of the Republic of Latvia, on 12 December 2023.

On 29 February 2024, Dmitrijs Feldmans was released from his duties of a Member of the Board, changes registered at the Register of Enterprises of the Republic of Latvia, on 29 February 2024.

On behalf of the Bank,

Aleksandrs Peškovs
Chairman of the Council

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Statement of the Management's responsibility

The Management of BluOr Bank AS (hereinafter – the "Bank") is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiaries (hereinafter – the "Group") as well as for the preparation of the financial statements of the Bank.

The Group's consolidated and the Bank's separate financial statements are prepared in accordance with IFRS Accounting standards as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the Group's consolidated and the Bank's separate financial statements.

The Group's consolidated and the Bank's separate financial statements on pages 8 to 94 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2023 and the consolidated results of its operations and cash flows for the year then ended, as well as the financial position of the Bank as at 31 December 2023 and the results of its operations and cash flows for the year ended 31 December 2023.

The management of the Bank is responsible for the maintenance of a proper accounting system, safeguarding the Group's and the Bank's assets, and the detection and prevention of fraud and other irregularities in the Group and the Bank. Management is also responsible for operating the Group and the Bank in compliance with the Law on Credit Institutions and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Bank,

Aleksandrs Peškovs
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The Group's Consolidated and the Bank's Separate Income Statements

	Note	2023		2022	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Interest income		37 062	37 062	22 847	22 847
From those income at effective interest rate		*36 720*	*36 720*	*22 629*	*22 629*
Interest expenses		(11 523)	(11 838)	(5 258)	(5 589)
Net interest income	6	**25 539**	**25 224**	**17 589**	**17 258**
Fee and commission income		12 607	12 608	10 372	10 373
Fee and commission expense		(1 743)	(1 743)	(1 930)	(1 930)
Net fee and commission income	7	**10 864**	**10 865**	**8 442**	**8 443**
Net (loss) from trading and revaluation of financial instruments	8	(217)	(217)	(1 705)	(1 705)
Net foreign exchange trading and revaluation income	9	61	61	1 172	1 172
Other operating income	10	1 670	1 595	942	870
Total operating income		**37 917**	**37 528**	**26 440**	**26 038**
Administrative expenses	11	(16 200)	(15 539)	(13 700)	(12 990)
Other operating expenses	12	(1 879)	(1 882)	(1 683)	(1 684)
Credit loss allowances	17,18,19	(2 081)	(2 081)	(890)	(890)
Impairment of non-financial assets	13	-	(1 400)	97	-
Total operating expenses		**(20 160)**	**(20 902)**	**(16 176)**	**(15 564)**
Profit before taxation		**17 757**	**16 626**	**10 264**	**10 474**
Corporate income tax	14	(4 060)	(4 060)	(12)	(12)
Profit for the year		**13 697**	**12 566**	**10 252**	**10 462**

The accompanying notes on pages 15 to 94 form an integral part of these financial statements.

The Council and the Board of the Bank approved the issue of these financial statements as presented from page 8 to 94 on 11 March 2024. The financial statements are signed on behalf of the Council and the Board of the Bank by:

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The Group's Consolidated and the Bank's Separate Statements of Other Comprehensive Income

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Profit for the year	**13 697**	**12 566**	**10 252**	**10 462**
Other comprehensive income				
Items that may be reclassified to profit or loss				
Foreign exchange revaluation reserve	(9)	-	(6)	-
Revaluation gain/(loss) – financial assets at fair value through other comprehensive income (debt instruments)	773	773	(1 911)	(1 911)
Total items that may be reclassified to profit or loss	**764**	**773**	**(1 917)**	**(1 911)**
Items that will not be reclassified to profit or loss				
Revaluation loss – financial assets at fair value through other comprehensive income (equity instruments)	-	-	(112)	(112)
Total items that will not be reclassified to profit or loss	**-**	**-**	**(112)**	**(112)**
Other comprehensive (loss)/income	**764**	**773**	**(2 029)**	**(2 023)**
Total comprehensive income	**14 461**	**13 339**	**8 223**	**8 439**

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The Group's Consolidated and the Bank's Separate Statements of Financial Position

Assets	**Note**	**2023**		**2022**	
		Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Cash and demand deposits with central bank	15	338 024	338 024	120 527	120 527
Loans and receivables from credit institutions	16	24 778	24 770	25 306	25 292
Demand deposits with credit institutions		*24 778*	*24 770*	*25 306*	*25 292*
Trading financial assets		-	-	3	3
Derivatives		-	-	*3*	*3*
Investment securities	17, 19	97 835	97 835	162 968	162 968
Fixed income securities		*97 422*	*97 422*	*162 630*	*162 630*
Non fixed income securities		*413*	*413*	*338*	*338*
Loans and receivables	18	398 564	398 564	308 310	308 310
Investments in associates	20	827	-	827	-
Investments in subsidiary undertakings	20	-	28 871	-	30 266
Investment property	21	2 934	1 614	2 830	1 614
Property and equipment	22	23 549	3 232	24 610	3 438
Right-of-use assets	22	-	9 261	-	9 924
Intangible assets	23	267	267	256	256
Non-current assets classified as held for sale	44	11 150	11 150	11 150	11 150
Prepayments and accrued income	24	854	844	1 661	1 657
Other assets	25	9 494	9 428	10 089	10 054
Corporate income tax receivable		-	-	3	3
Total assets		**908 276**	**923 860**	**668 540**	**685 462**

The Group's Consolidated and the Bank's Separate Statements of Financial Position

Liabilities and Equity	Note	2023		2022	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Due to credit institutions on demand	26	4 407	4 407	6 623	6 623
Financial liabilities carried at amortized cost		814 212	816 637	581 695	583 711
Deposits	*27*	*800 584*	*803 009*	*573 707*	*575 723*
Deposits (subordinated)	*27*	*2 623*	*2 623*	*1 984*	*1 984*
Additional Tier 1 Debt securities (subordinated)	*28*	*6 123*	*6 123*	*1 122*	*1 122*
Debt securities (subordinated)	*28*	*4 882*	*4 882*	*4 882*	*4 882*
Lease liabilities	22	-	9 912	-	10 476
Deferred income and accrued expenses		2 263	2 243	1 112	1 107
Provisions		298	298	129	130
Income tax liabilities	14	3 770	3 770	-	-
Other liabilities	29	2 004	1 904	3 120	3 065
Total liabilities		**826 954**	**839 171**	**592 679**	**605 112**
Shareholders' equity					
Share capital	30	44 493	44 493	44 493	44 493
Statutory reserves	30	24	24	24	24
Revaluation reserve – financial assets at fair value through other comprehensive income		(1 371)	(1 371)	(2 144)	(2 144)
Other reserves	30	(3 412)	(2 400)	(3 413)	(2 400)
Retained earnings		41 588	43 943	36 901	40 377
Total equity attributable to equity holders of the Bank		**81 322**	**84 689**	**75 861**	**80 350**
Total equity and liabilities		**908 276**	**923 860**	**668 540**	**685 462**
Contingent liabilities and commitments	32	99 963	99 966	59 124	59 127

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The Group's Consolidated Statement of Changes in the Shareholders' Equity

	Note	Share capital EUR`000	Statutory reserves EUR`000	Revaluation reserve – FVOCI EUR`000	Other reserves EUR'000	Retained earnings EUR`000	Total equity attributable to equity holders of the parent EUR`000	Total equity EUR`000
Balance as at 31 December 2021		**44 493**	**24**	**(121)**	**(3 413)**	**34 155**	**75 138**	**75 138**
Dividends paid		-	-	-	-	(7 500)	**(7 500)**	**(7 500)**
Other comprehensive income for the year:		-	-	(2 023)	-	(6)	**(2 029)**	**(2 029)**
Revaluation of financial assets		-	-	(2 023)	-	-	**(2 023)**	**(2 023)**
Foreign exchange revaluation		-	-	-	-	(6)	**(6)**	**(6)**
Profit for the year		-	-	-	-	10 252	10 252	10 252
Total comprehensive income for the year		-	-	**(2 023)**	**-**	**10 246**	**8 223**	**8 223**
Balance as at 31 December 2022		**44 493**	**24**	**(2 144)**	**(3 413)**	**36 901**	**75 861**	**75 861**
Dividends paid		-	-	-	-	(9 000)	**(9 000)**	**(9 000)**
Other comprehensive income for the year:		-	-	773	1	(10)	**764**	**764**
Revaluation of financial assets		-	-	773	-	-	**773**	**773**
Foreign exchange revaluation		-	-	-	1	(10)	**(9)**	**(9)**
Profit for the year		-	-	-	-	13 697	**13 697**	**13 697**
Total comprehensive income for the year		**-**	**-**	**773**	**1**	**13 687**	**14 461**	**14 461**
Balance as at 31 December 2023		**44 493**	**24**	**(1 371)**	**(3 412)**	**41 588**	**81 322**	**81 322**

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The Bank's Separate Statement of Changes in the Shareholders' Equity

	Note	Share capital	Statutory reserves	Other reserves	Revaluation reserve – FVOCI	Retained Earnings	Total capital and reserves
		EUR`000	EUR`000	EUR`000	EUR'000	EUR`000	EUR`000
Balance as at 31 December 2021		**44 493**	**24**	**(2 400)**	**(121)**	**37 415**	**79 411**
Dividends paid		-	-	-	-	(7 500)	**(7 500)**
Other comprehensive income for the year:		**-**	**-**	**-**	**(2 023)**	**-**	**(2 023)**
Revaluation of financial assets		-	-	-	(2 023)	-	**(2 023)**
Profit for the year		-	-	-	-	10 462	**10 462**
Total comprehensive income for the year		**-**	**-**	**-**	**(2 023)**	**10 462**	**8 439**
Balance at 31 December 2022		**44 493**	**24**	**(2 400)**	**(2 144)**	**40 377**	**80 350**
Dividends paid		-	-	-	-	(9 000)	**(9 000)**
Other comprehensive income for the year:		-	-	-	773	-	**773**
Revaluation of financial assets		-	-	-	773	-	**773**
Profit for the year		-	-	-	-	12 566	**12 566**
Total comprehensive income for the year		**-**	**-**	**-**	**773**	**12 566**	**13 339**
Balance as at 31 December 2023		**44 493**	**24**	**(2 400)**	**(1 371)**	**43 943**	**84 689**

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The Group's Consolidated and the Bank's Separate Statements of Cash Flows

		2023		2022	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash flow from operating activities					
Profit before taxation		**17 757**	**16 626**	**10 264**	**10 474**
Amortisation of intangible assets		132	132	189	189
Depreciation of property, equipment and right-of-use assets		1 214	1 005	1 356	1 056
Revaluation of financial assets		(86)	(86)	197	197
Interest income		(37 062)	(37 062)	(22 847)	(22 847)
Interest expense		11 523	11 838	5 258	5 589
Impairment of assets (inc. expected credit loss)		2 081	3 481	890	890
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**(4 441)**	**(4 066)**	**(4 693)**	**(4 452)**
(Increase) decrease in loans and receivables		(90 753)	(90 753)	24 573	24 574
(Increase) decrease in term deposits with credit institutions		4 184	4 184	(8 366)	(8 366)
Decrease in investment securities		65 680	65 680	18 229	18 229
Decrease in trading financial assets		3	3	1 598	1 598
Decrease in prepayments and accrued income		807	813	314	315
(Increase)/ decrease in other assets		589	629	(2 658)	(2 635)
(Decrease) in due to central banks		-	-	(81 681)	(81 681)
Increase/(decrease) in deposits and due to banks		224 086	224 495	(135 485)	(135 775)
Decrease in held-for-trading financial liabilities		-	-	(1)	(1)
Interest received		36 211	36 211	23 893	23 893
Interest paid		(8 093)	(8 408)	(5 511)	(5 842)
Increase/(decrease) in other liabilities and current tax liabilities		(949)	(995)	2 242	2 240
Increase/(decrease) in deferred income and accrued expenses		1 151	1 136	(264)	(257)
Net cash from operating activities before tax		**228 475**	**228 929**	**(167 810)**	**(168 160)**
Corporate income tax paid		(288)	(288)	(12)	(12)
Net cash from operating activities		**228 187**	**228 641**	**(167 822)**	**(168 172)**
Cash flows from investment activities					
Purchase of fixed and intangible assets		(296)	(279)	(116)	(116)
Disposal of investment property		84	-	87	-
Capital increase in investment in subsidiaries	20	(188)	-	-	-
Capital decrease in investment in subsidiaries	20	-	(5)	-	(10)
Net cash (used in) investing activities		**(400)**	**(284)**	**(29)**	**874**
Cash flows from financing activities					
Lease liabilities repaid on right-of-use asset		-	(564)	-	(549)
Bonds (repaid)		-	-	(264)	(264)
Bonds issued		5 001	5 001	4 855	4 855
Dividends (paid)	30	(9 000)	(9 000)	(7 500)	(7 500)
Net cash (used in) financing activities		**(3 999)**	**(4 563)**	**(2 909)**	**(3 458)**
Net changes in cash and cash equivalents		**223 788**	**223 794**	**(170 760)**	**(170 756)**
Cash and cash equivalents at the beginning of the reporting year		**130 703**	**130 689**	**301 463**	**301 445**
Cash and cash equivalents at the end of the reporting year	31	**354 491**	**354 483**	**130 703**	**130 689**

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Notes to the Group's Consolidated and the Bank's Separate Financial Statements

1. GENERAL INFORMATION

BluOr Bank AS (previous name – AS BlueOrange Bank) ("the Bank") is a Joint Stock Company registered with the Enterprise Register of the Republic of Latvia on 22 June 2001. The address of the Bank is Smilšu iela 6, Riga, LV 1050, Latvia. The Bank holds a banking license issued in Latvia and it acts in accordance with the legislation of Latvia and the European Union.

The primary lines of business of the Bank are servicing corporate customers and high net worth individuals, and managing investments and finances.

The sole shareholder of the Bank is a Joint Stock Company BBG that holds 100% of voting shares of the Bank. JSC BBG is a financial management company registered in Latvia and owned by four Latvian companies and two private individuals, none of the ultimate beneficial owners controls the Group as at 31 December 2023. The consolidated financial statements of the parent company AS BBG can be obtained from the Enterprise Register of Latvia.

The Bank has a number of subsidiaries in Latvia and foreign countries as well as investments in associated company. Those entities form the Group and are shown in the following table:

Name of the company	Country of incorporation, address	Line of business	Holding 31.12.2023 %	Holding 31.12.2022 %
SIA BluOr International	M. Pils iela 13, Riga, Latvia,	Real estate development	100	100
SIA CityCap Service	Kr. Valdemara iela 149, Riga, Latvia	Real estate development	100	100
SIA Zapdvina Development	Kr. Valdemara iela 149, Riga, Latvia	Real estate development	100	100
Kamaly Development EOOD	Etiera k-s ½B – 18, Sveti Vlas, Burgas obl., Nesebier 8256, Bulgaria	Real estate development	100	100
UAB Kamaly Development	Klaipedos m. sav. Klaipedos m., Karklu g. 12, Lithuania	Management of collaterals overtaken by the bank	100	100
AS Pils Pakalpojumi	Smilšu iela 6, Riga, Latvia	Real estate development	100	100
Foxtran Management Ltd	Suite 102, Blake Building, Corner Eyre & Huston Str., Belize	Management of collaterals overtaken by the bank	100	100
SIA Jēkaba 2	Jēkaba iela 2, Riga, Latvia	Real estate development	100	100
Darzciems Entity SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100
Mazirbe Estate SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100
Lielie Zaķi SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100
Pulkarne Entity SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100

BluOr Bank AS, as a parent company, is responsible for establishing the structure and corporate governance system of the Group with clearly defined duties and responsibilities and adequate supervision of subsidiaries. There is a Council (composed of two members of the Council) and a Board (composed of one member of the Board) established in AS Pils Pakalpojumi. The Boards of other subsidiaries of the Bank consist of one Board member or one elected director. No significant changes have occurred in the corporate governance structure and operations of the Group and its companies, compared to the previous reporting period.

Investments in associated companies (the Group):

Company	Country of incorporation, address	Line of business	Holding (%) 31.12.2023	Holding (%) 31.12.2022
AS Termo biznesa Centrs	Kr. Valdemāra iela 149, Riga, Latvia	Real estate development	26.15	26.15

2. BASIS OF PREPARATION

(1) Statement of Compliance

The financial statements of the Bank and the Group ("financial statements") have been prepared in accordance with IFRS Accounting standards as adopted by the European Union ("IFRS Accounting standards" or "IFRS"), and regulations of the Financial and Capital Market Commission of the Republic of Latvia ('FCMC') and Bank of Latvia regulations in force as at 31 December 2023.

The Group's consolidated and the Bank's separate financial statements were authorized for issue by the Board on 11 March 2024. Shareholders have the power to reject the financial statements prepared and issued by the management and the right to request that new financial statements are issued.

(2) Functional and presentation currency

These consolidated and separate financial statements are presented in thousands of euros ('000 EUR), unless stated otherwise. Subsidiaries of the Group and the Bank operate in the functional currency of euro.

(3) Basis of measurement

The Group's consolidated financial statements and the Bank's separate financial statements are prepared on the historical cost basis, except for the following:

- financial instruments at fair value through profit or loss are stated at fair value;
- derivative financial instruments are stated at fair value;
- financial instruments at fair value through other comprehensive income (FVOCI) are valued at fair value;
- repossessed collaterals are recognised at lower of its carrying amount and fair value less cost to sell.

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of these Group's Consolidated and the Bank's Separate Financial Statements. The accounting principles have been consistently applied, except for the changes in accounting policies.

(1) Basis for consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The 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.

Investments in subsidiaries are carried in the Bank's separate financial statements at cost less impairment, if any.

(ii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured by the Group at fair value when control is lost.

(iii) Interest in equity-accounted investees

The Group's interests in equity accounted investees comprise interests in associates.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Investments in associates are accounted for in the Group's consolidated financial statements using the equity method. The Bank ensures the appropriate adjustments are made in the associate's financial information to align the accounting policies with those used by the Group before equity method of accounting is applied. They are initially recognised at cost, including transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI in equity-accounted investees, until the date on which significant influence or joint control ceases.

Investments in associates are carried in the Bank's separate financial statements at cost less impairment, if any.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(v) Group's unified accounting policy

In the preparation of the consolidated financial statements, the financial statements of those Group entities that use different accounting policies are adjusted to conform with the Group's accounting policy.

(2) Foreign currency

Transactions in foreign currencies are translated into the respective functional currencies of the Group companies at the exchange rate at the date of the transaction.

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 retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in the income statement.

The exchange rates for the most significant currencies as set by the European Central Bank at reporting date are as follows:

	31 December 2023	31 December 2022
USD	1.1050	1.0666

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into EUR at exchange rates set by the European Central Bank at the reporting date. The income and expenses of foreign operations are translated into the functional currency at the exchange rates of transaction dates.

Foreign currency differences are recognized in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income and accumulated in the translation reserve.

(3) Financial instruments

a) Classification

Financial instruments are classified into the following categories:

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss (FVTPL):

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

A financial asset is measured at fair value through other comprehensive income (FVOCI) only if it meets both of the following conditions and is not designated as at FVTPL:

— It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
— Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at fair value through profit or loss (FVTPL). IFRS 9 also allows entities to irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI as FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

On initial recognition, an equity instrument other than held for trading, may be irrevocably designated as FVOCI, with no subsequent reclassification of profit or losses to the income statement.

Financial liabilities carried at amortised cost represent financial liabilities of the Group and the Bank other than financial instruments designated at fair value through profit or loss. This category includes investment securities, deposits and balances due to credit institutions, customer deposits, issued debt securities and other financial liabilities.

Due from other credit institutions

Demand deposits with central banks, and placements with credit institutions are classified as financial assets measured at amortised cost, provided that the following criteria are met:

- they are held within the business model, which aim is achieved by collecting contractual cash flows ("Held to collect" business model);
- their contractual cash flows represent solely payments of principal and interest on outstanding principal;
- the Group does not designate them on initial recognition to fair value through profit or loss measurement category.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;

- how the performance of the portfolio is evaluated and reported to the Bank's and the Group's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's and the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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.

Solely payments of principal and interest (SPPI) assessment

Classification for debt instruments is driven by the group business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect cash flows and sells assets it may be classified as FVOCI.

Making SPPI assessment, the Group and the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

b) Recognition

The Group and the Bank initially recognize loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the settlement date.

c) Measurement

A financial asset or financial liability is initially measured at fair value plus transaction costs that are directly attributable to acquisition of the financial asset or liability, in the case of a financial asset or liability other than measured at fair value through profit or loss.

Subsequent to initial recognition, all financial assets and liabilities measured at fair value through profit or loss and all financial assets measured at FVOCI are measured at fair value.

All financial liabilities other than those measured at fair value through profit or loss and financial assets other than those measured at FVTPL or FVOCI are measured at amortized cost using the effective interest rate method.

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 and 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.

d) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method, minus any reduction for impairment.

The effective interest rate is a method of calculating the amortized cost of a financial asset or liability, which is based on the recognition of interest income and expenses over a specific period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the management estimates cash flows considering all contractual terms of the financial instrument but does not consider future losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

e) Derecognition

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

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

When the Group and the Bank has transferred the rights to receive cash flows from an asset or has entered into a pass-through arrangement and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's and the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's and the Bank's continuing involvement is the amount of the transferred asset that the Group and the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's and the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Group and the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group and the Bank may write-off financial assets that are still subject to enforcement activity when the Group and the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Financial assets – modification. The Group and the Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group and the Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially (if cash flows differs more than 10%) affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group and the Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group and the Bank compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group and the Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets), and recognises a modification gain or loss in profit or loss.

When the contractual cash flows of a financial assets are substantially modified, such a modification is treated as a derecognition of the original assets and the recognition of a new financial asset, and the difference in respective carrying amounts is recognised in the income statement. In the case of financial asset modification, which does not lead to derecognition, the Group and the Bank recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss.

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

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

f) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group and the Bank have a legal right to set off the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the trading activity.

(4) Identification and measurement of impairment of financial assets

Identification and measurement of impairment:

The Group and the Bank recognize an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts.

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month expected credit losses (ECLs) or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within 12 months after the reporting date.

The Group and the Bank recognize loss allowances at an amount equal to lifetime ECLs (Stage 2 and Stage 3 instruments), except financial instruments for which credit risk has not increased significantly since initial recognition, for which the amount recognized will be the 12-month ECLs (Stage 1 instruments).

Accordingly, the Bank and the Group have established a policy to perform an assessment at the end of each reporting period as to whether a given asset's credit risk has increased significantly since initial recognition. When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank and the Group consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's and the Group's historical experience and forward-looking information. The Bank and the Group primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime probability of default (PD) as at the reporting date, with the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Significant assets are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed. The collective assessment is based on probabilities of default (PD) obtained from the statistical data for the different type of loans and borrowers, adjusted by several macro factors in order to include forward-looking information. For the individual assessment the Bank and the Group estimate ECLs based on a probability-weighted estimate of the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e. the difference between: the contractual cash flows that are due to the Bank and the Group under the contract, and the cash flows that they expect to receive, discounted at the effective interest rate of the loan.

The Bank and the Group have grouped their loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing loans: when loans are first recognized, the Bank and the Group recognize an allowance based on twelve months expected credit losses.
- Stage 2 – Loans with a significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the Bank and the Group recognize an allowance for the lifetime expected credit loss.

In addition, a significant increase in credit risk is assumed to have taken place, if an event is reported concerning the loan that indicates a significant increase in credit risk, the Bank and the Group expect to grant the borrower forbearance or when forbearance measures have already taken place, or the facility is included in the watch list, or if the borrower falls more than 30 days past due in making its contractual payments.

- Stage 3 – Impaired loans: Financial assets are recognized in Stage 3 when there is objective evidence that the loan is impaired. This category includes non-performing loans (also defaulted) and loans in the process of recovery. A loan is considered as defaulted, if it is clear that borrower will not be able to fulfil his obligations to the Bank without any additional measures like realisation of collateral, or if the borrower falls more than 90 days past due in making its contractual payments. The lifetime expected credit losses are recognized for these loans and in addition, the Bank and the Group accrue interest income on the amortised cost of the loan net of allowances.

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

For financial guarantee contracts, the Bank and the Group estimate their lifetime ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that is incurred less any amounts that the guarantor expect to recover from the holder, the debtor or any other party. For other off-balance sheet loan commitments (credit lines, overdrafts) ECL is estimated similarly to on-balance sheet instruments, applying the certain conversion factor, which is calculated based on historical data of usage of such facilities.

(5) Fair value measurement

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 Group and the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

The methods described below have been used for the determination of fair values.

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 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 recognized in the profit and loss statement depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

If a market for a financial instrument is not active, the Group and the Bank determine fair value using a valuation technique. Valuation techniques include 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 Group and the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Group and the Bank assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- Verifying that equity broker or pricing service is approved by the Group and Bank for use in pricing the relevant type of financial instrument;

- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;

- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement.

Fair value is classified into different levels of the fair value hierarchy based on the inputs used in the measurement techniques:

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 Group and the Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. For further analysis of the basis for fair value refer to Note 42.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group and the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a quoted 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 provisions of the instrument. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group and the Bank believes a third-party market participant would take them into account in pricing a transaction.

Loans

The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. The interest rated used to discount estimated cash flows are based on the prevailing money-market interest rates curve plus an adequate credit spread.

Shares and other non-fixed income securities

The fair value of shares and other non-fixed income securities is determined by reference to their quoted bid price at the reporting date, if available. For a number of non-listed shares where disposal was limited, it was assumed that it was not possible to make a reliable estimate of fair value.

Derivatives

The fair value of currency swaps is estimated by discounting the contractual cash flows to be received and to be paid in appropriate foreign currencies for the residual maturity, and translating the difference of the discounted cash flows into euro, applying the exchange rate published by the European Central Bank. EURIBOR interest rates are used for discounting purposes.

Liabilities to other credit institutions and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand, as they are largely due on demand. The estimated fair value of overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

(6) Derivatives

Derivatives include foreign currency swaps and forwards. As at 31 December 2023 and 2022 all derivatives of the Group and the Bank were classified as financial instruments held for trading.

Derivatives are initially recognized 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.

Changes in the fair value of derivatives are recognised immediately in the income statement.

Although the Group and the Bank trades in derivative instruments for risk hedging purposes, the Group and the Bank does not apply hedge accounting.

(7) 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, use in the production or supply of goods or services or for administrative purposes.

If the use of the property has been changed, investment properties are reclassified to property and equipment.

Investment property is initially measured at cost. Subsequently investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

(8) Repossessed assets

In the normal course of business the Group and the Bank occasionally take title to property and other assets that originally were pledged as security for a loan. When the Group and the Bank acquires (i.e. gains a full title to) an asset in this way, the asset's classification follows the nature of its intended use by the Group and the Bank. When the Group or the Bank is uncertain of its intentions with respect to land and buildings that it has repossessed, those properties are classified as assets classified as held for sale.

(9) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Current repair and maintenance costs are charged to the income statement as incurred. Capital repairs of property and equipment are added to property and equipment at cost, and its useful life is extended. Upon increasing the carrying amount of an item of property and equipment by expenses incurred to replace a material component, the replaced component is derecognised according to the derecognition requirements.

Items of property and equipment are derecognised when disposed or when no economic benefits are expected from the use or disposal of these items in the future. Gains or losses from derecognition of items of property and equipment are determined as the difference between the proceeds from disposal and the net carrying amount of the asset at the date of disposal, and are recognised in the income statement.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation is calculated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. 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.

Depreciation methods, useful lives and residual amounts are reviewed at each reporting date.

Land and buildings

The cost of land and buildings disclosed in the financial statements is their assumed fair value measured at the date of acquisition. Subsequent measurement is carried out on a cost basis similar to other items of property and equipment. Land is not depreciated.

Construction in progress and capital repairs of real estate properties include costs directly attributable to construction in progress, including a corresponding proportion of direct overheads incurred during the establishment of the item of property and equipment. Depreciation of such assets is calculated from the date when the assets are put into operation.

Real estate properties are depreciated over the useful life which is determined to be 50 years.

Leasehold improvements

Depreciation of leasehold improvements is calculated over the remaining period of lease. Depreciation is calculated from the date when leasehold improvements are completed and ready for use.

Useful lives of vehicle and other property and equipment

The annual depreciation percentages are as follows:

Furniture and equipment	20%
Computers	25%
Mobile phones	50%
Others	20%
Vehicle (yacht)	10%

(10) Intangible assets

Intangible assets, except goodwill, are identifiable non-monetary assets without physical substance (licenses, software that is separately identifiable from electronic devices and others) held for rendering of services or other purposes if it is expected that an economic benefit attributable to these assets will flow to the Group and the Bank.

Intangible assets are recorded at cost less accumulated amortization and amortized to the profit or loss in equal amounts over the useful life of the intangible asset. The annual amortization rate for software is 20%.

(11) Recognition of income and expenses

All significant categories of income and expenses, including interest income and expenses, are recognized on an accrual basis.

Interest income and expenses are recognized in the income statement based on the effective interest rate of the asset/liability. 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 (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group and Bank estimate future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

Interest income and expenses include discount or premium amortization or other difference between the carrying amount of an interest bearing instrument and its value on the maturity date calculated based on the effective interest rate method.

Fee and commission income and expense are recognised on an accrual basis. Loan origination fees together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method. Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Group's and the Bank's performance. Such income includes fees for loan, lease or other credit enhancement contracts administration.

Net trading income comprises gains less losses related to trading financial assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

(12) Off-balance sheet items

In the ordinary course of business, the Group and the Bank has off-balance sheet financial instruments consisting of commitments to extend loans and advances, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the balance sheet when they are funded or related fees are incurred or received.

The Group and the Bank measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This fee amount is then amortised on a straight-line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortized balance of the amount at initial recognition and (ii) Expected credit loss.

Documentary and commercial letters of credit represent written undertakings by the Bank and the Group on behalf of a customer authorising a third party to draw drafts on the Bank and the Group up to a stipulated amount under specific terms and conditions.

(13) Taxes

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation. Corporate income tax is included in the profit and loss statement line item "Corporate income tax for the reporting year" in the year for which it is assessed and disclosed by the components in the notes to the financial statements.

Corporate income tax for the distributed profit is calculated as 20/80 of the net amount payable to shareholders. Corporate tax on distributed profit will be recognized when the shareholders of the Company make a decision about profit distribution.

The applicable tax rate in Latvia for undistributed profits earned till 2023 was 0%. For profits earned in 2023 or later periods, corporate income tax should be calculated and paid in the amount of 20% from annual profit after tax. Any amount of corporate income tax paid on undistributed profit will subsequently reduce the amount of tax payable for distribution of profit of the particular year.

(14) Cash and cash equivalents

Cash and cash equivalents are cash on hand and amounts due from the Bank of Latvia and other credit institutions with initial maturities of up to 3 months, except liabilities towards the Bank of Latvia and other credit institutions with initial maturities of up to 3 months.

(15) Leases

the Group and Bank as a lessee

Where the Bank acts as a lessee, the standard requires that right-of-use (RoU) assets and lease liabilities arising from most leases are recognised on the balance sheet.

Depreciation of the RoU assets and interest expenses related to lease liabilities are recognised in the income statement. In the cash flow statement payments for the principal portion of the lease liability are presented within financing activities and payments for the interest portion are presented within operating activities.The lease liability is initially measured as the present value of lease payments that are not paid at the commencement date. Over time, the liability will increase with interest expense accruals and decrease with lease payments. The RoU asset is initially measured at cost i.e. the same amount as the initial measurement of the lease liability plus certain other costs, for example lease payments made at or before commencement date. The RoU asset is thereafter depreciated over the lease term. Lease payments are discounted using the incremental borrowing rate. The Bank applies a single discount rate to a portfolio of leases with reasonably similar characteristics.

the Group as lessor

When acting as a lessor all leases shall be classified as either an operating lease or a finance lease. Operating leases are those leases where the lessor bears the economic risks and benefits.

(16) Provisions

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

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.

(17) Short-term employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operation expenses on an accrual bases. The Group and the Bank pay fixed security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and the Group and the Bank will have no obligations to pay further contributions relating to retired employees.

(18) Loans and advances to customers

Loans and advances to customers are recorded when the Group and the Bank advance money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group and the Bank classify loans and advances to customers into one of the following measurement categories: (i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and (ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC are measured at FVTPL.

(19) Assets under management

Assets managed by the Group and the Bank on behalf of customers are not treated as assets of the Bank and the Group. The Group and the Bank assume no risk in relation to these assets.

(20) Investments in debt securities and Investments in equity securities

Investment securities includes Investments in debt securities and Investments in equity securities.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group and the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Group and the Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Investments in equity securities. Financial assets that meet the definition of equity from the issuer's perspective, i.e. instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets, are considered as investments in equity securities by the Group. Investments in equity securities are measured at FVTPL, except where the Group elects at initial recognition to irrevocably designate an equity investments at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns. When the FVOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and their reversals, if any, are not measured separately from other changes in fair value. Dividends continue to be recognised in profit or loss when the Group's right to receive payments is established except when they represent a recovery of an investment rather than a return on such investment.

(21) Non-current assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain or loss not previously recognised by the date of the sale of the noncurrent asset is recognised in the profit or loss statement at the date of derecognition. Non-current assets are not depreciated while they are classified as held for sale.

(22) New IFRS, amendments and interpretations

Standards or interpretations effective for the first time for the annual periods beginning 1 January 2023, but did not have material impact on the Bank and the Group:

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2023).
- **Amendments to IFRS 17 and an amendment to IFRS 4** (effective for annual periods beginning on or after 1 January 2023).
- **Transition option to insurers applying IFRS 17 –** Amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023).
- **Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies** (effective for annual periods beginning on or after 1 January 2023).
- **Amendments to IAS 8: Definition of Accounting Estimates** (effective for annual periods beginning on or after 1 January 2023).
- **Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12** (effective for annual periods beginning on or after 1 January 2023).
- **Amendments to IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules** (effective for annual periods beginning on or after 1 January 2023).

Standards or interpretations effective for the first time for the annual periods beginning after 1 January 2024 or not yet endorsed by the EU

- **Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback** (effective for annual periods beginning on or after 1 January 2024).
- **Classification of liabilities as current or non-current – Amendments to IAS 1** (effective for annual periods beginning on or after 1 January 2024).
- **Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements** (effective for annual periods beginning on or after 1 January 2024, not yet endorsed by the EU).
- **Amendments to IAS 21 Lack of Exchangeability** (effective for annual periods beginning on or after 1 January 2024, not yet endorsed by the EU).

The management of the Group is still evaluating new standards and amendments (effective after 2023) impact on the future financial statements of the Group and the Bank. At present it is not expected that any of these will have a significant impact on the financial statements of the Group and the Bank.

4. RISK MANAGEMENT

Within the framework of the internal control system, the Group and the Bank have developed and follow the risk management strategy and policies, approved by the Council, which in line with the volumes, complexity and specifics of the Group's and the Bank's operations, define the following:

1) General guidelines observed by the Group and the Bank in their activities aimed at decreasing risks associated with their activities which might lead to losses;
2) Description of risk transactions and other risks to which the Group and the Bank are exposed;
3) Identification and management of the significant risks, including measurement, evaluation, control, and preparation of risk reports;
4) The procedure for setting limits and restrictions for risk transactions together with regular control and development;
5) Measures for the regular assessment of capital adequacy and maintenance of sufficient capital to cover the inherent risks and risks to which the Bank might be exposed to;
6) Updating of normative documents regarding the risk management process according to market changes.

The risk management strategy and policies describe and determine the aggregate of measures to ensure that the possibility of suffering losses is minimized in the event the invested resources are not repaid in due time or the Bank or the Group suffers other losses.

The Board of the Bank ensures the development of the risk management system as described by the risk management normative documents; the Board, the Investment Committee, Credit Committee, Non-financial Risk Management Committee and Customer Activity Compliance Control Committee make the key decisions according to their regulations. Risk Officer is responsible for the overall control and monitoring of the risk management system. Independent risk management departments ensure risk management on a daily basis. The risk management system is monitored by the Internal Audit Service on a regular basis is being continuously developed pursuant to the development of the Group and the Bank and activities on financial markets. The Board and the Council regularly receive and review the information on risk management, implementation of the strategy and policies approved by the Council. Risk management is carried out both on the Group and Bank level.

(1) Credit risk

Credit risk is the risk of potential loss resulting from the inability or refusal to fulfil any contractual obligations by the Group's or the Bank's debtor or counterparty.

Credit risk is managed in accordance with the Risk management Strategy and the Credit Risk Management Policy, approved by the Council of the Bank. This policy details the basic principles of credit risk management, identification, assessment, mitigation and control.

The management of risks associated with ordinary loans involves the assessment of the potential borrower's credit standing that is performed by the Financial Analysis and Risk Management Department. Decisions on granting of loans are made by the Credit Committee or the Board, based on the above analysis and evaluation of collateral. Subsequent to granting a loan, the Financial Analysis and Risk Management Department performs a regular analysis of the borrower's financial position, which enables the Bank and the Group to take prompt action in the case of deterioration of the borrower's financial position.

Following the Russian military invasion of Ukraine on 24 February 2022, the European Union, the United States and other countries have imposed a series of financial and other sanctions against Russian and Belorussian state institutions, companies and individuals, resulting in a sharp collapse of Russian stock, debt and currency markets.

The Bank does not have assets, loans or other financial investments that could be significantly affected by the above events. Also, the Bank does not have significant financial cooperation with financial institutions in Russia, Belorus or Ukraine. In the light of foreseeable risks, the Group and the Bank have already taken the necessary steps to mitigate the potential impact associated with the initiated hostilities on the territory of Ukraine and the sanctions imposed by the international community on Russia. Therefore, the Bank does not see significant credit risks or other losses in the context of the geopolitical situation.

The real estate market does not react as quickly to changes in energy prices, currently we do not see significant changes. Although the Bank as a whole, of course, looks cautiously at the coming periods and monitors the situation on the market and the Bank's borrowers.

As for commercial facilities, it should be taken into account that borrowers (owners of facilities that rent premises) most often transfer utility payments to tenants, under the terms of the lease agreements, and there are no negative trends yet (such as renegotiation of lease terms or outflow of tenants). Of course, the increase in interest rates (EURIBOR) has or will have a negative impact on the borrowers' DSCR, however, the Bank most often finances customers with a sufficient level of DSCR. Accordingly, a reserve has been provided for a potential deterioration in cash flow.

As of the end of 2023, no significant deterioration has been detected for customers; however, the Bank is cautious about the near term, especially with regard to customers, whose own costs of production are significantly driven by energy consumption (food industry, manufacturers of building materials, other manufacturing enterprises with high energy consumption). The Bank continues to closely monitor the situation and supervise the conditions of these loans, working proactively with the client to identify in a timely manner any signs of deterioration in the financial situation. It should be noted that the concentration of any industry in the Bank's loan portfolio does not exceed 20%, while each borrower is assessed individually.

Credit risk that is related to inter-bank operations (or operations with financial institutions), including the credit risk related to inter-bank settlements and the Bank's investments in debt securities, is controlled by the Bank's Investment Committee that sets limits for transactions with each counterparty and issuer.

The Bank and the Group monitor the concentration of significant assets, liabilities, as well as contingent liabilities and commitments' credit risk by geographical regions, customer groups and types (i.e. central governments, local authorities, state enterprises, private enterprises, private individuals, etc.) and industries.

Impairment policies

An important part of the credit risk management is the estimation of provisions under IFRS9, which mostly is based on the assessment of credit risk of financial instruments. As a result of the assessment, all assets are divided into stages according to the level of credit risk and changes thereof.

The Bank and the Group recognize an allowance for expected credit losses on all loans and other debt financial assets, except financial assets which are valued as FVTPL, together with loan commitments and financial guarantee contracts.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered in accounting judgements and estimates include:

- the criteria for assessing the significance of an increase in credit risk and the criteria for granting the Stage 1, Stage 2 or Stage 3 loans that meet the requirements of IFRS9;
- assessing the accounting interpretations and modelling assumptions used to build the ECL calculation models, including various formulas and choice of inputs;
- modelling and calculation of key parameters of ECL model, including probability of default (PD), loss given default (LGD) and exposure at default (EAD);
- determining the macro-economic indicators and incorporating forward-looking information into the ECL model, as described below;
- estimating the above-mentioned indicators for individually assessed loans for a credible future period and calculation of ECL based on cash flow.

In order to estimate the expected credit loss (ECL) for debt securities, inter-bank deposits, letters of credit and financing against securities portfolio, the statistics of historical defaults and recovery rates by Moody's is used. Historical PD is applied accordingly to instruments' or issuers' external credit ratings. If an instrument has not any external rating, it is conservatively assumed to apply historical data which is relevant for the rating B-. For the instruments with prime grades, where historical PD is equal to 0%, it is assumed to take PD=0.005%. PD under these scenario ranges from 0.005% for prime grade instruments to 7.41% for instruments with the lowest ratings. Significant increase in credit risk for such instruments is recognized, for example, if the instrument is downgraded and PD corresponding to the new rating increases by at least 100bp or if the issuer of the security proposed to revise the prospectus of the asset issue.

The approach for ECL calculations for a loan portfolio is based on both a collective and individual assessment. Loans not classified for Stage 3 assets are assessed individually if they meet at least one of the following criteria:

- The balance of the principal amount of loans granted to one customer or a group of related customers is not less than 3 million EUR;
- The balance of the principal amount of loans issued to one customer or a group of related customers exceeds 500 thousand EUR and the total risk rating set in accordance with the "Methodology for assessing the credit risk of borrowers" is 4 or lower.
- The risk profile of a customer (a group of related customers) is quite different from the groups for which impairments are calculated collectively.

The calculation of collective impairments is carried out by applying a statistical model based on historical data of the Bank's credit portfolio for the calculation of PD rates. The Bank calculates PD rates using the Weibull approach, which is widely used in credit institutions of various sizes, both in the domestic and foreign markets. The Weibull approach is particularly well suited for calculating PD rates for portfolios with a low number of historically observed defaults.

The Weibull approach is a PD calculation method that is often used in the industry when other methods based on a larger volume of historical data cannot be applied. For example, if the homogeneous Markov chain approach is not applicable due to insufficient historical data or few default events, the Weibull approach can be applied. With the Weibull approach, historically observed defaults are adjusted (interpolated) to the function curve, resulting in PD rates with relatively small amounts of data.

To calculate PD in accordance with this approach, historical transaction data on the number of new and unique defaults are collected, aggregating the data into homogeneous groups.

Dividing the number of defaults by the total number of transactions in the relevant period, the default rate (DR) and its cumulative values are calculated.

With the Weibull function, historical default data is replicated for each future period and PD cumulative rates are calculated based on the interpolated Weibull curve.

PD rates are calculated for each homogeneous group separately, based on the historical data of the Bank's credit portfolio at the end of each month for at least 36 months, covering data on the Stage classification of each transaction and covering data on exposures assessed both individually and in homogeneous groups and on the number of observed defaults of exposures. If the data does not reflect current market conditions or if historical data is available for a shorter historical period, data for a shorter period of time is used, which is representative of exposures as of the date of ECL calculation.

The Bank models the exposure at default (EAD) every time ECL is calculated based on the payment schedule specified in the agreement and the use of unused credit limits (off-balance sheet obligations).

LGD is calculated at the level of homogeneous portfolio groups or the type of pledged asset, and the calculation is updated at least once a year. At least once a year, the Bank analyses whether the factors by which LGD groups are differentiated are relevant and representative for the current portfolio.

LGD is applied to each risk transaction according to its homogeneous group or type of pledged asset. The Bank applies LGD calculated on the basis of assumptions about the adjustment of the value of recoverable funds depending on the type of mortgaged property.

To adjust the ECL with macroeconomic forecasts, the Bank uses the following approaches:

1) Performs statistical calculations that take into account historical correlations between macroeconomic indicators and the observed probability of default, and, based on forecasts of macroeconomic indicators, determines the applicable adjustments for future PD rates;
2) Uses an expert assessment based on historical data or publicly available source data, or uses information provided by third-party assessment experts.

To adjust the PD of the loan portfolio taking into account forward-looking information, the Bank uses a macroeconomic model, which is developed on the basis of the principles of the one-factor stochastic Vasicek model. The model predicts the development of PD rates due to a single market factor that has a significant impact on the probability of default.

To calculate ECL and forecast future PD rates, a baseline scenario is used, supplemented by one or more alternative scenarios reflecting at least one pessimistic scenario, for example, with a probability of occurrence of 85% and 15%, respectively. Alternative scenarios do not necessarily include less likely extreme or stressful scenarios. The macroeconomic scenarios used for the end of 2023 include forecasts that take into account the impact of negative geopolitical and macroeconomic events.

The PD and LGD rates are adjusted taking into account the weighted value of all scenarios, using the probability distribution of scenarios as weights.

For ECL calculation, the Bank uses the approach PD*EAD*LGD. The approach focuses on each of the variables PD, EAD and LGD separately, which are applied to each of the exposures, on a monthly cash flow basis, in order to obtain the projected amount of ECL in the months up to the final maturity of the loan.

By applying the individual calculation approach, the Bank for Stage 1 loans calculates the expected loss for the next 12 month and for Stage 2 loans calculates the expected loss during the life of the asset as the difference between the future cash flow due to the Bank under the loan agreement and the future cash flow it expects to receive from the relevant asset. For Stage 1 and Stage 2 loans, the Bank assumes that the debtor will fulfil the obligations in accordance with the repayment schedule specified in the loan agreement and applies the PD*EAD*LGD approach.

The bank predicts the development of EAD according to the loan repayment schedule and applies historically observed forward-adjusted PD rates to a comparable sub-portfolio valued in homogeneous groups. If the credit in question has quite a different risk profile from the established homogeneous groups, the PD rates shall be applied according to the expert method, duly substantiated and documented.

LGD is estimated individually based on the assessment of the future cash flow for the corresponding loan in case of default. The future cash flow is discounted by applying the effective interest rate (EIR) or its estimate based on the interest rate applicable to the loan at the time of analysis, as well as on commissions for granting and servicing the corresponding loan. If the Bank does not have access to information on the EIR applicable to the loan, the Bank accepts the EIR equal to the interest rate applicable to the loan. The future cash flow from the debt obligations of the debtor in question is calculated at the level of individual contracts.

For Stage 3 loans, the Bank assumes that the debtor will not fulfil obligations in accordance with the repayment schedule specified in the loan agreement, and the future cash flow could result from the sale of the collateral, minus the related expenses, discounted by applying the EIR or its estimate based on the interest rate applicable to the loan at the time of analysis, as well as on commissions for granting and servicing the corresponding loan.

In 2023 the Bank implemented some changes in the ECL calculation methodology by introducing different scenarios. Multiple scenarios introduced for the individually assessed Stage 1 and Stage 2 loans. These scenarios show the possibility of the development of various events. Base case scenario – predicts cash flows from loan repayment (in accordance with the contract), in case, based on the data of the performed analysis, the cash flow of the borrower's business activity is sufficient for loan repayment in accordance with the schedule established by the contract. Negative scenarios assume that the cash flow from business activity is not sufficient to repay the loan according to the planned loan repayment schedule, and then the coefficient is included for the repayment schedule. Although other scenarios assume that, the sale of collateral occurs with the larger discounts than applied in the Base case scenario.

Furthermore, another negative scenario is applied, in which it is assumed with a small probability that in case the Bank is unable to take over any of the collateral due to unlikely and unforeseen events, as a result of which LGD=100% in the calculation.

To calculate the resulting ECL, the probability of occurrence is included in each scenario. The amount of ECL and the ECL coefficients calculated in each scenario are weighted, by the probability applied to that scenario and the results for all scenarios are being summed.

Scenarios for Stage 3 loans assume that cash flow is generated only as a result of collateral sale.

Impairments for different financial instruments are recognized based on calculated ECL coefficients and these coefficients change dynamically depending on the outstanding amount for each instrument.

(2) Currency risk

Foreign exchange risk is the risk of potential loss as a result of the revaluation of assets, liabilities, as well as contingent liabilities and commitments denominated in foreign currencies due to change in exchange rates.

The Bank and the Group continuously monitor the open positions of foreign currencies and regularly assesses the structure of assets and liabilities by currency.

An analysis of sensitivity of the Bank's net profit or loss for the year and comprehensive income to changes in the foreign currency exchange rates based on positions existing as at 31 December 2023 and 31 December 2022 and a simplified scenario of a 5% change in the USD to EUR exchange rates is as follows.

	2023		2022	
EUR'000	**Profit or loss**	**Shareholders' equity**	**Profit or loss**	**Shareholders' equity**
5% appreciation of USD against EUR	(115)	(115)	(74)	(74)
5% depreciation of USD against EUR	115	115	74	74

An analysis of the foreign currency position is presented in Note 38.

(3) Interest rate risk

Interest rate risk is related to potential losses incurred by the Group and the Bank due to movements in interest rates.

For controlling the interest rate risk, the Investment Committee performs regular analyses of assets and liabilities by maturity and type of interest. A change of interest rates by 100 basis points would result in the following changes in profit or loss and capital and reserves:

	2023 EUR'000	2022 EUR'000
EUR	703	537
USD	(51)	(76)

An analysis of the foreign currency position is presented in Note 39.

(4) Debt securities price risk

Debt securities price risk is the potential loss that may arise to the debt securities included in the trading portfolio due to the decline in market prices as a result of changes in market factors.

The debt securities price risk is managed by the Bank by setting limits on the total amount of the trading portfolio, as well as purchasing debt securities with relatively short maturities that are less sensitive to price risk.

	2023		2022	
EUR'000	Profit or loss	OCI	Profit or loss	OCI
10% increase in securities prices	-	2 067	-	2 599
10% decrease in securities prices	-	(2 067)	-	(2 599)

(5) Liquidity risk

Liquidity risk is the risk of potential loss as a result of sales of assets or acquisition of resources at unfavourable prices in order for the Group and the Bank to fulfil its liabilities to creditors and depositors.

The Bank focuses on a conservative approach to liquidity management. The Bank allocates funds (attracted mainly from deposits) to assets in order to maintain an asset structure that is appropriate to support the Bank's operations (executing of customers' transactions) and comply with regulatory requirements concerning the liquidity ratio even in case of a significant outflow of customer deposits or a significant decrease in liquidity on the securities market.

The procedures for the management of the liquidity risk are described in the Liquidity Management Policy and consist of several components: liquidity risk indicator system, balance sheet planning, stress testing, and limits for investments in assets of limited liquidity.

The purpose of liquidity risk indicators is to reflect the actual level of the Bank's liquidity risk and quickly identify any increase in liquidity risk. The Bank's Liquidity Risk Management Policy determines specific actions to improve the Bank's liquidity position when liquidity risk indicators reach certain levels.

The aim of liquidity risk stress testing is to measure the deficit or surplus of the Bank's liquid assets that may occur due to significant outflows of customer deposits or a significant decrease in liquidity on the securities market. Based on the results of stress testing, the Bank's Investment Committee sets limits on investments in assets of limited liquidity.

The reported ratio of net liquid assets versus current liabilities at the reporting date were as follows:

	2023	2022
As at 31 December	77.34%	72.29%

Net liquid assets include cash and cash equivalents, bonds and receivables from credit institutions net of current liabilities.

Liquidity Coverage Ratio (LCR) at the reporting date was as follows:

	2023	2022
As at 31 December	176.7%	179.8%

In accordance with 'Normative regulations on establishing a capital and liquidity adequacy assessment process' No. 209 of the FCMC, the Bank carries out the assessment of the liquidity reserve adequacy necessary for its operations within the liquidity adequacy assessment process (ILAAP). Liquidity analysis is presented in Note 36.

(6) Country risk

Country risk is the risk of potential losses arising from transactions with residents of foreign countries (or their securities) due to changes in the economic, political, and legal environment of the respective countries.

Before entering into transactions with residents of foreign countries, the Group and the Bank perform an assessment of the influence of economic, social, political and legal circumstances on the residents' ability to fulfil their obligations.

The Group and the Bank, pursuant to the State risk management policy, set the limits on placement of assets for the respective country.

(7) Operational risk

Operational risk is the risk of incurring losses from inadequate or improper internal processes, human errors and errors in the operation of systems, or from external events, including legal risk, but excluding strategic and reputation risk.

The principles of the operational risk management at the Group and the Bank are established in the internal regulations of the Bank, by setting:

- Organizational structure, division of powers and the principles of delegation, functional duties, procedure for the exchange of information among the structural units and employees;
- Rules, regulations and procedures for operations and other transactions, the accounting procedure and the organisation of internal processes;
- Control over the compliance with the limits set for bank operations and other transactions;
- Rules, regulations and procedures for the functioning of information systems (technical, informational, etc.);
- Procedure for granting rights of access to information and material assets;
- Procedure for preparing and issuing reports and other information;
- Procedure for motivating employees, and other matters.

To ensure efficient conditions for the identification and assessment of the operational risk at the Group and the Bank, the Bank has established the Operational Risk Management Department, responsible for personnel training on the matters of operational risk. The Operational Risk Management Department has an operational event database in place, which ensures receiving information about operational risk events, thus enabling proper recording, management and addressing of risks.

A systemic approach is applied in the identification and management of risks characteristic to new financial services and products as part of the approval process of the new services and products. This process involves all the structural units providing control and support functions together with structural units of the relevant business lines in order to ensure the assessment of the new financial services or products.

The Bank's Business Continuity Plan (BCP) includes actions and measures to be taken in various crisis situations and related operational risks, including possible events related to disruption of IT and support services, unavailability of critical resources or suppliers. Having assessed the Bank's BCP and operational risks that may arise as a result of the development of the geopolitical situation, we have concluded that the BCP includes the main risks of a possible crisis of the geopolitical situation. The Bank has its own Client Service Centre, which also provides the Bank's clients with cash and settlement operations, as well as, if necessary, the Bank can quickly increase the volumes of on-site customer service. The Bank and the Group has assessed and tested the existing IT infrastructure capacity and defence capacity, especially taking into account the potential of cyber-attacks and concluded that the IT infrastructure capabilities are sufficient to repel the most likely cyber-attacks with acceptable impact. The general testing of the BCP is provided on a regular basis, and within its framework the Bank ensures the provision of critical operational functions.

The Group and the Bank have also developed Action plans for various crisis situations. The Group and the Bank have set up an independent structural unit – Internal Audit Service (IAS), the main functions of which also include evaluation of the activities of the Group and the Bank in accordance with the applicable laws and regulations, approved plans, policies and other internal documents of the Bank, and compliance with the internal control procedures of the Group and the Bank's structural units.

(8) Money laundering and terrorism and proliferation financing and sanctions risk management

The existing business model of the Group and the Bank is aimed at providing high-quality financial services to clients, while ensuring an effective internal control system, thereby reducing the risk of the Bank being involved in money laundering and terrorism and proliferation financing, or circumventing international, OFAC or national sanctions. The Group and the Bank improve the internal control system on a regular basis in compliance with the requirements of the laws and regulations of the Republic of Latvia and international guidelines and recommendations of good practice.

The Bank has approved the Anti-Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing (hereinafter – AML/CFT/CPF) Policy and the Sanctions Risk Management Policy, which establish:

- The basic principles of conducting customer due diligence before the establishment of the business relationship and during the business relationship, client identification, determining the beneficial owner and monitoring transactions, following a risk-based approach;
- The basic principles of assessing, determining and successfully managing the client's risk of money laundering, financing of terrorism and proliferation and risk of sanctions, defining risk mitigation measures;
- The basic principles of identifying suspicious transactions and timely reporting to the competent government authorities;
- The procedure for terminating business relationship with clients upon identifying disproportionate or costly/difficult to manage risks of sanctions/money laundering, financing of terrorism and proliferation.

During the business relationship with the client, the Bank ensures updating of the client's file, following a risk-based approach. Client files are regularly supplemented and updated with the results of studying client activity and their transactions, as well as documents supporting transactions. In the opinion of the Bank's management, knowing the client's type of economic activity, operational geography, monitoring their transactions and refraining from the execution of suspicious financial transactions, the Group and the Bank minimize the risk of being involved in potential money laundering and terrorism and proliferation financing activities, as well as reduce the risk of being involved in violation or circumvention of sanctions or such attempts.

The Bank has approved the Strategy for Managing the ML/TF/PF and Sanctions Risk, which sets out the key principles for managing the ML/TF/PF risk and the risk of sanctions, development of internal control system, risk identification measures, and risk mitigation and control mechanisms. Taking into account the Bank's strategy, the ability of the Bank to manage the ML/TF/PF risk and the risk of sanctions, and the available resources, the Strategy for Managing the ML/TF/PF and Sanctions Risk sets out the ML/TF/PF risk exposure rates and maximum permissible limits in order to effectively know and control the ML/TF/PF risk and the risk of sanctions associated with the activities of clients.

The Strategy for Managing the ML/TF/PF and Sanctions Risk, the AML/CFT/CPF Policy and Sanctions Risk Management Policy establish requirements for such organisational structure elements, which are based on the following principles of three-tier protection and control:

— Tier 1 controls — employees of business structural units in charge of acquiring and servicing customers, ensuring compliance with the 'Know Your Customer' (KYC) and 'Know Your Customer's Customer' (KYCC) principles both when entering into a business relationship with the client and during business relationship. Each employee of the Bank's structural units is responsible for knowing and complying with ML/TF/PF and sanctions risk requirements in cooperation with clients, as well as for promoting and respecting the professional internal culture in accordance with the Corporate Ethics Standards Code.

— Tier 2 controls — structural units in charge of client due diligence prior to establishing business relationship and during the business relationship, monitoring of client transactions and support function, that provide independent research and acceptance of clients, supervision of servicing, analysis of client transactions, issue of opinions on planned client transactions, and reporting to national competent authorities, such as the Financial Intelligence Unit, the State Revenue Service, the State Security Service, and the Bank of Latvia [Latvijas Banka]. Tier 2 controls also include employees responsible for supervision such as risk management officers, operational compliance officers, heads of structural units.

— Tier 3 controls are implemented by the Internal Audit Service through independent and regular management of the ML/TF/PF and sanctions risk and assessment of controls.

The Bank has appointed a Board member in charge of the ML/TF/PF and sanctions risk management, as well as has approved employees responsible for enforcing the requirements of AML/CFT/CPF and sanctions risk management.

The Bank's internal control system in the area of ML/TF/PF and sanctions risk management is based on the principle of distribution of certain duties and responsibilities between structural units and employees, determining the procedure for making decisions, responsibility for monitoring the client activities and the foundations for the activity of compliance units. The Client Activity Compliance Control Committee has been set up in the Bank, whose competence and responsibility is to make decisions regarding high-risk clients before the establishment of business relationships and during the business relationships, both as part of transaction monitoring and due diligence. The Client Activity Compliance Control Committee ensures the effective functioning of the internal control system, making decisions on risk management measures as well.

(9) Management of compliance risk

Compliance risk is a risk that the Group or the Bank may incur losses or may be subject to legal obligations or sanctions, or its reputation as an institution may be damaged due to non-compliance of its operations or violation of the requirements of laws, rules and standards in the area of compliance.

The Bank has introduced the compliance control system, which is based on the principle that the function of compliance control in the Bank is provided by an organisationally separated unit — the Compliance Control Department. In order to ensure the compliance function, the Bank has appointed compliance experts, — employees of the Bank's structural units, experts in the field concerned.

The Bank has appointed a personal data protection officer in charge of organising, controlling and supervising the compliance of personal data processing at the Bank with the requirements of the regulatory enactments of the European Union and the Republic of Latvia. The main goal of the compliance control function is to ensure the identification, assessment and management of the compliance risk. The purpose of the compliance control function is to ensure the identification, documentation, assessment of the compliance risk, by ensuring that prior to the initiation of any new activity, the compliance risk associated with the respective activity is identified, and the Bank's compliance with compliance laws, rules and standards is assessed.

Operational compliance describes the Bank's ability to operate in accordance with binding compliance laws, regulations and standards, which can further be subdivided in 2 levels:

- Compliance with external requirements in general (requirements integrated in the internal regulatory documents and processes);
- Appropriate internal control system capable of ensuring continued compliance with the relevant requirements.

The Group and the Bank have introduced an internal whistleblowing system providing for reporting on deficiencies and other violations of the internal control system and ensuring the protection guarantees for whistleblowers pursuant to the Whistleblowing Law.

Within the framework of corporate governance, the process of identifying and managing conflict of interest situations, as well as preventing corruption, is constantly being improved, the approach to obtaining information about situations that may cause conflicts of interest or corruption cases for the Bank is systematized.

The system for reporting and providing information to internal and external information requests is continuously reviewed and updated.

The Bank has established unified principles and terms for receiving outsourcing services, including the conditions for outsourcing providers, control over the execution of the outsourcing agreement and supervision of outsourcing providers, as well as the procedures by which the Bank manages and minimizes the risks associated with outsourcing.

(10) Sustainability risk

Sustainability risk is the risk that an event or circumstance in the field of environmental, social or governance (ESG) will negatively affect the value of investments. Environmental events could be related to regulatory or legal issues, technology risk or reputation risk. Social events are mostly related to employment issues. Corporate governance events are related to the company's code of conduct, diversity of representation and the rights of minority shareholders. Sustainability risks can take many forms, including risks specific to a particular company, industry, and country, where political risks and the rule of law are at the core. The occurrence of sustainability risk may adversely affect the value of investments.

EU legislation sets standards for integrating sustainability risks into the investment process. Sustainability risk can affect investments both positively and negatively. Therefore, the Bank is committed to introduce the necessary measures so that sustainability factors are taken into account in the investment decision-making process.

Our mission is to create positive long-term investment results for our clients and we believe that this can only be achieved by taking full consideration of sustainability factors. Strong ESG compliance reduces the risk that our investments returns can be compromised by exogenous risk.

As one way of realizing its duty as a responsible investor, the Bank considers sustainability factors among other factors when voting at general meetings based on our delegated voting authority on shares owned by our clients in line with the Bank's Participation Policy.

The Bank understands that sustainability factors can influence target prices and the basic assessment of aspects such as a company, a country, an economic sector, and the investment management strategy; therefore, we undertake to introduce the necessary measures so that sustainability factors are taken into account in the selection and monitoring of investments. In fact, we have invested in a number of companies and sectors that we believe will benefit from increasing institutional investor demand for higher ESG compliance in the future. We monitor the ESG strengths of our chosen investments through reports and management follow-up of the implementation of ESG targets. We believe that responsible, ESG compliant investing can be a strong catalyst for positive change, and will ultimately deliver higher, sustainable returns for all stakeholders.

(11) Capital management

The Bank's Capital Adequacy Management Policy requires maintenance of a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business as well as to ensure the Bank's capital at an adequate level for covering potential risks arising from current and future operations.

As at 31 December 2023, the Bank's capital adequacy ratio was 16.19% (2022: 18.18%) which corresponds to the requirements set in the Basel Capital Accord and the regulations of the LB. Under the capital requirements introduced by Regulation (EU) No 575/2013 of the European Parliament and of the Council and the LB banks need to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. Although the minimum required level as at 31 December 2023 was 8%, according to a special request by the LB the Bank was required to ensure a higher capital adequacy of 11.60% during the period from 1 January 2023. In addition to the above capital requirement for the overall risk coverage, the Bank is required to maintain compliance with the total capital reserve requirement calculated in accordance with Section 35^{22}, 35^{23}, 35^{24} or 35^{25} of the Credit Institution Law -2.93% (Capital conservation buffer – 2.50%, institution-specific countercyclical capital buffer – 0.18% (as at 31.12.2023), other reserve -0.25%). The requirements of the total capital reserve should be met using Tier 1 capital.

During the years 2023 and 2022 as of 31 December of these years the Bank and the Group were in compliance with the capital adequacy and the minimum capital requirement specified in the Law On Credit Institutions and the rules of the LB, as well as in compliance with the higher ratio required by the LB. For the calculation of capital adequacy as at 31 December 2023 refer to Note 44.

5. USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS as adopted by EU requires management to make judgements, estimates and assumptions 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, the actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized 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.

The Group's and the Bank's management makes significant estimates and judgements in respect of expected credit losses on loans and receivables (see note "Risk management – Credit risk").

6. NET INTEREST INCOME

	2023		2022	
Interest income	**Group EUR'000**	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Interest income from financial assets at amortized cost (loans):	35 061	35 061	20 395	20 395
Deposits with credit institutions	*5 874*	*5 874*	*506*	*506*
Loans and receivables	*29 187*	*29 187*	*19 889*	*19 889*
including interest income on impaired loans	*627*	*627*	*575*	*575*
Interest income from financial assets measured at fair value through other comprehensive income	255	255	64	64
Interest income from financial assets measured at amortised cost (fixed income securities)	1 578	1 578	1 378	1 378
Other interest income	168	168	1 010	1 010
Total interest income	**37 062**	**37 062**	**22 847**	**22 847**
Interest expense				
Interest expense from liabilities measured at amortized cost:	9 311	9 311	2 641	2 641
Deposits	*9 311*	*9 311*	*2 641*	*2 641*
Interest expense on issued bonds	491	491	313	313
Payments to the Deposit Guarantee Fund and other funds	1 058	1 058	1 046	1 046
Other interest expense	663	978	1 258	1 589
Total interest expense	**11 523**	**11 838**	**5 258**	**5 589**
Net interest income	**25 539**	**25 224**	**17 589**	**17 258**

7. NET FEE AND COMMISSION INCOME

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Fee and commission income				
Money transfers	1 946	1 947	1 096	1 097
Commissions on loans monitoring and service	808	808	551	551
Securities transactions	1 147	1 147	910	910
Assets management	316	316	322	322
Client service	6 546	6 546	6 072	6 072
Payment card service	1 844	1 844	1 421	1 421
Total fee and commission income	**12 607**	**12 608**	**10 372**	**10 373**
Fee and commission expense				
Money transfers	57	57	73	73
Payment card service	1 326	1 326	1 407	1 407
Securities transactions	347	347	390	390
Other	13	13	60	60
Total fee and commission expenses	**1 743**	**1 743**	**1 930**	**1 930**
Net fee and commission income	**10 864**	**10 865**	**8 442**	**8 443**

Fee and commission income and expense is accounted according to the point in time principles. The Group and the Bank did not have any agreements with multiple performance obligations.

8. NET (LOSS) / PROFIT FROM TRADING AND REVALUATION OF FINANCIAL INSTRUMENTS

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Net (loss) / profit from trading with financial assets at fair value through profit or loss	(100)	(100)	(1 093)	(1 093)
Net profit from trading with financial assets not measured at fair value through profit or loss	(203)	(203)	(415)	(415)
Net profit/(loss) from revaluation of financial assets and liabilities at fair value through profit or loss	86	86	(197)	(197)
Net profit from trading and revaluation of financial instruments	**(217)**	**(217)**	**(1 705)**	**(1 705)**

9. NET FOREIGN EXCHANGE TRADING AND REVALUATION INCOME

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Net profit from foreign exchange transactions	222	222	1 070	1 070
Net profit / (loss) from revaluation of foreign exchange	(161)	(161)	102	102
Net foreign exchange income	**61**	**61**	**1 172**	**1 172**

10. OTHER OPERATING INCOME

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Fines received	281	281	201	201
Dividends received	18	18	36	36
Other	1 371	1 296	705	633
Total other operating income	**1 670**	**1 595**	**942**	**870**

11. ADMINISTRATIVE EXPENSES

		2023		2022	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Salaries to the members of the Board and Council		978	978	869	869
Staff remuneration		7 985	7 864	6 257	6 149
Compulsory state social security contributions (Board and Council)		231	231	205	205
Compulsory state social security contributions (staff)		1 701	1 673	1 448	1 423
Other staff costs		68	66	45	43
Communications and transport		255	247	250	242
Professional services		595	578	807	792
Public utilities and maintenance		700	644	650	609
Depreciation costs	23	1 214	1 005	1 356	1 055
Amortization costs	24	132	132	189	189
Computer network		380	380	370	370
Advertisement and marketing expenses		355	355	281	280
Other taxes		674	469	577	379
Insurance		99	94	83	80
Audit fee		184	184	135	135
Other		649	639	178	170
Total administrative expenses		**16 200**	**15 539**	**13 700**	**12 990**

The average number of employees in the Group in 2023 was 216 (2022 – 200) and in the Bank was 211 (2022 – 195).

In 2023, the remuneration of the sworn auditor was 183.7 thousand EUR, including 172.7 thousand EUR for the audit of financial statements (consolidated financial statements), 5.5 thousand EUR for the certification task related to the conclusion whether the Bank has complied with the requirements of the Financial Instruments Market Law with respect to its obligations regarding t the separation of financial instruments, the separate holding of financial instruments and funds of clients, and 5.5 thousand EUR for the certification task related to the conclusion whether the Bank has complied with the requirements of the Deposit Guarantee Law in preparing its report on covered deposits and payments to the Deposit Guarantee Fund.

In 2022, the remuneration of the sworn auditor was 135 thousand EUR, including 125 thousand EUR for the audit of financial statements (consolidated financial report), 5 thousand EUR for the certification task related to the conclusion whether the Bank has complied with the requirements of the Financial Instruments Market Law with respect to its obligations regarding t the separation of financial instruments, the separate holding of financial instruments and funds of clients, and 5 thousand EUR for the certification task related to the conclusion whether the Bank has complied with the requirements of the Deposit Guarantee Law in preparing its report on covered deposits and payments to the Deposit Guarantee Fund.

12. OTHER OPERATING EXPENSES

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Membership fees	300	300	306	306
Fees for real estate management	3	-	2	2
Royalties for the use of a trademark	1 163	1 163	1 161	1 161
Other	413	419	214	215
Total other operating expenses	**1 879**	**1 882**	**1 683**	**1 684**

In 2023, as part of its operating activities the Bank made payments of EUR 1 163 thousand (2022: EUR 1 161 thousand) for the use of the registered trademark BluOr to the owner of this trademark (licensor). The owner of trademarks is responsible for trademark registration, legal protection and brand development and promotion activities.

13. IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment of assets for the Group

	2023 EUR'000	2022 EUR'000
Total allowances as at the beginning of the reporting period	**3 506**	**3 608**
Release of allowances for investment property	-	(97)
Investment property written off during the reporting year	-	-
Other assets written off during the year	(6)	(5)
Total allowance as at the end of the reporting period*	**3 500**	**3 506**

* including impairment for investment properties 2,479 thousand EUR (see Note 22), and investments in associates 1,021 thousand EUR (see Note 21).

Impairment of assets for the Bank

	2023 EUR'000	2022 EUR'000
Total allowances as at the beginning of the reporting period	**5 474**	**5 474**
Impairment for investments in subsidiaries	1 400	-
Total allowance as at the end of the reporting period*	**6 874**	**5 474**

* including impairment for investment properties 1,607 thousand EUR (see Note 22) and investments in subsidiaries 5,267 thousand EUR (see Note 21).

14. CORPORATE INCOME TAX

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Corporate income tax for additional payment for credit institutions	(3 141)	(3 141)	-	-
Corporate income tax for dividends	(906)	(906)	-	-
Corporate income tax for the conditionally distributed profit	(13)	(13)	(12)	(12)
Total corporate income tax	**(4 060)**	**(4 060)**	**(12)**	**(12)**

Income tax liabilities

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Corporate income tax for additional payment for credit institutions	(3 141)	(3 141)	-	-
Corporate income tax for dividends	(629)	(629)	-	-
Total corporate income tax	**(3 770)**	**(3 770)**	**(12)**	**(12)**

According to the Law on Corporate Income Tax of the Republic of Latvia adopted on 28 July 2017, and effective as of 1 January 2018, a 20% rate is only applied to distributed profits while a 0% rate is expected to be applied to undistributed profits. Therefore, deferred tax assets and liabilities are recognisable at nil amount as of 31 December 2023 as the Group and the Bank have full discretion on the distribution decisions.

15. CASH AND DEMAND DEPOSITS WITH CENTRAL BANK

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash	576	576	652	652
Balance with the Bank of Latvia (including the minimum reserve deposit)	337 448	337 448	119 875	119 875
Total	**338 024**	**338 024**	**120 527**	**120 527**

According to the regulations of the Bank of Latvia, the total amount of funds on the account with the Central Bank should not be less than the amount of the obligatory reserves calculated from the average amount of customer deposits during the month. The obligatory reserve as at 31 December 2023 was EUR 6 888 thousand (2022: EUR 5 304 thousand).

Cash and balances with the Bank of Latvia are available on demand, thus, taking into account very low probabilities of default of these balances, expected credit loss is immaterial.

16. LOANS AND RECEIVABLES FROM CREDIT INSTITUTIONS

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Demand deposits with credit institutions				
Credit institutions registered in Latvia	-	-	1	1
Credit institutions registered in OECD countries	19 257	19 249	23 967	23 953
Credit institutions of other countries	5 937	5 937	1 338	1 338
Total demand deposits with credit institutions	**25 194**	**25 186**	**25 306**	**25 292**
Expected credit loss allowance	**(416)**	**(416)**	**-**	**-**
Total deposits with credit institutions	**24 778**	**24 770**	**25 306**	**25 292**

The Group and the Bank did not have significant exposures on the credit institutions in Russia or Ukraine.

Deposits with credit institutions 2023

Group, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	24 523	-	671	25 194
(Less) expected credit loss allowance	-	-	(416)	(416)
Net	**24 523**	**-**	**255**	**24 778**

Deposits with credit institutions 2023

Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	24 515	-	671	25 186
(Less) expected credit loss allowance	-	-	(416)	(416)
Net	**24 515**	**-**	**255**	**24 770**

Deposits with credit institutions 2022

Group, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	25 306	**-**	**-**	**25 306**
(Less) expected credit loss allowance	-	-	-	-
Net	**25 306**	**-**	**-**	**25 306**

Deposits with credit institutions 2022

Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	25 292	-	-	25 292
(Less) expected credit loss allowance	-	-	-	-
Net	**25 292**	**-**	**-**	**25 292**

The Bank's demand deposits with credit institutions based on rating agency ratings are as follows:

	2023 EUR'000	2022 EUR'000
Rated from AAA to A-	8 587	7 381
Rated from BBB+ to BBB-	5 034	6 405
Rated from BB+ to BB-	690	64
Rated below BB-	-	-
Not rated	10 459	11 442
Total deposits with credit institutions	**24 770**	**25 292**

The Bank has established its own methodologies for assessment of creditworthiness for credit institutions with no external rating assigned. The Bank maintains a system of maximum potential exposure limits that are assigneds the maximum potential exposure for each counterparty based on the external ratings assigned or agency ratings or individual credit risk internal assessment.

As at 31 December 2023, the Bank had correspondent accounts with 19 banks (2022: 19). The largest account balances exceeding 10% of total deposits with credit institutions were with EUROCLEAR BANK –2 595 thousand EUR (2022 – 4 427 thousand EUR), MAREX FINANCIAL – 5 034 thousand EUR (2022 – 6 405 thousand EUR), STONEX FINANCIAL LTD –4 275 thousand EUR (2022 – 7 753 thousand EUR.

As at 31 December 2023, EUR 3 904 thousand (2022 – 8 507 thousand EUR) was pledged with other credit institutions.

17. INVESTMENT SECURITIES

Investment securities

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Non- fixed income securities				
SWIFT	18	18	18	18
VISA INC	395	395	320	320
Non- fixed income securities	**413**	**413**	**338**	**338**

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Fixed income securities				
At fair value through other comprehensive income	20 648	20 648	25 971	25 971
At amortised cost (see Note 20)	76 774	76 774	136 659	136 659
Fixed income securities	**97 422**	**97 422**	**162 630**	**162 630**
Investment securities total	**97 835**	**97 835**	**162 968**	**162 968**

Investment securities measured at fair value through other comprehensive income based on rating agency ratings are as follows (Group and Bank):

Fixed income securities	2023 EUR'000	2022 EUR'000
Fixed income securities issued by credit institutions of Latvia		
Rated from BBB+ to BBB-	1 815	1 810
Total fixed income securities issued by credit institutions of Latvia	**1 815**	**1 810**
Fixed income securities issued by corporates of Latvia		
Not rated	379	379
Total fixed income securities issued by corporates of Latvia	**379**	**379**
Fixed income securities issued by central governments of OECD countries		
Rated from AAA to A-	13 538	13 628
Total fixed income securities issued by central governments of OECD countries	**13 538**	**13 628**
Fixed income securities issued by credit institutions of OECD countries		
Rated from AAA to A-	-	10 055
Total fixed income securities issued by credit institutions of OECD countries	**-**	**10 055**
Fixed income securities issued by corporates of OECD countries		
Rated from BB+ to BB-	4 916	99
Total fixed income securities issued by corporates of OECD countries	**4 916**	**99**
Total fixed income securities	**20 648**	**25 971**
Expected credit loss allowance	**(53)**	**(17)**

In order to conservatively calculate ECL for not rated securities, PD which corresponds to B- rating is applied.

Financial assets measured at fair value through profit and loss

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Shares and other non-fixed income securities				
Shares in VISA INC	395	395	320	320
Total of shares and other securities with non-fixed income	**395**	**395**	**320**	**320**

Financial assets measured at fair value through other comprehensive income (fixed income securities), 2023

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	20 648	-	-	**20 648**
Expected credit loss allowance	(53)	-	-	(53)
Net	**20 595**	**-**	**-**	**20 595**

Financial assets measured at fair value through other comprehensive income (fixed income securities), 2022

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	**25 971**	**-**	**-**	**25 971**
Expected credit loss allowance	(17)	-	-	(17)
Net	**25 954**	**-**	**-**	**25 954**

Information about credit loss allowances, 2023

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2023	**17**	**-**	**-**	**17**
Transfers due to change in credit risk:				
-remaining credit risk changes	-	-	-	-
New originated or purchased	36	-	-	36
Derecognised	-	-	-	-
Change for the year	**-**	**-**	**-**	**-**
FX and other movements	-	-	-	-
Closing balance at 31 December 2023	**53**	**-**	**-**	**53**

Information about credit loss allowances, 2022

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2022	**111**	**-**	**-**	**111**
Transfers due to change in credit risk:				
-remaining credit risk changes	(1)	-	-	(1)
New originated or purchased	-	-	-	-
Derecognised	(93)	-	-	(93)
Change for the year	**(94)**	**-**	**-**	**(94)**
FX and other movements	-	-	-	-
Closing balance at 31 December 2022	**17**	**-**	**-**	**17**

18. LOANS AND RECEIVABLES

(a) Loans

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Financial institutions	8 096	8 096	7 889	7 889
Corporates	379 091	379 091	289 906	289 906
Individuals	14 630	14 630	13 910	13 910
Total loans and receivables	**401 817**	**401 817**	**311 705**	**311 705**
Expected credit loss allowance				
Financial institutions	(30)	(30)	(84)	(84)
Corporates	(3 030)	(3 030)	(3 079)	(3 079)
Individuals	(193)	(193)	(232)	(232)
Total expected credit loss allowance	**(3 253)**	**(3 253)**	**(3 395)**	**(3 395)**
Net loans and receivables	**398 564**	**398 564**	**308 310**	**308 310**

b) Analysis of loans by type

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Loan portfolio				
Corporate loans	237 566	237 566	150 612	150 612
Industrial loans	5 099	5 099	6 684	6 684
Payment cards loans	787	787	889	889
Loans secured by real estate collateral	147 136	147 136	141 099	141 099
Finance lease	4 267	4 267	4 609	4 609
Trade finance	2 435	2 435	2 006	2 006
Other loans	2 120	2 120	3 540	3 540
Total loan portfolio	**399 410**	**399 410**	**309 439**	**309 439**
Securities-backed loans				
Securities-backed financing	2 407	2 407	2 366	2 366
Total securities-backed loans	**2 407**	**2 407**	**2 366**	**2 366**
Total loans and receivables	**401 817**	**401 817**	**311 705**	**311 705**
Total expected credit loss allowance	(3 253)	(3 253)	(3 395)	(3 395)
Net loans and receivables	**398 564**	**398 564**	**308 310**	**308 310**

(c) Geographical segmentation of loans

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Loans to residents of Latvia	297 634	297 634	242 245	242 245
Loans to residents of OECD countries	38 876	38 876	41 083	41 083
Loans to residents of non-OECD countries	65 307	65 307	28 377	28 377
Total loans and receivables	**401 817**	**401 817**	**311 705**	**311 705**
Total expected credit loss allowance	(3 253)	(3 253)	(3 395)	(3 395)
Net loans and receivables	**398 564**	**398 564**	**308 310**	**308 310**

The Group and the Bank has no direct exposures (loans) on entities or individuals in Russia or in Ukraine.

(d) Ageing structure of the loan portfolio

Bank

			Of which past due by the following terms				
	Total EUR'000	Of which not past due on the reporting date	Less than 30 days	31-90 days	91-180 days	More than 180 days	Net carrying amount of overdue loans
As at 31 December 2023							
Net carrying amount	**398 564**	392 351	4 249	340	-	1 624	6 213
Out of which impaired	**6 217**	2 538	1 929	126	-	1 624	3 679
As at 31 December 2022							
Net carrying amount	**308 310**	303 723	2 711	146	-	1 730	4 587
Out of which impaired	**2 381**	474	42	135	-	1 730	1 907

The Group's ageing structure is not materially different from that of the Bank.

Expected credit loss allowance, 2023

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	**372 155**	**21 140**	**8 522**	**401 817**
(Less) expected credit loss allowance	(779)	(169)	(2 305)	(3 253)
Net	**371 376**	**20 971**	**6 217**	**398 564**

Expected credit loss allowance, 2022

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	**258 686**	**48 067**	**4 952**	**311 705**
(Less) expected credit loss allowance	(479)	(345)	(2 571)	(3 395)
Net	**258 207**	**47 722**	**2 381**	**308 310**

(e) Impaired loans

	2023 EUR '000		2022 EUR '000	
	Group	Bank	Group	Bank
Impaired loans, gross	**8 522**	**8 522**	**4 952**	**4 952**
Expected credit loss allowance	(2 305)	(2 305)	(2 571)	(2 571)
Net loans and receivables	**6 217**	**6 217**	**2 381**	**2 381**

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost that are credit impaired, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral on credit impaired assets at 31 December 2023 is as follows.

	Over-collateralised assets		Under-collateralised assets	
EUR'000	**Carrying value of the assets**	**Value of collateral**	**Carrying value of the assets**	**Value of collateral**
Loans to corporate customers	**6 176**	**14 640**	**-**	**-**
Loans to SME	6 176	14 640	-	-
Loans to individuals	**41**	**91**	**-**	**-**
Consumer loans	41	91	-	-

The effect of collateral on credit impaired assets at 31 December 2022 is as follows.

	Over-collateralised assets		Under-collateralised assets	
EUR'000	**Carrying value of the assets**	**Value of collateral**	**Carrying value of the assets**	**Value of collateral**
Loans to corporate customers	**2 339**	**6 922**	**-**	**-**
Loans to SME	2 339	6 922	-	-
Loans to individuals	**42**	**77**	**-**	**-**
Consumer loans	42	77	-	-

(f) Movements in the impairment allowance

Movements in the loan impairment allowance for the year ended 31 December 2023 are as follows:

Group and Bank, EUR'000

Corporates and financial institutions

	Credit loss allowance				Gross carrying amount of loans			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL for credit-impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL for credit-impaired)**	**Total**
Opening balance at 1 January 2023	**418**	**321**	**2 424**	**3 163**	**247 762**	**45 270**	**4 763**	**297 795**
Transfers due to change in credit risk:								
-to lifetime (from Stage 1 and Stage 3 to Stage 2)	(46)	46	-	-	(10 730)	10 730	-	-
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(23)	(9)	32	-	(3 160)	(2 874)	6 034	-
-to Stage 1 from Stage 2	-	-	-	-	-	-	-	-
-remaining credit risk changes	(173)	(15)	1 085	**897**	17 482	(21 261)	(608)	**(4 387)**
New originated or purchased	576	-	-	**576**	164 965	-	-	**164 965**
Derecognised	(6)	(177)	(1 393)	**(1 576)**	(56 015)	(15 942)	(1 865)	**(73 822)**
Change for the year	**328**	**(155)**	**(276)**	**(103)**	**112 542**	**(29 347)**	**3 561**	**86 756**
FX and other movements	-	-	-	-	-	2 636	-	**2 636**
Closing balance at 31 December 2023	**746**	**166**	**2 148**	**3 060**	**360 304**	**18 559**	**8 324**	**387 187**

The amount of new originated or purchased loans represents loans in the portfolio as at 31 December 2023 while the amount of derecognised loans represent loans in the portfolio as at 1 January 2023 and derecognised during 2023.

Individuals

	Credit loss allowance				Gross carrying amount of loans			
	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2023	**61**	**24**	**147**	**232**	**10 925**	**2 795**	**190**	**13 910**
Transfers due to change in credit risk:								
-to lifetime (from Stage 1 and Stage 3 to Stage 2)	(11)	11	-	**-**	(302)	302	-	**-**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(2)	(1)	3	**-**	(22)	(19)	41	**-**
-remaining credit risk changes	(2)	(13)	25	**10**	(996)	(253)	(15)	**(1 264)**
New originated or purchased	11	-	-	**11**	4 066	-	-	**4 066**
Derecognised	(24)	(18)	(18)	**(60)**	(1 820)	(244)	(18)	**(2 082)**
Change for the year	**(28)**	**(21)**	**10**	**(39)**	**926**	**(214)**	**8**	**720**
FX and other movements	-	-	-	**-**	-	-	-	**-**
Closing balance at 31 December 2023	**33**	**3**	**157**	**193**	**11 851**	**2 581**	**198**	**14 630**

The amount of new originated or purchased loans represents loans in the portfolio as at 31 December 2023 while the amount of derecognised loans represent loans in the portfolio as at 1 January 2023 and derecognised during 2023.

Movements in the loan impairment allowance for the year ended 31 December 2022 are as follows:

Group and Bank, EUR'000

Corporates and financial institutions

	Credit loss allowance				Gross carrying amount of loans			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL for credit-impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL for credit-impaired)**	**Total**
Opening balance at 1 January 2022	**240**	**420**	**3 197**	**3 857**	**235 564**	**68 384**	**29 559**	**333 507**
Transfers due to change in credit risk:								
-to lifetime (from Stage 1 and Stage 3 to Stage 2)	(3)	255	(252)	**-**	(2 419)	15 651	(13 232)	**-**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(34)	-	34	**-**	(675)	(4)	679	**-**
-to Stage 1 from Stage 2	120	(120)	-	**-**	14 414	(14 414)	-	**-**
-remaining credit risk changes	150	(190)	509	**469**	(26 308)	(12 333)	(774)	**(39 415)**
New originated or purchased	79	-	-	**79**	68 730	-	-	**68 730**
Derecognised	(134)	(44)	(1 064)	**(1 242)**	(41 536)	(12 448)	(11 469)	**(65 453)**
Change for the year	**178**	**(99)**	**(773)**	**(694)**	**12 206**	**(23 548)**	**(24 796)**	**(36 138)**
Write-offs								
FX and other movements	-	-	-	**-**	(8)	434	-	**426**
Closing balance at 31 December 2022	**418**	**321**	**2 424**	**3 163**	**247 762**	**45 270**	**4 763**	**297 795**

The amount of new originated or purchased loans represents loans in the portfolio as at 31 December 2022 while the amount of derecognised loans represent loans in the portfolio as at 1 January 2022 and derecognised during 2022.

Individuals

	Credit loss allowance				Gross carrying amount of loans			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL for credit-impaired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL for credit-impaired)**	**Total**
Opening balance at 1 January 2022	**123**	**48**	**86**	**257**	**12 179**	**2 466**	**141**	**14 786**
Transfers due to change in credit risk:								
-to lifetime (from Stage 1 and Stage 3 to Stage 2)	(20)	20	-	**-**	(67)	67	-	**-**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(2)	(20)	22	**-**	(30)	(50)	80	**-**
-remaining credit risk changes	(21)	20	50	**49**	(1 326)	844	(10)	**(492)**
New originated or purchased	16	-	-	**16**	1 275	-	-	**1 275**
Derecognised	(35)	(44)	(11)	**(90)**	(1 106)	(532)	(21)	**(1 659)**
Change for the year	**(62)**	**(24)**	**61**	**(25)**	**(1 254)**	**329**	**49**	**(876)**
Write-offs								
FX and other movements	-	-	-	**-**	-	-	-	**-**
Closing balance at 31 December 2022	**61**	**24**	**147**	**232**	**10 925**	**2 795**	**190**	**13 910**

The amount of new originated or purchased loans represents loans in the portfolio as at 31 December 2022 while the amount of derecognised loans represent loans in the portfolio as at 1 January 2022 and derecognised during 2022.

(g) Industry analysis of the loan portfolio (Group and the Bank)

	2023 EUR '000	2022 EUR '000
Shipping	74 380	41 236
Financial services	5 382	2 242
Wholesale	35 829	43 872
Real Estate	128 180	91 258
Working capital loans	45 462	30 133
Transport and storage	5 827	9 666
Private customers – mortgage loans and consumer loans	9 191	11 228
Manufacture of food products	16 617	15 065
Processing factory	11 669	15 725
Forestry	144	697
Other services	65 883	47 188
Net loans and receivables	**398 564**	**308 310**

(h) Analysis of loans by type of collateral (Group and Bank)

EUR'000	31 December 2023	% of loan portfolio	31 December 2022	% of loan portfolio
Commercial buildings	152 746	38	108 566	35
Real estate – first mortgage	69 578	17	51 691	17
Commercial assets pledge	71 038	18	77 548	25
Commercial assets: ships/vessels	74 380	19	41 236	13
Trading securities	2 400	1	2 017	1
Deposit	2 475	1	5 777	2
Inventories	24 001	6	15 668	5
Other, no collateral	1 946	-	5 807	2
Net loans and receivables	**398 564**	**100**	**308 310**	**100**

EUR'000	2023		2022	
	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Stage 1	371 376	892 797	258 207	619 652
Stage 2	20 971	59 171	47 722	138 767
Stage 3	6 217	14 731	2 381	6 999
Total	**398 564**	**966 699**	**308 310**	**765 418**

(j) Restructured loans

As at 31 December 2023 and 2022, the loans restructured by the Group and the Bank possessed the following signs of restructuring:

EUR'000	**2023 EUR '000**	**2022 EUR '000**
Grace period/payment moratorium	6 896	38 621
Extension of maturity/term	1 131	1 829
Other	8 759	11 256
Total restructured loans	**20 419**	**51 706**

(l) Significant credit exposures

As at 31 December 2023 the Bank had no borrowers or groups of related borrowers, respectively, whose total loan balances exceeded 10% of loans and receivables from customers.

As at 31 December 2022 the Bank had no borrowers or groups of related borrowers, respectively, whose total loan balances exceeded 10% of loans and receivables from customers.

According to regulatory requirements, the Bank is not allowed to have a credit exposure to one customer or group of related customers of more than 25% of Bank's equity. As at 31 December 2023 and 2022, the Bank was in compliance with this requirement.

19. INVESTMENT SECURITIES AT AMORTISED COST

Financial assets measured at amortised cost (IFRS 9)

	2023		**2022**	
	Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Fixed income securities				
Fixed income securities issued by the government of LR	1 031	1 031	1 033	1 033
Fixed income securities issued by companies and credit institutions of LR	3 106	3 106	6 415	6 415
Fixed income securities issued by the government of OECD countries	40 245	40 245	81 361	81 361
Fixed income securities issued by companies and credit institutions of OECD countries	29 770	29 770	43 179	43 179
Fixed income securities issued by companies and credit institutions of other countries	4 979	4 979	6 831	6 831
Impairment allowance	(2 357)	(2 357)	(2 160)	(2 160)
Total fixed income securities	**76 774**	**76 774**	**136 659**	**136 659**

Financial assets measured at amortised cost 2023

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	**72 538**	**4 718**	**1 875**	**79 131**
(Less) expected credit loss allowance	(204)	(278)	(1 875)	(2 357)
Net	**72 334**	**4 440**	**-**	**76 774**

Financial assets measured at amortised cost 2022

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	**127 732**	**9 145**	**1 942**	**138 819**
(Less) expected credit loss allowance	(295)	(350)	(1 515)	(2 160)
Net	**127 437**	**8 795**	**427**	**136 659**

Movements in credit loss allowances, 2023

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening ECL balance at 1 January 2023	**295**	**350**	**1 515**	**2 160**
Transfers due to change in credit risk:				
-from Stage 1 to Stage 2	-	-	-	-
-remaining credit risk changes	(2)	(8)	360	350
-from Stage 2 to Stage 3	-	-	-	-
New originated or purchased	67	-	-	67
Derecognised	(156)	(64)	-	(220)
Change for the year	**(91)**	**(72)**	**360**	**197**
FX and other movements	-	-	-	-
Closing ECL balance at 31 December 2023	**204**	**278**	**1 875**	**2 357**

Movements in expected credit loss allowances, 2022

Group and Bank, EUR'000

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening ECL balance at 1 January 2022	**375**	**140**	**-**	**515**
Transfers due to change in credit risk:				
-from Stage 1 to Stage 2	(139)	139	-	-
-remaining credit risk changes	88	1 624	-	1 712
New originated or purchased	15	-	-	15
Derecognised	(44)	(38)	-	(82)
Change for the year	**(80)**	**210**	**1 515**	**1 645**
FX and other movements	-	-	-	-
Closing ECL balance at 31 December 2022	**295**	**350**	**1 515**	**2 160**

Quality analysis of investment securities at amortised cost, based on rating agency ratings, is as follows:

Debt securities and other fixed income securities	2023 EUR'000	2022 EUR'000
Central governments		
Rated from AAA to A-	35 101	76 144
Rated from BBB+ to BBB-	6 174	3 020
Rated from BB+ to BB-	-	3 231
Total central governments	**41 275**	**82 395**
Credit institutions		
Rated from AAA to A-	1 003	16 374
Rated from BB+ to BB-	3 618	3 326
Total credit institutions	**4 621**	**19 700**
Corporates		
Rated from AAA to A-	10 635	10 187
Rated from BBB+ to BBB-	1 491	993
Rated from BB+ to BB-	10 063	8 689
Below BB-	4 593	7 017
No rating*	6 453	9 838
Total corporate bonds	**33 235**	**36 724**
Expected credit loss allowance	**(2 357)**	**(2 160)**
Debt securities and other fixed income securities	**76 774**	**136 659**

* Not-rated exposures includes securities with no rating assigned as well as securities with rating withdrawn.

In order to conservatively calculate ECL for not rated securities, PD which corresponds to B- rating is applied.

20. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries (Bank)

Company	*Ownership share*	Carrying amount at 31.12.2023 EUR'000	Carrying amount at 31.12.2022 EUR'000
SIA BluOr International	*100%*	5 709	5 709
Impairment allowance		*(3 649)*	*(2 249)*
SIA Zapdvina Development	*100%*	10 474	10 474
Impairment allowance		*(806)*	*(806)*
SIA CityCap Service	*100%*	570	565
Impairment allowance		*(158)*	*(158)*
UAB Kamaly Development	*100%*	3	3
AS Pils Pakalpojumi	*100%*	15 281	15 281
Impairment allowance		*(548)*	*(548)*
Non-reciprocal capital contribution by a parent into subsidiary		*(2 400)*	*(2 400)*
SIA Jēkaba 2	*100%*	4 049	4 049
Impairment allowance		*(106)*	*(106)*
SIA Darzciems Entity	*100%*	73	73
SIA Mazirbe Estate	*100%*	92	92
SIA Lielie Zaki	*100%*	88	88
SIA Pulkarne Entity	*100%*	199	199
		28 871	**30 266**

Investments in subsidiaries (Bank)

	31.12.2023. EUR'000	31.12.2022. EUR'000
Investments in subsidiaries	36 538	36 533
Non-reciprocal capital contribution by a parent into subsidiary according to IFRS 10 (AS „Pils pakalpojumi")	(2 400)	(2 400)
Impairment allowance	(5 267)	(3 867)
Investments in subsidiaries net	**28 871**	**30 266**

The share capital of SIA Zapdvina Development consisted of 9 948 018 shares with nominal value of EUR 1 amounting to EUR 9 948 018. In 2022, the Bank decreased the share capital of its subsidiary SIA Zapdvina Development by 1 000 000 shares with nominal value of EUR 1 for a total of EUR 1 000 000. In previous years the Bank recognised an impairment allowance for its investment in SIA Zapdvina Development in the amount of EUR 806 thousand triggered by impairment of this subsidiary's assets. In 2023, based on the appraisal, no additional impairment allowances were recognised. SIA Zapdvina Development owns a land plot in Daugavpils.

The share capital of SIA CityCap Service consisted of 21 495 shares with nominal value of EUR 28 amounting to EUR 601 860.
In previous years, the Bank recognised an impairment allowance for its investment in SIA CityCap Service in the amount of EUR 158 thousand triggered by impairment of this subsidiary's assets. Based on the appraisal, in 2023 impairment allowances were not recognised.

The share capital of SIA BluOr International consisted of 5 686 658 shares with nominal value of EUR 1 amounting to EUR 5 686 658.
In 2023, the Bank recognised an additional impairment allowance for its investment in SIA BluOr International in the amount of EUR 1 400 thousand EUR triggered by impairment of this investment in subsidiaries.
In previous years, the Bank recognised an impairment allowance for its investment in SIA BluOr International in the amount of EUR 2 249 thousand EUR triggered by impairment of this investment in subsidiaries.
SIA BluOr International has two subsidiaries (Kamaly Development EOOD un Foxtran Management Ltd.) and an associate AS „Termo biznesa Centrs").
In 2023, an additional impairment allowance for the investment in Foxtran Management Ltd. was recognised by SIA BluOr International in the amount of EUR 1 400 thousand. In the previous years, an impairment allowance for the investment in Foxtran Management Ltd. was recognised by SIA BluOr International in the amount of EUR 559 thousand. Allowances were recognised since the investment in SIA BluOr International exceeded net assets of Foxtran Management Ltd.
In the previous years, SIA BluOr International recognised impairment allowances for the investment in KamalyDevelopment EOOD in the amount of EUR 364 thousand.

In previous years, the Bank recognised an impairment allowance for its investment in SIA Jēkaba 2 in the amount of EUR 106 thousand.

In previous years, the Bank recognised an impairment allowance for its investment in AS Pils Pakalpojumi in the amount of EUR 2 948 thousand.

The share capital of SIA Darzciems Entity consisted of 237 730 shares with nominal value of EUR 1 amounting to EUR 237 730.

The share capital of SIA „Mazirbe Estate" consisted of 199 404 shares with nominal value of EUR 1 amounting to EUR 199 404.

The share capital of SIA „Lielie Zaķi" consisted of 181 013 shares with nominal value of EUR 1 amounting to EUR 181 013.

The share capital of SIA „Pulkarne Entity" consisted of 1 207 352 shares with nominal value of EUR 1 amounting to EUR 1 207 352.

(c) Equity-accounted investments in associates (Group)

Company	**Capital contribution**	**Carrying amount at 31.12.2023** **EUR'000 Koncerns**	**Carrying amount at 31.12.2022** **EUR'000 Koncerns**
AS Termo biznesa Centrs	26.15%	1 848	1 848
Impairment allowance		(1 021)	(1 021)
Total		**827**	**827**

SIA BluOr International has an associate AS Termo biznesa Centrs. Along with 26,15% of share ownership, the Group also has the right to collect rental income from part of the premises owned by the associate. Rental income is recognised in the Group's profit and loss statement, rental income amounted to EUR 72 thousand in 2023 (EUR 72 thousand in 2022).

Financial information of the associate AS Termo biznesa centrs:

	Current assets EUR'000	Long-term investments EUR'000	Total assets EUR'000	Current liabilities EUR'000	Non-current liabilities EUR'000	Total liabilities EUR'000	Net assets EUR'000	Income EUR'000	Expenses EUR'000	Net profit (loss) EUR'000	Group's share in net assets 26.15% EUR'000	Group's share in loss 26.15% EUR'000
31 December 2023												
AS „Termo biznesa Centrs"	**75**	**318**	**393**	**-**	**(27)**	**(27)**	**366**	**289**	**(264)**	**25**	**96**	**7**
31 December 2022												
AS „Termo biznesa Centrs"	**79**	**322**	**401**	**-**	**(60)**	**(60)**	**341**	**209**	**(217)**	**(8)**	**89**	**(2)**

As earnings for 2023 are insignificant they have no impact on the Group results.

21. INVESTMENT PROPERTY

Investment property of the Group and the Bank represents the following:

	2023		2022	
	Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Real estate in Latvia	2 346	414	2 242	414
Real estate in Lithuania	2 807	2 807	2 807	2 807
Real estate in Bulgaria	521	-	521	-
Impairment allowance	*(2 740)*	*(1 607)*	*(2 740)*	*(1 607)*
	2 934	**1 614**	**2 830**	**1 614**

Investment property is recognized at cost. Investment property consists of land and commercial properties.

Direct operating expenses (including repairs and maintenance costs) incurred by the Group in connection with the investment property which has not earned a rental income during the reporting year amounted to EUR 5 thousand (2022: EUR 4 thousand).

Direct operating expenses (including repairs and maintenance costs) incurred by the Bank in connection with the investment property which has not earned a rental income during the reporting year amounted to EUR 5 thousand (2022: EUR 4 thousand).

Rental income on investment property during the reporting year (the Group and the Bank) amounted to EUR 8 thousand (2022: EUR 8 thousand).

The following table shows the valuation technique used in measuring the fair value of property, as well as the significant unobservable inputs used.

Group's investment properties

Type	Carrying amount, EUR '000	Valuation method	Significant unobservable inputs			Fair value, EUR '000
				2023	2022	
Buildings and land plot, Kungu iela, Liepāja, Latvia	93 (2022: 93)	Comparison approach	Sales price* varies from EUR to EUR per m²	20-25,0	20-26,0	113 (2022: 124)
Buildings and a land plot, Jurģu iela, Jūrmala, Latvia	95 (2022: 95)	Comparison approach	Sales price* varies from EUR to EUR per m²	66-112	72-179	175 (2022: 175)
Land plot, Klaipeda, Lithuania	1 200 (2022: 1 200)	Comparison approach	Sales price* varies from EUR to EUR per m² for each land plot separately based on footage	0,37-0,57 for land plot over 8,2 ha 5-5,8 for land plot over 1 ha 2,42–6,41 for land plots till 300 m²	0,37-0,57 for land plot over 8,2 ha 5-5,8 for land plot over 1 ha 2,42–6,41 for land plots till 300 m²	1 203 (2022: 1 203)
Apartments, Bulgaria	328 (2022: 328)	Comparison approach	Sales price* varies from EUR to EUR per m²	1 130-1 309	925-1 389	328 (2022: 328)
Land plot, Mūku purvs, Latvia	387 (2022: 387)	Comparison approach	Sales price* varies from EUR to EUR per m²	82-129	37-92	557 (2022: 483)
Land plot, Akācijas iela, Daugavpils, Latvia	437 (2022: 250)	Comparison approach	Sales price* varies from EUR to EUR per m²	12-23	6,3-14,2	581 (2022: 250)
Land plot in Ķekavas pagasts, Ķekavas novads, Latvia	- (2022: 170)	Comparison approach	Sales price* varies from EUR to EUR per m²	5,5-8,0	5,4-6,0	- (2022: 234)
Zemes gabals, Dzirciema iela, Rīga, Latvija	226 (2022: 226)	Comparison approach	Sales price* varies from EUR to EUR per m²	9,0-18,0	9,0-18,0	226 (2022: 226)
Land plot in Kolkas pagasts, Dundaga novads, Latvia	86 (2022: 86)	Comparison approach	Sales price* varies from EUR to EUR per m²	4,4-5,0	2,1-5,0	128 (2022: 117)
Land plot in Lejas akmeņi, Ķekavas novads, Latvia	82 (2022: 82)	Comparison approach	Sales price* varies from EUR to EUR per m²	0,27-1,42	0,50-1,12	82 (2022: 82)
Total	**2 934**					

Bank's investment properties

Type	Carrying amount, EUR '000	Valuation method	Significant unobservable inputs			Fair value, EUR '000
				2023	2022	
Buildings and land plot, Kungu iela, Liepāja, Latvia	93 (2022: 93)	Comparison approach	Sales price* varies from EUR to EUR per m^2	20-25,0	20-26,0	113 (2022: 124)
Zemes gabals, Dzirciema iela, Rīga, Latvija	226 (2022: 226)	Comparison approach	Sales price* varies from EUR to EUR per m^2	9,0-18,0	9,0-18,0	226 (2022: 226)
Buildings and land plot, Jurģu iela, Jūrmala, Latvia	95 (2022: 95)	Comparison approach	Sales price* varies from EUR to EUR per m^2	66-112	72-179	175 (2022: 175)
Land plot, Klaipeda, Lithuania	1 200 (2022: 1 200)	Comparison approach	Sales price* varies from EUR to EUR per m^2 for each land plot separately based on footage	0.37-0.57 for land plot over 8.2 ha 5 -5.8 for land plot 1 ha 2.42 – 6.41 for land plots till 300 m^2	0.37-0.57 for land plot over 8.2 ha 5 -5.8 for land plot 1 ha 2.42 – 6.41 for land plots till 300 m^2	1 203 (2022: 1 203)
Total	**1 614**					

* 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.

22. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

Property and equipment

	Land and buildings EUR'000		Leasehold improvements EUR'000		Vehicles EUR'000		Office equipment EUR'000		Total EUR'000	
	Group	Bank	Group	Bank	Group	Bank	Group	Bank	Group	Bank
Cost										
31 December 2021	**29 311**	**-**	**-**	**4 603**	**1 510**	**67**	**2 580**	**1 905**	**33 401**	**6 575**
Additions	-	-	-	-	-	-	22	22	22	22
Disposals	-	-	-	-	-	-	(1)	(1)	(1)	(1)
31 December 2022	**29 311**	**-**	**-**	**4 603**	**1 510**	**67**	**2 601**	**1 926**	**33 422**	**6 596**
Additions	-	-	-	-	-	-	143	136	153	136
Disposals	-	-	-	-	-	-	(138)	(99)	(138)	(99)
31 December 2023	**29 321**	**-**	**-**	**4 603**	**1 510**	**67**	**2 606**	**1 963**	**33 437**	**6 633**
Depreciation										
31 December 2021	**4 662**	**-**	**-**	**1 086**	**635**	**67**	**2 160**	**1 613**	**7 457**	**2 766**
Depreciation	942	-	-	231	144	-	270	162	**1 356**	**393**
Disposals	-	-	-	-	-	-	(1)	(1)	(1)	(1)
31 December 2022	**5 604**	**-**	**-**	**1 317**	**779**	**67**	**2 429**	**1 774**	**8 812**	**3 158**
Depreciation	943	-	-	230	144	-	127	112	**1 214**	**342**
Disposals	-	-	-	-	-	-	(138)	(99)	**(138)**	**(99)**
31 December 2023	**6 547**	**-**	**-**	**1 547**	**923**	**67**	**2 418**	**1 787**	**9 888**	**3 401**
Net carrying amount										
31 December 2022	**23 707**	**-**	**-**	**3 286**	**731**	**-**	**172**	**152**	**24 610**	**3 438**
31 December 2023	**22 774**	**-**	**-**	**3 056**	**587**	**-**	**188**	**176**	**23 549**	**3 232**

The two buildings that the Bank rents from its subsidiaries at Smilšu street and Jēkaba street are used as the Head office of the Bank. From the Group's perspective, these buildings are considered to be corporate assets and are classified as property and equipment. In 2023 and 2022, the management believes that there are no indications that these sites may be impaired.

Right-of-use assets – lease contracts (IFRS 16)

Bank

	Right-of-use assets EUR'000
Cost	
31 December 2021	**12 576**
31 December 2022	**12 576**
31 December 2023	**12 576**
Depreciation	
31 December 2021	**1 989**
Depreciation	663
31 December 2022	**2 652**
Depreciation	663
31 December 2023	**3 315**
Net carrying amount	
31 December 2022	**9 924**
31 December 2023	**9 261**

Lease liability

31 December 2021	**11 025**
Lease payments	(549)
Interest accrued	331
Interest paid	(331)
31 December 2022	**10 476**
Lease payments	(564)
Interest accrued	314
Interest paid	(314)
31 December 2023	**9 912**

The Bank leases a number of premises under operating lease. The leases typically run for 20 years, with an option to renew the lease after that date. All property leases are intragroup agreements.

23. INTANGIBLE ASSETS

Group

	Software EUR'000
Acquisition cost	
31 December 2021	**2 709**
Disposed in the reporting period	(4)
Acquired in the reporting period	93
31 December 2022	**2 798**
Disposed in the reporting period	-
Acquired in the reporting period	143
31 December 2023	**2 941**
Amortization	
31 December 2021	**2 357**
Amortization for the reporting period	189
Amortization of assets disposed in the reporting period	(4)
31 December 2022	**2 542**
Amortization for the reporting period	132
Amortization of assets disposed in the reporting period	-
31 December 2023	**2 674**
Net carrying amount	
31 December 2022	**256**
31 December 2023	**267**

Bank

	Software EUR'000
Acquisition cost	
31 December 2021	**2 689**
Disposed in the reporting period	(4)
Acquired in the reporting period	94
31 December 2022	**2 779**
Disposed in the reporting period	-
Acquired in the reporting period	143
31 December 2023	**2 922**
Amortization	
31 December 2021	**2 338**
Amortization for the reporting period	189
Amortization of assets disposed in the reporting period	(4)
31 December 2022	**2 523**
Amortization for the reporting period	132
Amortization of assets disposed in the reporting period	-
31 December 2023	**2 655**
Net carrying amount	
31 December 2022	**256**
31 December 2023	**267**

24. PREPAYMENTS AND ACCRUED INCOME

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Next period expense – Resident	102	92	64	64
Next period expense – Non Resident	729	729	1 303	1 303
Insurance premium	23	23	15	15
Other	-	-	279	275
Prepayments and accrued income total	**854**	**844**	**1 661**	**1 657**

25. OTHER ASSETS

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Guarantee deposits for credit card operations	5 414	5 414	5 330	5 330
Credit card claims and other payment services	822	822	562	562
Prepayments and receivables	516	450	761	720
Other	2 742	2 742	3 442	3 442
Total other assets	**9 494**	**9 428**	**10 095**	**10 054**
Allowances for other assets	-	-	(6)	-
Other assets, net	**9 494**	**9 428**	**10 089**	**10 054**

In 2023, security deposits of EUR 5 414 thousand (2022: EUR 5 330 thousand) were reserved for potential transactions connected with MasterCard Europe and VISA Card systems.

26. DUE TO CREDIT INSTITUTIONS ON DEMAND

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Credit institutions registered in Latvia	4 147	4 147	6 586	6 586
Credit institutions registered in non- OECD countries	-	-	10	10
Credit institutions registered in OECD countries	260	260	27	27
Total due to credit institutions on demand	**4 407**	**4 407**	**6 623**	**6 623**

27. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST:

DEPOSITS

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Current accounts:				
Financial institutions	172 635	172 635	91 059	91 059
Corporate entities	227 657	230 082	178 910	180 926
Individuals	50 645	50 645	57 229	57 229
	450 937	**453 362**	**327 198**	**329 214**
Term deposits:				
Subordinate liabilities	2 623	2 623	1 984	1 984
Other financial institutions	72 253	72 253	55 397	55 397
Corporate entities	14 148	14 148	1 661	1 661
Individuals	263 246	263 246	189 451	189 451
	352 270	**352 270**	**248 493**	**248 493**
Total deposits	**803 207**	**805 632**	**575 691**	**577 707**

Geographical segmentation of the deposits

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Deposits of residents registered in Latvia	232 212	234 637	172 031	174 047
Deposits of residents registered in OECD countries	526 313	526 313	356 697	356 697
Deposits of residents registered in other countries (non-OECD)	44 682	44 682	46 963	46 963
Total deposits	**803 207**	**805 632**	**575 691**	**577 707**

As at 31 December 2023, the Bank maintained customer deposit balances of EUR 2 475 thousand which were reserved by the Bank as collateral for loans and other credit instruments granted by the Bank (as at 31 December 2022: EUR 5 777 thousand).

As at 31 December 2023 the Bank had 1 customer group with deposits exceeding 10% of the total customer deposits – EUR 156 523 thousand (as at 31 December 2022 the Bank had 1 customer group with deposits exceeding 10% of the total customer deposits – EUR 104 186 thousand).

28. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: SUBORDINATED DEBT SECURITIES

Subordinated bonds have a fixed term at their origination. Subordinated bonds are repayable before maturity only on winding up or bankruptcy of the Bank. Subordinated bonds rank before shareholders' claims.

By issuing subordinated bonds in 2022 (listed on Nasdaq Riga), Bank raised more than EUR 4.8 million in financial resources.

Issued subordinated bonds

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Issued subordinated bonds	4 855	4 855	4 855	4 855
Accrued interest payments	27	27	27	27
Total	**4 882**	**4 882**	**4 882**	**4 882**

ISIN	Currency	Issue size	Nominal value	Date of issue	Date of maturity	Discount/ coupon rate, %	Group/ Bank 31/12/2022	Group/ Bank 31/12/2021
Subordinated bonds								
LV0000802569	EUR	4 855	1 000	01.06.2022	01.06.2029	7.0	4 855	4 855
Issued debt securities, total ('000 EUR)							**4 855**	**4 855**

Additional Tier 1 debt securities (not listed)

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Additional Tier 1 debt securities	6 060	6 060	1 100	1 100
Accrued interest payments	63	63	22	22
Total	**6 123**	**6 123**	**1 122**	**1 122**

ISIN	Currency	Issue size	Nominal value	Date of issue	Date of maturity	Discount/ coupon rate, %	Group/ Bank 31/12/2023	Group/ Bank 31/12/2022
Additional Tier 1 debt securities								
LV0000802437	EUR	100	100 000	19.10.2020	-	10%	1 100	1 100
LV0000802775	EUR	5 550	5 550 000	08.12.2023	-	13%	4 960	-
Additional Tier 1 debt securities, total ('000 EUR)							**6 060**	**1 100**

29. OTHER LIABILITIES

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Other financial liabilities				
Credit card payments	243	243	253	253
Money in transit	24	24	1 705	1 705
Other liabilities, balances of closed customers' accounts	1 075	1 075	996	996
Other non-financial liabilities				
Operating and other liabilities	510	510	51	51
Tax settlements	52	52	60	60
Other liabilities	100	-	55	-
Total other liabilities	**2 004**	**1 904**	**3 120**	**3 065**

30. SHARE CAPITAL AND RESERVES

As of 31 December 2023, the authorized share capital comprised 31 781 081 ordinary shares (2022: 31 781 081 ordinary shares. Nominal value of one share is EUR 1.40. The structure of shareholders holding ordinary shares did not change. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the shareholders' meetings. All shares rank equally with regard to the Bank's residual assets.

	2023		2022	
	Quantity	**EUR'000**	**Quantity**	**EUR'000**
Share capital				
Ordinary shares with voting rights	31 781 081	44 493	31 781 081	44 493
	31 781 081	**44 493**	**31 781 081**	**44 493**

The statutory reserve of EUR 24 thousand is not subject to any restrictions and can be distributed to the shareholders following an appropriate decision.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to the legislation of Latvia. In accordance with the legislation of the Republic of Latvia, the amount of reserves available for distribution at the reporting date is EUR 43 943 thousand (2022: EUR 40 377 thousand).

During 2023, 9 million EUR dividends were distributed, 0.28 EUR per share.

During 2022, 7.5 million EUR dividends were distributed, 0.24 EUR per share.

31. CASH AND CASH EQUIVALENTS

	2023		2022	
	Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Cash and balances due from central banks	338 024	338 024	120 527	120 527
Due from credit institutions on demand and within 3 months	20 874	20 866	16 799	16 785
Due to credit institutions on demand and within 3 months	(4 407)	(4 407)	(6 623)	(6 623)
Total cash and cash equivalents	**354 491**	**354 483**	**130 703**	**130 689**

32. CONTINGENT LIABILITIES AND COMMITMENTS

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

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 commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed to completely perform as contracted.

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Unused loan facilities	97 299	97 302	55 821	55 824
Unused credit card facilities	760	760	936	936
Guarantees and other	1 904	1 904	2 367	2 367
	99 963	**99 966**	**59 124**	**59 127**
Provisions	*(298)*	*(298)*	*(129)*	*(130)*

The total contractual amounts of the above loan commitments may differ from the cash flow that may actually be required in future as these commitments may expire before they are claimed.

Group EUR'000, 2023	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL for credit-impaired)**	**Total**
Contingent liabilities and commitments, Gross	98 940	91	932	99 963
Impairment allowance	(106)	(1)	(191)	(298)
Net	**98 834**	**90**	**741**	**99 665**

Bank EUR'000, 2023	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL for credit-impaired)**	**Total**
Contingent liabilities and commitments, Gross	98 943	91	932	99 966
Impairment allowance	(106)	(1)	(191)	(298)
Net	**98 837**	**90**	**741**	**99 668**

Group EUR'000, 2022	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL for credit-impaired)**	**Total**
Contingent liabilities and commitments, Gross	58 422	663	39	59 124
Impairment allowance	(103)	(2)	(24)	(129)
Net	**58 319**	**661**	**15**	**58 995**

Bank EUR'000, 2022	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL for credit-impaired)**	**Total**
Contingent liabilities and commitments, Gross	58 425	663	39	59 127
Impairment allowance	(104)	(2)	(24)	(130)
Net	**58 321**	**661**	**15**	**58 997**

Movements in the impairment allowance of contingent liabilities and commitments

Movements in the loan impairment allowance for the year ended 31 December 2023 are as follows:

Group EUR'000	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2023	**103**	**2**	**24**	**129**
Transfers due to change in credit risk:				
-from Stage 1 to Stage 2	-	-	-	-
-from Stage 2 to Stage 1	-	-	-	-
-from Stage 2 to Stage 3	-	-	-	-
-remaining credit risk changes	(167)	-	167	-
New originated or purchased	209	-	-	209
Derecognised	(39)	(1)	-	(40)
Change for the year	**3**	**(1)**	**167**	**169**
FX and other movements				
Closing balance at 31 December 2023	**106**	**1**	**191**	**298**

Bank EUR'000	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2023	**104**	**2**	**24**	**130**
Transfers due to change in credit risk:				
-from Stage 1 to Stage 2	-	-	-	-
-from Stage 2 to Stage 1	-	-	-	-
-from Stage 2 to Stage 3	-	-	-	-
-remaining credit risk changes	(167)	-	167	-
New originated or purchased	208	-	-	208
Derecognised	(39)	(1)	-	(40)
Change for the year	**2**	**(1)**	**167**	**168**
FX and other movements			-	
Closing balance at 31 December 2023	**106**	**1**	**191**	**298**

Movements in the impairment allowance of contingent liabilities and commitments

Movements in the loan impairment allowance for the year ended 31 December 2022 are as follows:

Group EUR'000	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2022	**69**	**2**	**21**	**92**
Transfers due to change in credit risk:				
-from Stage 1 to Stage 2)	(1)	1	-	-
-from Stage 2 to Stage 1)	-	-	-	-
- from Stage 2 to Stage 3)	-	-	-	-
-remaining credit risk changes	33	1	11	45
New originated or purchased	32	-	-	32
Derecognised	(29)	(2)	(5)	(36)
Change for the year	**35**	**-**	**6**	**41**
FX and other movements	(1)	-	(3)	(4)
Closing balance at 31 December 2022	**103**	**2**	**24**	**129**

Bank EUR'000	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Opening balance at 1 January 2022	**69**	**2**	**21**	**92**
Transfers due to change in credit risk:				
-from Stage 1 to Stage 2)	(1)	1	-	-
-from Stage 2 to Stage 1)	-	-	-	-
-from Stage 2 to Stage 3)	-	-	-	-
-remaining credit risk changes	33	1	11	45
New originated or purchased	33	-	-	33
Derecognised	(29)	(2)	(5)	(36)
Change for the year	**36**	**-**	**6**	**42**
FX and other movements	(1)	-	(3)	(4)
Closing balance at 31 December 2022	**104**	**2**	**24**	**130**

33. LITIGATION

In the Klaipėda District Court, Lithuania, legal proceedings are underway, as a result of which it will be decided whether UAB Dognus has a right of action at all and whether it will be able to exist at all (the court hearing at which the substantive examination of the case will begin is scheduled for 12.04.2024). At the same time, the Court of Appeal of Lithuania, which re-examined the Bank's claim, has decided that the court of first instance must consider the merits and give a reasoned and justified decision on whether the claim of UAB Dognus is at all competent for consideration in the Republic of Lithuania. Previously, the court of first instance did not do this, while the Court of Appeal considered that it doesn't have competence to resolve the complaints about the decisions of the first instance regarding the jurisdiction of the cases. Re-examination in the Court of Appeal took place after the Supreme Court of the Republic of Lithuania, while considering the Bank's claim, indicated that the Court of Appeal should hear and make a decision on the Bank's complaint. At the moment, the Bank's legal position in the ongoing legal proceedings in Lithuania can be assessed as positive and its positions have been strengthened as a result of the decisions made by several courts. What remains unchanged is that even in the worst case scenario (if the claim of UAB Dognus will be heared by the court), the Bank could not suffer losses in any case, because the type of claim (actio pauliana) presented by UAB Dognus provides for restitution, i.e. restoration of the previous status of all persons. In this case, this would mean not only the Bank's obligation to repay the loan repayment payments received, but also the Bank's return to the status of a secured creditor. Considering that the original collateral (goods) no longer exists, the Bank's claims would be secured by the court's decision with the Bank's own refunded funds. In general, the claim of UAB Dognus is still assessed as insufficiently substantiated from the legal point of view, and the worst case scenario (i.e. a court decision on restitution) is also assessed as unlikely. On the other hand, if the Lithuanian court decides that the case is not within the jurisdiction of Lithuania, UAB Dognus will not be able to submit a similar claim in Latvia, because the laws of Latvia do not provide for such a basis for a claim or any other basis for a claim, as a result of which the Bank, taking into account the actual circumstances of the case, could be obliged to return the funds.

Management is unaware of any other significant actual, pending or likely claims against the Bank and its subsidiaries.

34. ASSETS AND LIABILITIES UNDER MANAGEMENT

	2023		2022	
Assets under management	**Group EUR'000**	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Due from credit institutions registered in Latvia	1 763	1 763	1 191	1 191
Loans to customers	165	165	165	165
Non fixed income securities	35 208	35 208	16 228	16 228
Fixed income securities	9 085	9 085	1 382	1 382
Other assets	-	-	1	1
Total assets under management	**46 221**	**46 221**	**18 967**	**18 967**
Liabilities under management				
Non-resident trust liabilities	25 808	25 808	5 368	5 368
Resident trust liabilities	20 413	20 413	13 599	13 599
Total liabilities under management	**46 221**	**46 221**	**18 967**	**18 967**

The largest share of assets under management were invested in non-fixed income securities. Assets under management include loans granted on a trust basis (trust loans) made on behalf of a third party (the beneficiary).

35. RELATED PARTY TRANSACTIONS

Related parties are defined as shareholders who have a significant influence over the Bank (parent company), members of the Council and the Board and Other related parties, that are companies in which parent company and members of the Council and the Board have a controlling interest, key management personnel, their close relatives and companies in which they have a controlling interest, as well as associated and related companies. All transactions with related parties have been carried out at an arm's length.

Loans, deposits and other claims and liabilities to related parties include the following:

	2023		2022	
	Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Loans to related parties	3 691	3 691	5 700	5 700
incl. members of the Council and the Board	*412*	*412*	*903*	*903*
incl. relatives of members of the Council and the Board	*2 227*	*2 227*	*2 583*	*2 583*
incl. companies related to members of the Council and the Board	*1 052*	*1 052*	*2 214*	*2 214*
Impairment allowance	(39)	(39)	(111)	(111)
Net loans to related parties	**3 652**	**3 652**	**5 589**	**5 589**
Other investments – debt securities	1 016	1 016	4 535	4 535
Right-of-use assets – lease contracts	-	9 261	-	9 924
Total loans and other claims	**4 668**	**13 929**	**10 124**	**20 048**
Term and demand deposits and loans	162 184	164 609	108 545	110 785
incl. from the parent company	*667*	*667*	*94*	*94*
incl. from subsidiaries	-	*2 425*	-	*2 240*
incl. from the members of the Council and Board	*1 554*	*1 554*	*1 585*	*1 585*
incl. relatives of members of the Council and the Board	*1 439*	*1 439*	*843*	*843*
incl. companies related to members of the Council and the Board	*158 524*	*158 524*	*106 023*	*106 023*
Lease liability	-	9 912	-	10 476
Total deposits and liabilities	**158 524**	**168 436**	**108 545**	**121 261**
Contingent liabilities and commitments	**1 824**	**1 827**	**2 080**	**2 083**

	2023		2022	
	Group Interest rate %	Bank Interest rate %	Group Interest rate %	Bank Interest rate %
Loans to related parties	3.57	3.57	2.70	2.70
Term and demand deposits	2.77	2.77	0.44	0.44

Remuneration to the member of Council and Board during 2023 amounted to EUR 978 thousand (2022: EUR 869 thousand) (see Note 11).

	2023		2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Income from related party transactions				
Commission income	276	276	213	214
Interest income	398	398	609	609
Expenses from related party transactions				
Interest expense	3 292	3 607	722	1 054
Public utilities and maintenance	-	392	-	401

36. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The table below reflects the maturity analysis of financial assets and liabilities based on the contractual term from the reporting date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as at 31 December 2023 was as follows:

2023 EUR'000	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	5 years and over, or no maturity	Total EUR'000
Financial assets							
Cash and demand deposits with central banks	338 024	-	-	-	-	-	**338 024**
Deposits with credit institutions	20 866	-	3 904	-	-	-	**24 770**
Loans and receivables	50 932	8 549	11 687	48 059	277 494	1 843	**398 564**
Investment securities	81 045	497	2 339	2 775	11 179	-	**97 835**
Other financial assets	4 014	-	-	-	-	5 414	**9 428**
Total financial assets	**494 881**	**9 046**	**17 930**	**50 834**	**288 673**	**7 257**	**868 621**
Financial liabilities							
Demand deposits with credit institutions	4 407	-	-	-	-	-	**4 407**
Financial liabilities carried at amortized cost	459 616	201 051	30 453	85 955	33 439	6 123	**816 637**
Lease liabilities	73	146	146	440	4 323	4 784	**9 912**
Other financial liabilities	-	-	-	-	-	1 342	**1 342**
Total financial liabilities	**464 096**	**201 197**	**30 599**	**86 395**	**37 762**	**12 249**	**832 298**
Maturity gap	**30 785**	**(192 151)**	**(12 669)**	**(35 561)**	**250 911**	**(4 992)**	**36 323**
Contingent liabilities and commitments	**99 966**	**-**	**-**	**-**	**-**	**-**	**99 966**

The maturity analysis of the Group is different from the Bank disclosed above only due to lease liabilities.

The negative gap positions are managed in accordance with the Bank's Liquidity risk management policy. There are limits for maturity gap positions, which are set and monitored by the Bank's Investment committee.

The table below reflects the maturity analysis of financial assets and liabilities based on the contractual term from the reporting date until the maturity dates of the respective assets and liabilities. The remaining period to maturity of assets and liabilities as at 31 December 2022 was as follows:

2022 EUR'000	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	5 years and over, or no maturity	Total EUR'000
Financial assets							
Cash and demand deposits with central banks	120 527	-	-	-	-	-	**120 527**
Deposits with credit institutions	16 785	-	8 507	-	-	-	**25 292**
Trading financial assets	3	-	-	-	-	-	**3**
Loans and receivables	47 348	6 986	10 689	43 119	177 591	22 577	**308 310**
Investment securities	30 529	7 538	10 954	41 899	70 519	1 529	**162 968**
Other financial assets	1 282	-	-	-	-	8 772	**10 054**
Total financial assets	**216 474**	**14 524**	**30 150**	**85 018**	**248 110**	**32 878**	**627 154**
Financial liabilities							
Demand deposits with credit institutions	6 623	-	-	-	-	-	**6 623**
Financial liabilities carried at amortized cost	336 536	51 906	27 760	56 649	86 842	24 018	**583 711**
Lease liabilities	73	146	146	438	4 307	5 366	**10 476**
Other financial liabilities	-	-	-	-	-	2 954	**2 954**
Total financial liabilities	**343 232**	**52 052**	**27 906**	**57 087**	**91 149**	**32 338**	**603 764**
Maturity gap	**(126 758)**	**(37 528)**	**2 244**	**27 931**	**156 961**	**540**	**23 390**
Contingent liabilities and commitments	**59 127**	**-**	**-**	**-**	**-**	**-**	**59 127**

The maturity analysis of the Group is different from the Bank disclosed above only due to lease liabilities.

The negative gap positions are managed in accordance with the Bank's Liquidity risk management policy. There are limits for maturity gap positions, which are set and monitored by the Bank's Investment committee.

37. FINANCIAL RISK MANAGEMENT

Liquidity risk (Bank)

Residual contractual maturities of financial liabilities of the Bank are presented below. The amounts disclosed in the tables are the contractual undiscounted cash flows in comparison with the carrying amounts of financial liabilities The Group's residual contractual maturities of financial liabilities have not been presented as the difference to the Bank's analysis is insignificant.

EUR'000

31 December 2023	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1– 3 months	3 months to 1 year	1-5 years and more
Non-derivative liabilities						
Demand deposits with credit institutions	4 407	(4 407)	(4 407)	-	-	-
Lease liabilities	9 912	(12 279)	(73)	(146)	(659)	(11 401)
Financial liabilities carried at amortized cost: deposits	805 632	(811 025)	(459 568)	(201 052)	(116 407)	(33 998)
Financial liabilities carried at amortized cost: subordinated debt securities	11 005	(29 680)	-	-	(821)	(28 859)
Total non-derivative liabilities	**830 956**	**(857 391)**	**(464 048)**	**(201 198)**	**(117 887)**	**(74 258)**
Unused loan and credit card commitments	98 062	(98 062)	(98 062)	-	-	-
Guarantees given	1 904	(1 904)	(1 904)	-	-	-
Total Liabilities	**930 922**	**(957 357)**	**(564 014)**	**(201 198)**	**(117 887)**	**(74 258)**

EUR'000

31 December 2022	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1– 3 months	3 months to 1 year	1-5 years and more
Non-derivative liabilities						
Demand deposits with credit institutions	6 623	(6 623)	(6 623)	-	-	-
Lease liabilities	10 476	(13 157)	(73)	(146)	(659)	(12 279)
Financial liabilities carried at amortized cost: deposits	577 707	(576 622)	(336 836)	(52 357)	(85 049)	(102 380)
Financial liabilities carried at amortized cost: subordinated debt securities	6 004	(8 480)	-	-	(449)	(8 031)
Total non-derivative liabilities	**600 810**	**(604 882)**	**(343 532)**	**(52 503)**	**(86 157)**	**(122 690)**
Derivative liabilities						
Trading: outflow	5 958	(5 958)	(5 958)	-	-	-
Trading: inflow	(5 961)	5 961	5 961	-	-	-
Total derivative liabilities	**(3)**	**3**	**3**	**-**	**-**	**-**
Unused loan and credit card commitments	56 760	(56 760)	(56 760)	-	-	-
Guarantees given	2 367	(2 367)	(2 367)	-	-	-
Total Liabilities	**659 934**	**(664 006)**	**(402 656)**	**(52 503)**	**(86 157)**	**(122 690)**

38. CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK)

The Latvian banking legislation requires that the total foreign currency open position may not exceed 20% of the equity.

The EUR equivalent of assets and liabilities as at 31 December 2023 by the currencies in which they are denominated is as follows:

2023 EUR'000	EUR EUR'000	USD EUR'000	Other currencies EUR'000	Total EUR'000
Financial assets				
Cash and demand deposits with central banks	338 018	6	-	**338 024**
Loans and receivables from banks	9 027	10 149	5 594	**24 770**
Trading financial assets	-	-	-	**-**
Loans and receivables	392 404	6 160	-	**398 564**
Investment securities	91 473	6 362	-	**97 835**
Other financial assets	9 424	4	-	**9 428**
Total financial assets	**840 346**	**22 681**	**5 594**	**868 621**
Financial liabilities				
Demand deposits with credit institutions	(4 398)	(7)	(2)	**(4 407)**
Trading financial liabilities	-	-	-	**-**
Financial liabilities carried at amortized cost	(800 557)	(11 116)	(4 964)	**(816 637)**
Other financial liabilities	(881)	(343)	(118)	**(1 342)**
Total financial liabilities	**(805 836)**	**(11 466)**	**(5 084)**	**(822 386)**
Assets (liabilities) arising from currency exchange				
Spot and forward transaction receivables	27 400	14 014	31	**41 445**
Spot and forward transaction liabilities	(13 700)	(27 519)	(310)	**(41 529)**
Net long/short currency position	**48 210**	**(2 290)**	**231**	**46 151**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

The currency gap positions are managed in accordance with the Bank's Currency risk management policy. There are limits for currency gap positions.

CURRENCY ANALYSIS OF ASSETS AND LIABILITIES (BANK) (continued)

The Latvian banking legislation requires that the total foreign currency open position may not exceed 20% of the equity.

The EUR equivalent of assets and liabilities as at 31 December 2022 by the currencies in which they are denominated is as follows:

2022 EUR'000	EUR EUR'000	USD EUR'000	Other currencies EUR'000	Total EUR'000
Financial assets				
Cash and demand deposits with central banks	120 412	115	-	**120 527**
Loans and receivables from banks	11 937	11 279	2 076	**25 292**
Trading financial assets	3	-	-	**3**
Loans and receivables	301 115	7 195	-	**308 310**
Investment securities	154 768	8 200	-	**162 968**
Other financial assets	9 763	291	-	**10 054**
Total financial assets	**597 998**	**27 080**	**2 076**	**627 154**
Financial liabilities				
Due to central banks	-	-	-	**-**
Demand deposits with credit institutions	(6 528)	(74)	(21)	**(6 623)**
Trading financial liabilities	-	-	-	**-**
Financial liabilities carried at amortized cost	(562 493)	(19 943)	(1 275)	**(583 711)**
Other financial liabilities	(2 429)	(269)	(256)	**(2 954)**
Total financial liabilities	**(571 450)**	**(20 286)**	**(1 552)**	**(593 288)**
Assets (liabilities) arising from currency exchange				
Spot and forward transaction receivables	*15 000*	*6 274*	-	**21 274**
Spot and forward transaction liabilities	*(5 958)*	*(14 958)*	*(314)*	**(21 230)**
Net long/short currency position	**35 590**	**(1 890)**	**210**	**33 910**

The currency analysis of the Group is not significantly different from that of the Bank disclosed above.

The currency gap positions are managed in accordance with the Bank's Currency risk management policy. There are limits for currency gap positions.

39. REPRICING MATURITY ANALYSIS (BANK)

Interest rate risk relates to the changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2023, interest rate re-pricing categories were:

2023 EUR'000	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing	Total EUR'000
Financial assets								
Cash and demand deposits with central banks	337 448	-	-	-	-	-	576	**338 024**
Loans and receivables from banks	24 770	-	-	-	-	-	-	**24 770**
Investment securities	2 178	995	25 066	1 962	65 163	2 471	-	**97 835**
Loans and receivables	172 761	76 416	109 410	29 987	6 992	529	2 469	**398 564**
Other financial assets	-	-	-	-	-	-	9 428	**9 428**
Total financial assets	**537 157**	**77 411**	**134 476**	**31 949**	**72 155**	**3 000**	**12 473**	**868 621**
FINANCIAL LIABILITIES								
Demand deposits with credit institutions	-	-	-	-	-	-	4 407	**4 407**
Financial liabilities carried at amortized cost	424 679	197 862	29 790	84 480	27 515	11 303	41 008	**816 637**
Other financial liabilities	-	-	-	-	-	-	1 342	**1 342**
Total financial Liabilities	**424 679**	**197 862**	**29 790**	**84 480**	**27 515**	**11 303**	**46 757**	**822 386**
Interest rate risk net position	**112 478**	**(120 451)**	**104 686**	**(52 531)**	**44 640**	**(8 303)**	**(34 284)**	**46 235**
Interest rate risk gross (cumulative) position	**112 478**	**(7 973)**	**96 713**	**44 182**	**88 822**	**80 519**	**46 235**	

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

REPRICING MATURITY ANALYSIS (BANK) (continued)

Interest rate risk relates to the changes in the value of the financial instrument as a result of changes in the market rates. As at 31 December 2022, interest rate re-pricing categories were:

2022 EUR'000	Up to 1 month including	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing	Total EUR'000
Financial assets								
Cash and demand deposits with central banks	119 875	-	-	-	-	-	652	**120 527**
Loans and receivables from banks	-	-	-	-	-	-	25 292	**25 292**
Trading financial assets	3	-	-	-	-	-	-	**3**
Investment securities	4 412	7 299	10 861	52 314	84 346	2 941	795	**162 968**
Loans and receivables	181 486	10 228	66 109	39 635	7 690	1 456	1 706	**308 310**
Other financial assets	-	-	-	-	-	-	10 054	**10 054**
Total financial assets	**305 776**	**17 527**	**76 970**	**91 949**	**92 036**	**4 397**	**38 499**	**627 154**
FINANCIAL LIABILITIES								
Due to central banks	-	-	-	-	-	-	-	**-**
Demand deposits with credit institutions	-	-	-	-	-	-	6 623	**6 623**
Trading financial liabilities	-	-	-	-	-	-	-	**-**
Financial liabilities carried at amortized cost	298 627	117 893	27 758	56 227	37 714	6 160	39 332	**583 711**
Other financial liabilities	-	-	-	-	-	-	2 954	**2 954**
Total financial Liabilities	**298 627**	**117 893**	**27 758**	**56 227**	**37 714**	**6 160**	**48 909**	**593 288**
Interest rate risk net position	**7 149**	**(100 366)**	**49 212**	**35 722**	**54 322**	**(1 763)**	**(10 410)**	**33 866**
Interest rate risk gross (cumulative) position	**7 149**	**(93 217)**	**(44 005)**	**(8 283)**	**46 039**	**44 276**	**33 866**	

The reprising maturity analysis of the Group is not significantly different from that of the Bank disclosed above.

40. MAXIMUM CREDIT EXPOSURE ANALYSIS

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

Maximum credit exposure

		Gross maximum credit exposure	
At 31 December EUR'000	**Notes**	**Bank 2023**	**Bank 2022**
Cash and balances with central banks	15	338 024	120 527
Loans and receivables from banks	16	24 770	25 292
Trading financial assets	17, 32	-	3
Investment securities	19, 21	97 835	162 968
Loans and receivables	20	398 564	308 310
Other financial assets	26	9 428	10 054
Total financial assets		**868 621**	**627 154**
Unused loan facilities	35	97 302	55 824
Unused credit card facilities	35	760	936
Guarantees an others	35	1 904	2 367
Total guarantees and commitments		**99 966**	**59 127**
Total maximum credit risk exposure		**968 587**	**686 281**

The maximum credit risk exposure analysis of the Group is not significantly different from that of the Bank disclosed above.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk management. Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and default correlations between counterparties.

Limits. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review

Credit risks policies are presented in Note 4.1.

41. CAPITAL ADEQUACY CALCULATION (BANK)

	2023 EUR '000	2022 EUR '000
Equity	**89 835**	**82 785**
Total Tier 1	**83 092**	**76 424**
Tier 1	**77 032**	**75 324**
Share capital	44 493	44 493
Statutory reserves	24	24
Retained earnings for the previous periods	31 377	29 915
Profit for the reporting period	12 566	10 462
Dividends proposed	(7 000)	(5 000)
Changes on application of IFRS 9	-	554
Revaluation reserve	(3 771)	(4 545)
Intangible assets	(267)	(256)
Other deductions	(21)	(26)
Insufficient coverage for non-performing exposures	(5)	-
Reduction of Tier 1 capital (Pillar 2 adjustments)	(364)	(297)
Additional Tier 1	**6 060**	**1 100**
Tier 2 capital	**6 743**	**6 361**
Subordinated debt	6 743	6 361
Risk-weighted value		
Banking portfolio	500 840	409 723
Operating risk	56 935	45 554
Total risk exposure amount loan adjustment	-	16
Total risk weighted assets	**557 775**	**455 293**
Total capital as a percentage of risk weighted assets (total capital ratio)	**16.11%**	**18.18%**
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	**14.90%**	**16.79%**

The above is based on internal reports of the Bank, provided to key management of the Bank.

As at 3I December 2023, the Bank's capital adequacy ratio was 16.19% (2022: 18.18%) which corresponds to the requirements set in the Basel Capital Accord and the regulations of the Bank of Latvia. Under the capital requirements introduced by Regulation (EU) No 575/2013 of the European Parliament and of the Council and the Bank of Latvia, banks need to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. Although the minimum required level as at 31 December 2023 was 8%, according to a special request by the Bank of Latvia the Bank was required to ensure a higher capital adequacy of 11.60% during the period from 1 January 2023 (additional capital requirement - 2.6% and capital reserve requirement - 1%). In addition to the above capital requirement for the overall risk coverage, the Bank is required to maintain compliance with the total capital reserve requirement calculated in accordance with Section 35^{22}, 35^{23}, 35^{24} or 35^{25} of the Credit Institution Law -2.93% (Capital conservation buffer – 2.50%, institution-specific countercyclical capital buffer – 0.18% (as at 31.12.2023), other reserve -0.25%). The requirements of the total capital reserve should be met using Tier 1 capital.

In addition to the calculation of the capital adequacy ratio in accordance with 'Normative regulations on establishing a capital and liquidity adequacy assessment process' No. 209 of the Bank of Latvia, the Bank regularly conducts its own internal capital adequacy assessment in order to ensure that it covers all the risks assumed by the Bank and whether they are covered by the capital.

In accordance with Regulation (EU) of the European Parliament and of the Council 575/2013, the calculation of capital adequacy is performed at the consolidated level, including the parent company of the bank (AS BBG). All of the above requirements are also met at the consolidated level. CALCULATION OF CAPITAL ADEQUACY at the consolidated level can be found on the Bank's website in the section "financial information" in the quarterly financial report (https://www.bluorbank.com/lv/finansu-informacija).

42. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

The table below analyses financial instruments 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. There were no transfers between the fair value hierarchy levels.

The Group and the Bank

31 December 2023	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Valuation techniques based on unobservable inputs (3)	Total
Financial assets				
Financial assets at fair value through profit or loss:				
Non fixed income securities	-	395	-	**395**
Derivatives	-	-	-	**-**
Financial assets at fair value through other comprehensive income				
Fixed income securities	20 269	-	379	**20 648**
Non fixed income securities and shares	-	18	-	**18**
	20 269	**413**	**379**	**21 061**

31 December 2022	Published price quotations (1)	Valuation techniques based on market observable inputs (2)	Valuation techniques based on unobservable inputs (3)	Total
Financial assets				
Financial assets at fair value through profit or loss:				
Non fixed income securities	-	320	-	**320**
Derivatives	-	3	-	**3**
Financial assets at fair value through other comprehensive income				
Fixed income securities	25 592	-	379	**25 971**
Non fixed income securities and shares	-	18	-	**18**
	25 592	**341**	**379**	**26 312**

Included in category "Published price quotations" (Level 1) are financial assets and liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices.

Included in category 2 "Valuation methods based on market observable data" are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument or based on available market data.

Not based upon market observable (Level 3) input means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

The following table shows the valuation techniques used in measuring Level 2 fair values:

Type	Valuation technique
Financial assets and liabilities designated as at fair value through profit or loss.	Market comparison technique: The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.
Financial assets measured at fair value through other comprehensive income.	Valuation is based on financial indicators, including discounted cash flows and value of Bank's position with the price hedge.

The following table shows the valuation techniques used in measuring Level 3 fair values:

Type	Valuation method	Significant unobservable inputs	Inter-relation between significant unobservable inputs and fair value measurement
Assets at fair value through profit or loss (illiquid bonds).	Valuation is based on financial indicators, including discounted cash flows.	Net assets	The estimated fair value would increase (decrease), if: Increase/(decrease) in net assets
Financial assets at fair value through profit or loss.	Outlook of the court case and estimated proceeds	Court case's order	The estimated fair value would increase (decrease) if: Positive (negative) court case's order
Financial assets measured at fair value through other comprehensive income.	Valuation is based discounted dividend model	Future net revenues; CAPEX	The estimated fair value would increase (decrease) if: revenue increases/ (decreases/ CAPEX decreases/ (increases)

Changes in financial instruments of the Group/Bank classified as Level 3 in Fair Value Hierarchy:

31.12.2023 Financial assets at fair value	**31.12.2022.**	**(Sold)**	**Fair value adjustment**	**31.12.2023.**
Fixed income securities	**379**	-	-	**379**
Non fixed income securities	**-**	-	-	**-**
Total financial assets at fair value	**379**	**-**	**-**	**379**

31.12.2022 Financial assets at fair value	**31.12.2021.**	**Acquired**	**Fair value adjustment**	**31.12.2022.**
Fixed income securities	**3 514**	(3 135)	-	**379**
Non fixed income securities	**218**	(218)	-	**-**
Total financial assets at fair value	**3 732**	**(3 353)**	**-**	**379**

The table below analyses the fair values of financial instruments other than measured at fair value by the level in the fair value hierarchy into which each fair value measurement is categorised. There were no transfers between the fair value hierarchy levels.

31 December 2023	**Level 1: EUR'000**	**Level 2: EUR'000**	**Level 3: EUR'000**	**Total fair value EUR'000**	**Total carrying amount EUR'000**
Financial assets					
Cash and demand deposits with central bank	576	337 448	-	338 024	338 024
Loans and receivables from banks	-	-	24 770	24 770	24 770
Loans to customers	-	-	397 937	397 937	398 564
Investment securities at amortised cost	-	71 288	2 051	73 339	76 774
Other financial assets	-	-	9 428	9 428	9 428
Financial liabilities					
Deposits and balances due to financial institutions	-	-	4 407	4 407	4 407
Financial liabilities carried at amortized cost	-	-	816 300	816 300	816 637
Other financial liabilities	-	-	1 342	1 342	1 342

31 December 2022	Level 1: EUR'000	Level 2: EUR'000	Level 3: EUR'000	Total fair value EUR'000	Total carrying amount EUR'000
Financial assets					
Cash and demand deposits with central bank	652	119 875	-	120 527	120 527
Loans and receivables from banks	-	-	25 292	25 292	25 292
Loans to customers	-	-	307 022	307 022	308 310
Investment securities at amortised cost	-	122 902	6 330	129 232	136 659
Other financial assets	-	-	10 054	10 054	10 054
Financial liabilities					
Balances due to central bank	-	-	-	-	-
Deposits and balances due to financial institutions	-	-	6 623	6 623	6 623
Financial liabilities carried at amortized cost	-	-	582 587	582 587	583 711
Other financial liabilities	-	-	2 954	2 954	2 954

The following table shows the valuation techniques use in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:

Type	Valuation method	Significant unobservable inputs
Loans and advances due from financial institutions	Discounted cash flows	Discount rates
Loans	Discounted cash flows	Discount rates
Due to financial institutions	Discounted cash flows	Discount rates
Deposits	Discounted cash flows	Discount rates

43. OPERATING SEGMENTS

The Bank's Management Board, its chief operating decision maker, monitors separately the operating results of the Corporate banking operating segment. The Bank's main business activity is servicing corporate customers and high net worth individuals, there is no separate retail banking segment and insignificant part of retail banking products are managed and monitored together with corporate banking products. Treasury function includes treasury services provided to corporate customers and high net worth individuals and therefore included in the Corporate segment. The results of all other operations are included in the "Other" segment.

	2023			2022		
	Corporate EUR'000	Other EUR'000	Total EUR'000	Corporate EUR'000	Other EUR'000	Total EUR'000
Net interest and similar income	25 539	-	**25 539**	17 589	-	**17 589**
Net fee and commission income	10 864	-	**10 864**	8 442	-	**8 442**
Net other finance income	(156)	-	**(156)**	(533)	-	**(533)**
Other operating income	1 598	72	**1 670**	870	72	**942**
Total operating income	**37 845**	**72**	**37 917**	**26 368**	**72**	**26 440**
Total operating expense	(17 995)	(84)	**(18 079)**	(15 228)	(58)	**(15 286)**
Credit loss allowance	(2 081)	-	**(2 081)**	(890)	-	**(890)**
Profit before tax	**17 769**	**(12)**	**17 757**	**10 250**	**14**	**10 264**

	2023			2022		
	Corporate EUR'000	Other EUR'000	Total EUR'000	Corporate EUR'000	Other EUR'000	Total EUR'000
Fee and commission income						
Money transfers	1 949	-	**1 949**	1 096	-	**1 096**
Commissions on loans monitoring and service	808	-	**808**	551	-	**551**
Securities transactions	999	-	**999**	910	-	**910**
Assets management	316	-	**316**	322	-	**322**
Client service	7 169	-	**7 169**	6 072	-	**6 072**
Payment card service	1 366	-	**1 366**	1 421	-	**1 421**
Total net fee and commission income	**12 607**	**-**	**12 607**	**10 372**	**-**	**10 372**
Total assets	907 449	827	**908 276**	667 713	827	**668 540**
Total liabilities	(826 954)	-	**(826 954)**	(592 679)	-	**(592 679)**

44. EVENTS AFTER THE REPORTING PERIOD

Corporate income tax for additional payment for credit institutions

In December 2023 a change in corporate income tax (CIT) legislation was introduced in Latvia stipulating an advance CIT payable at 20% rate on profit after tax. The CIT advance is applicable to banks and leasing entities. Advance corporate income tax paid is eligible to fully offset dividend distribution tax with no expiry date. As the changes in the Corporate income tax las were substantively enacted before 31 December 2023, corporate income tax expense was accordingly recognised in the 2023 financial statements.

Mortgage Borrower Protection Fee

From 1 January 2024, a mortgage borrower protection fee has been introduced in Latvia. The fee is paid by credit institutions and capital companies registered in Latvia, which have received a special permit (licence) for the provision of consumer lending services. The fee is paid for loans issued to consumers (individuals – borrowers), the repayment of which is secured by a mortgage on real estate located in Latvia. The mortgage borrower protection fee is set at 0.5 percent per quarter of the total amount of the outstanding mortgage credits issued by the fee payer as at 31 October 2023. As the Bank's mortgage loan portfolio is small, no material impact is expect on the Bank in 2024.

Non-current assets classified as held for sale

Non-current assets classified as held for sale as at 31 December 2023 included one building (shopping centre) that is a collateral recovered from defaulted loan during 2022. The Bank sold the asset in the beginning of 2024, contract with a buyer was signed in January 2024.

Other than disclosed in these financial statements, no significant subsequent events have occurred in the period from the reporting date to the date of these financial statements that would require adjustments to be made to these financial statements and disclosures added to the notes thereto.

Independent Auditor's Report

To the Shareholder of BluOr Bank AS

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of BluOr Bank AS (the "Bank") and its subsidiaries (together "the Group") as at 31 December 2023, and of the Group's consolidated and the Bank's separate financial performance and the Group's consolidated and the Bank's separate cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the European Union (EU).

Our opinion is consistent with our additional report to the Audit Committee dated 11 March 2024.

What we have audited

The Group's consolidated and the Bank's separate financial statements (together "the financial statements") comprise:

- the Group's Consolidated and the Bank's Separate Income Statements for the year ended 31 December 2023;
- the Group's Consolidated and the Bank's Separate Statements of Other Comprehensive Income for the year ended 31 December 2023;
- the Group's Consolidated and the Bank's Separate Statements of Financial Position as at 31 December 2023;
- the Group's Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2023;
- the Bank's Separate Statement of Changes in Shareholders' Equity for the year ended 31 December 2023;
- the Group's Consolidated and the Bank's Separate Statements of Cash Flows for the year ended 31 December 2023; and
- the notes to the consolidated and Bank's financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing as adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Group and the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of

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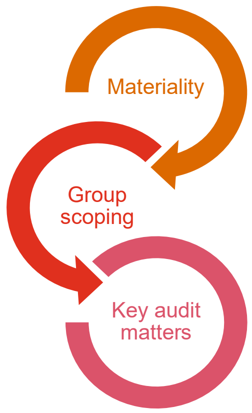
Latvia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on Audit Services.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Bank, its parent company and subsidiaries are in accordance with the applicable laws and regulations in the Republic of Latvia and that we have not provided non-audit services that are prohibited under Article 37.[6] of the Law on Audit Services of the Republic of Latvia.

The non-audit services that we have provided to the Group and the Bank in the period from 1 January 2023 to 31 December 2023 are disclosed in note 11 to the financial statements.

Our audit approach

Overview



- Overall Group and Bank materiality: EUR 800 thousand which represents approximately 5% of profit before tax.

- We have audited the separate financial statements of the Bank.
- We have performed selected audit procedures over the significant balances and transactions of subsidiaries.
- Our audit scope covered substantially all of the Group’s revenues and substantially all of the Group’s total assets.

- Expected credit losses on loans (Group and Bank).

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group and Bank materiality for the consolidated and separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall materiality	Overall materiality applied to the Group and the Bank was EUR 800 thousand.
How we determined it	Approximately 5% of the Group's and the Bank's profit before tax for 2023.
Rationale for the materiality benchmark applied	We chose profit before tax as the base benchmark because, in our view, it is the benchmark against which the performance of the Group and the Bank is most commonly measured by users, and it is a generally accepted benchmark. We chose the threshold of 5%, which is within the range of acceptable quantitative materiality thresholds for this benchmark for a public-interest entity.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 40 thousand for the Group and the Bank, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on loans (Group and Bank) Refer to Note 18 "Loans and receivables" to the financial statements. We focused on this area because application of IFRS 9 "Financial instruments" expected credit loss (ECL) model for loans impairment losses requires complex and subjective judgements over both timing of recognition of expected credit losses and their extent. The key features of the expected credit losses model include classification of loans to 3 stages, assessment of credit risk parameters and application of forward-looking information. The amount of expected credit losses for the Group's and the Bank's loans is based on calculations taking into consideration the exposure at default, probability of default, changes in customer credit rating and taking into account estimated future cash flows from the loan repayments or sale of collateral (loss given default), and ECL adjustments	We assessed whether the Group's and the Bank's accounting policies in relation to the ECL of loans to customers are in compliance with IFRS 9 by assessing each significant model component: exposure at default, probability of default and loss given default, definitions of default and significant increase in credit risk, use of macroeconomic scenarios. We assessed the design and operating effectiveness of the controls over relevant loan data and ECL calculations. These controls included controls over monitoring of loan quality, the non-retail loans credit file periodic reviews and related credit rating assessment, timely transfer into overdue accounts where relevant and accuracy of overdue days calculation, appropriate classification into individual or collective assessment, and staging assessment. Further, we performed detailed testing over reliability of loan data, including contract dates, interest rates, collateral values and types, performing/non-performing status and other inputs used in ECL calculation engine as at 31 December 2023. For a sample of individually significant loans to legal entities we evaluated reasonableness of assumptions

by expected impact of future macroeconomic scenarios. For individually significant loans ECL are calculated on individual basis and expert judgement is applied to determine probability of default (PD) and loss give default (LGD). For other loans the expected credit losses are calculated using the ECL model. As at 31 December 2023 expected credit losses amounted to EUR 3 253 thousand at the Group and the Bank (refer to Note 18).	made by the Bank's credit expert regarding future cash flow scenarios, PD and LGD, appropriateness of ECL stage applied, accuracy of ECL calculation as well as existence and valuation of collateral. We involved our expert to assess the ECL model and recalculate the credit loss allowance for loans and advances assessed on the collective basis. We tested the accuracy of input information used in the ECL model. Finally, we have reviewed the credit risk disclosures.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

The Group engagement team carried out audit work on the Bank's financial statements and performed selected audit procedures over the significant balances and transactions of other subsidiaries. Our audit work addressed substantially all of the Group's revenues and the Group's total assets.

Reporting on other information including the Management report

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

- Report of the Council and the Board, as set out on pages 3 to 5 of the Annual Report;
- information on the Council and the Board of the Bank, as set out on page 6 of the Annual Report;
- Statement of Management's Responsibility, as set out on page 7 of the Annual Report; and,
- Statement of Corporate Governance, set out in a separate statement prepared and signed by the Bank's Management Board on 20 December 2023 and available on the Bank's website http://bluorbank.lv as at the date of this audit report,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information identified above.

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

With respect to the Report of the Council and the Board, we also performed the procedures required by the Law on Audit Services of the Republic of Latvia and the Financial and Capital Market Commission Regulation No 113 "Regulation on preparation of the annual report and consolidated annual report of credit institutions, investment brokerage companies and investment management companies". Those procedures include considering whether the Report of the Council and the Board is prepared in accordance with the requirements of the applicable legislation.

In addition, in accordance with the Law on Audit Services of the Republic of Latvia, with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required by section (3) of Article 56.2 of the Financial Instruments Market Law.

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

- the information given in the other information identified above for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Report of the Council and the Board has been prepared in accordance with requirements of the Financial and Capital Market Commission Regulation No. 113 “Regulation on preparation of the annual report and consolidated annual report of credit institutions, investment brokerage companies and investment management companies”; and
- the Statement of Corporate Governance, available on the Bank's website https://bluorbank.lv as at the date of this audit report, includes the information required by section (3) of Article 56.2 of the Financial Instruments Market Law.

In addition, in light of the knowledge and understanding of the Group and the Bank and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor’s report. We have nothing to report in this regard.

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

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

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

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

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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

Report on the compliance of the presentation of consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

We have been engaged based on our agreement of 20 September 2023 by the Board of the Bank to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of BluOr Bank AS for the year ended 31 December 2023 (the "Presentation of the Consolidated Financial Statements").

Description of a subject matter and applicable criteria

The Presentation of the Consolidated Financial Statements has been applied by the Board of the Bank to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Presentation of the Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the Management Board and the Council

The Board of the Bank is responsible for the Presentation of the Consolidated Financial Statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Presentation of the Consolidated Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation.

Members of the Council are responsible for overseeing the financial reporting process, which should also be understood as the preparation of consolidated financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility is to express a reasonable assurance conclusion whether the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000 (R) - 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' (ISAE 3000(R)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE 3000 (R) will always detect the existing material misstatement (significant non-compliance with the requirements).

Quality management requirements and professional ethics

We apply International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;

- evaluating the completeness of marking up the consolidated financial statements using the XBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's' use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

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

Conclusion

In our opinion, based on the procedures performed, the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

Appointment and period of our audit engagement

We were first appointed as auditors by the Bank's shareholder's resolution on 28 November 2018. Our appointment has been renewed annually by shareholder's resolution representing a total period of uninterrupted engagement appointment of 6 years.

The engagement partner on the audit resulting in this independent auditor's report is Ilandra Lejiņa.

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/signed digitally/

Ilandra Lejiņa
Member of the Board
Certified auditor in charge
Certificate No. 168

Riga, Latvia
11 March 2024

Independent Auditor's Report is signed electronically with a secure electronic signature and contains a time stamp.

This version of our report is a copy of the original independent auditor's report, which was issued on the Financial Statements of BluOr Bank AS prepared in accordance with the requirements of the European Single Electronic Format. This pdf version of independent auditor's report does not relate to the Latvian version of the financial statements prepared in a pdf format and prepared to make the format more accessible to the Company's shareholders. The original financial statements in machine-readable .xhtml format together with an original independent auditor's report have been submitted to the Nasdaq Riga Stock Exchange (link: https://nasdaqbaltic.com).