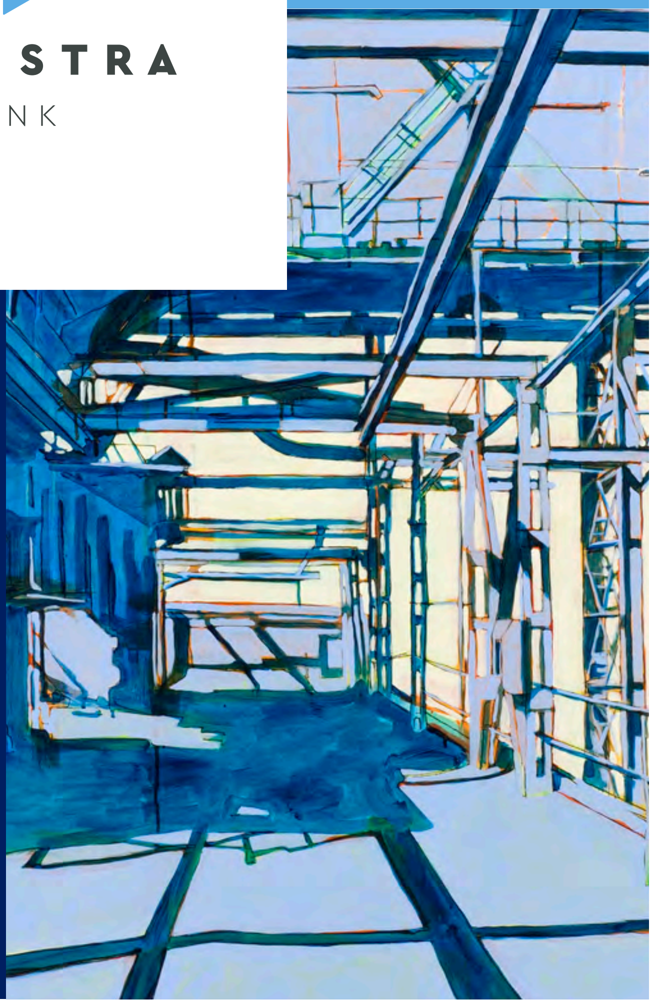
ANNUAL REPORT
2022

INDUSTRA
BANK



A BANK THAT UNDERSTANDS ENTREPRENEURS

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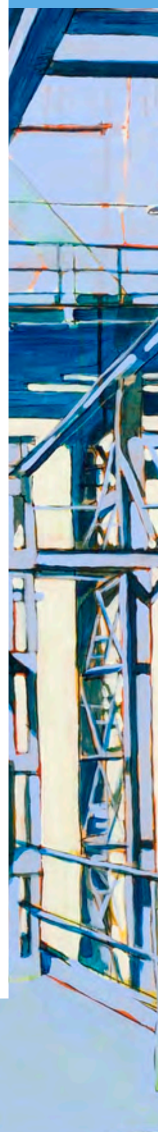

MANAGEMENT REPORT

2022 was the year of rapid growth for Industra Bank - after arranging our foundations, we were able to direct our resources and energy with a full capacity towards increasing business volumes and attracting new customers, while continuing to improve our internal processes and services provided to customers.

In the world's history and in people's minds, the year 2022 will always be marked by Russia's invasion of Ukraine, as well as the subsequent dramatic increase in energy resource prices and general inflation, which significantly increased the expenses of companies and households. It also changed the business environment, and when the war started, companies had to rapidly adjust their operations, complying with the sanctions introduced by the European Union and the United States, as well as following the customers' pressure.

In the environment of the rapidly changing information, we helped our clients to understand how sanctions and restrictions affect their business and cooperation with the bank.

As the war began, since February 28 we started to provide opening of accounts and issuing of payment cards for citizens of Ukraine, who have found safe haven in Latvia, free of charge and in a priority order. During the year, we have opened accounts for 660 Ukrainian refugees, and we continue to provide it.

In response to rising inflation, the European Central Bank (ECB) sharply increased interest rates in 2022, which significantly affected both the overall economy and the business models of banks. We expect the ECB to continue raising rates in 2023, and we can hope for a reduction in 2024 only. A rate hike will reduce lending and cool down economic growth, putting pressure on consumption.

We expect that due to the increase in interest rates, 2023 will also be a year of profound changes in the commercial real estate sector and other sectors, whose development has been based on borrowed capital.

Result of operations

In 2022, Industra Bank demonstrated a breakthrough, achieving a significant increase in the volume of operations, number of customers and profit. The bank's profit in 2022 reached 4,0 million euros and the group's profit – 4,3 million euros, increasing by 144% and 183%, respectively, compared to 2021. The bank's return on equity (ROE) increased to 23% in 2022, from 11% in 2021.

Complicated transaction of PrivatBank takeover, which we managed to accomplish in less than six months, had a significant positive impact on the bank's overall result. Industra Bank took over most of PrivatBank's assets and liabilities – 5,809 customer contracts and customer funds in the amount of EUR 50 million as a result of the transaction.

Besides, the increase of total assets, incl. the significant increase in the total amount of loans issued, contributed to the growth of the bank's results – the bank's loan portfolio increased by 54% and amounted to EUR 70 million at the end of the year.

Industra Bank's total assets grew by 57%, reaching EUR 270 million as at December 31, 2022, while customer deposits amounted to EUR 244 million, growing by 61% during the year.

The increase in market interest rates also had a positive impact on the Industra Bank's financial results, and as the result of all the above-mentioned aspects, our interest income reached 3.6 million euros, increasing by 50% compared to 2021.

As the volume of operations grew, we increased the number of employees till 180 as at the end of 2022, which was an increase by 21% year-on-year. As a result, the administrative expenses of the bank increased by 18% or EUR 1.2 million last year.

Products and sales channels

Simultaneously, we continued to invest in the development of services. In the middle of 2022, our customers received the bank's new internet banking, as well as the Industra Code mobile app - a convenient user authentication tool for authorizing in the internet bank and for confirming payments and transactions. While in October, as the first and still the only bank in Latvia, we introduced a Commercial Activity Income account. It is an automated tax payment solution for self-employed persons (micro business taxpayers), which allows them to reduce the administrative burden and gives them the opportunity to focus on the most important thing – developing their business. We also continued to develop our client relationship management system (CRM), introducing a series of new modules. Work on the CRM system continues this year as well. In 2023, Industra Bank plans to introduce mobile banking as well as a virtual POS terminal for the convenience of its customers, work is also underway on internet banking improvements and new functionalities.

MANAGEMENT REPORT (continued)

Lending

This year we will continue to be a reliable and caring collaboration partner for Latvian small and medium-sized companies from various sectors with an understandable, profitable business and financial model, as well as for private individuals, mainly in relation to the purchase of real estate belonging to the bank and its subsidiary companies.

We plan to continue increasing our lending volumes, with the loan portfolio reaching 100 million euros.

Investment properties

Historically, the bank has collected a significant portfolio of investment properties, and its successful management is important to achieve the objectives of the Bank. In 2022, 20% of the investment properties portfolio was sold and income from unsold properties was increased by leasing them out. Industra Bank has succeeded in creating a portfolio of financially profitable investment properties, gained experience in their management, and has also identified the development of this segment in its operational strategy, therefore the development of a portfolio of income generating investment properties will be one of the objectives in its future activities for the sake of income diversification.

Corporate governance

In order to strengthen the bank's corporate governance, promote high ethical standards and a positive work environment, we jointly developed new bank values in the first half of 2022, involving the key stakeholders in the development process for this aspect - employees, the board, and shareholders. We thought about the values that will unite us and help building a bank with such an internal culture that each of us would be proud to be a part of.
Industra Bank values are:

- *Honesty and empathy*: Mutual respect, inclusive environment, and a responsible business. Team cooperation. Every customer, every employee is valuable, everyone's work and contribution are important. Courage to be honest - to respectfully express and be ready to listen to an opinion;
- *Speed and flexibility*: Quick and efficient decisions and actions, practical and simple work organization, clear and direct communication;
- *Knowledge and experience*: We understand the local market and business needs. We are experts, each in our own area, we trust each other's decisions and knowledge. We are professionals who offer what is suitable for the client's needs and situation;
- *Fairness and transparency*: We are honest and communicate openly, we share information and knowledge. We speak honestly about both the positive and the negative.

Sustainability

As for our clients, sustainable development of Latvia and the planet as a whole is important for the bank. Day by day, we see sustainability as financing environmentally friendly companies and projects, giving priority to the use of energy-efficient buildings, technologies, and renewable energy, as well as the development of efficient waste and water supplies. This means cooperation with socially responsible companies whose economic and social activities contribute to the development of Latvia. From our customers we expect good reputation, and discipline in fair tax payments and law enforcement matters. We support technology that reduces the use of natural resources for both the bank and its customers.

In order to increase awareness of the environmental, social, and corporate governance (ESG) issues, in 2023 we plan to introduce guidelines for the inclusion of ESG and sustainability considerations in customer service, financing and other bank activities.

We pay great attention to promoting an inclusive work environment - we have incorporated basic principles into the bank's ethical standards – we do not discriminate employees based on race, ethnicity, religious beliefs, age, gender, sexual orientation, political beliefs, family status, income level, disability, or any other characteristics. We observe these principles both in daily work and within the recruitment process.

As the restrictions of the Covid pandemic ended, we evaluated the positive impact of the hybrid work model on employee satisfaction and introduced a flexible work model, where functionally possible.

To get an independent assessment of what we have already accomplished in the area of sustainability and to find initiatives for further activities, Industra Bank plans to participate in the Sustainability Index led by the Institute of Corporate Sustainability and Responsibility (Korporatīvās ilgtspējas un atbildības institūts, InCSR) from 2024.

MANAGEMENT REPORT (continued)

Risks

For several years now, Industra has been purposefully reducing the level of inherent risks in its operations. A significant reduction in risks has been achieved in the fields of Anti-Money Laundering (AML) and Counter-Terrorist Financing (CFT), internal operations and risk management, capital adequacy and operational risks, resulting in an improvement in the overall risk assessment of the Bank's Supervisory Review and Evaluation Process (SREP) and the Bank's regulator has set the required individual capital requirement for 2023 at 12.95% level (incl. recommended capital reserve requirement or P2G in the amount of 0.25%).

Future forecasts

In 2023, Industra Bank in its development strategy keeps the main focus on attracting and servicing Latvian small and medium-sized enterprises – our goal is to be the bank that meets entrepreneurs' expectations, when they have felt unappreciated and unheard in the big banks' conveyer. To be a bank that delves into the client's business idea and finances those whose potential has been carefully weighed, providing reasoned financial calculations.

We will continue to improve our services, processes, and knowledge in order to understand our customers' wishes even better and to provide what is expected by companies, their employees, and owners.

In order to implement Industra Bank's development plans, we are going to introduce mobile banking, a virtual POS terminal, instant payments, and several other services important for customer convenience in 2023. In March, we have introduced the possibility to authorize in the internet bank using eParaksts mobile; in the first half of the year, we will also introduce the possibility to become our client remotely. The implementation of these services is important for ensuring the bank's overall services basket, attracting new customers, improving internal processes, and reducing operational risks.

Furthermore in 2023 Industra Bank will continue to work in the following directions:

- issuance of new loans to Latvian companies,
- we will introduce instant payments, remote identification, and other new services;
- we will supplement the internet bank with new functionalities;
- we will continue to automate and digitize customer service and payment processing processes, making them more efficient;
- extension of the correspondent banking network,
- improvements in operational efficiency thus reducing regulatory risk requirements.

In order to increase operational efficiency, at the beginning of 2023 the bank moved its head office to the office building at Muitas street 1 in Riga, purchased as part of the PrivatBank transaction. As the year progresses, we are going to continue improving the premises in order to create a modern, comfortable, and achievement-oriented working environment for the bank's employees and our customers. In the coming months, we will move the bank's customer service centre "Elizabete" to this building as well.

The year 2022 was a huge breakthrough year for Industra Bank - the bank has become more modern by introducing a new, intuitive internet bank and other services expected by customers. At the same time, we have significantly increased the scope of operations - the amount of loans issued to companies and customer deposits - thus forcing our competitors to reckon with us and letting to an increasing number of Latvian entrepreneurs see Industra Bank as a potential partner in the implementation of their ideas. In 2023, our most important task is to grow qualitatively, continuing to modernize our services and processes, and developing competencies.

On behalf of the Council and the Board of the Bank:

Jurijs Adamovičs
Chairman of the Council

Raivis Kakānis
Chairman of the Board

31 March 2023

INFORMATION ON THE BANK'S MANAGEMENT

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Council members as of the date of signing these financial statements

Name, surname	Position	Date of appointment
Jurijs Adamovičs	Chairman of the Council	28 December 2018
Andis Kļaviņš	Deputy Chairman of the Council	04 April 2020
Ivars Grunte	Member of the Council	10 December 2018
Guntars Reidzāns	Member of the Council	04 April 2020

Until 23rd November 2022 Guntars Reidzāns was the Deputy Chairman of the Council and Andis Kļaviņš was the Member of the Council.

Board members as of the date of signing these financial statements

Name, surname	Position	Date of appointment
Raivis Kakānis	Chairman of the Board	06 April 2020
Ruta Amtmane	Member of the Board	21 February 2019
Artūrs Veics	Member of the Board	12 June 2020
Jānis Diedišķis	Member of the Board	23 November 2022

On 23rd November 2022 Uģis Vorons left the position of Deputy Chairman of the Board.

STATEMENT OF RESPONSIBILITY OF THE BANK'S MANAGEMENT

STATEMENT OF RESPONSIBILITY OF THE BANK'S MANAGEMENT

The management of AS Industra Bank is responsible for the preparation of the Bank's separate financial statements and the consolidated financial statements of the Bank and its subsidiary AS Industra Invest (previously - AS MTB Finance) (hereinafter – the Group).

The financial statements presented on pages 11 to 87 are prepared based on source documents and present fairly the financial position of the Group and the Bank as at 31 December 2022 and the results of their operations, and cash flows for the year then ended.

The Bank's separate and the Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

The management of the Bank is responsible for the maintenance of 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, regulations of the Finance and Capital Market Commission, Latvijas Banka and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Council and the Board of the Bank:

Jurijs Adamovičs
Chairman of the Council

Raivis Kakānis
Chairman of the Board

31 March 2023

THE BANK'S SEPARATE AND THE GROUP'S CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The Bank's separate and the Group's consolidated statements of financial position

EUR'000	Note	2022 Group	2022 Bank	2021 Group (restated)	2021 Bank
ASSETS					
Cash and balances due from the Latvijas Banka	6	116,924	116,924	102,980	102,980
Demand deposits with credit institutions	7	600	600	659	659
Financial assets at fair value through profit or loss	8	1,662	1,662	501	501
Financial assets at fair value through other comprehensive income	8	1,015	1,015	1,031	1,031
Financial assets at amortised cost		119,907	133,120	46,299	61,495
Debt securities	8	*49,903*	*49,903*	-	-
Loans and receivables	9	*70,004*	*83,217*	*46,299*	*61,495*
Intangible assets	10	563	563	2	2
Property, equipment and right-of-use assets	11	557	515	676	676
Investment properties	12	22,306	10,140	14,251	1,193
Other assets	13	6,035	5,115	5,926	3,734
Total assets		**269,569**	**269,654**	**172,325**	**172,271**

EUR'000	Note	2022 Group	2022 Bank	2021 Group (restated)	2021 Bank
LIABILITIES AND EQUITY					
Financial liabilities at amortised cost:	14	243,706	243,770	151,033	151,087
Deposits		*240,029*	*240,093*	*146,380*	*146,434*
Subordinated liabilities	15	*3,677*	*3,677*	*4,653*	*4,653*
Other liabilities	16	5,376	5,061	5,098	4,372
Provisions		13	13	7	7
Total liabilities		**249,095**	**248,844**	**156,138**	**155,466**
Shareholders' equity					
Share capital	17	27,601	27,601	27,601	27,601
Share premium		260	260	260	260
Reserve capital		4,156	4,156	4,156	4,156
Fair value reserve		14	14	28	28
Accumulated losses		(11,557)	(11,221)	(15,858)	(15,240)
Total Shareholders' equity		**20,474**	**20,810**	**16,187**	**16,805**
Total liabilities and equity		**269,569**	**269,654**	**172,325**	**172,271**

The accompanying notes on pages 16 to 87 form an integral part of these Bank's separate and Group's consolidated financial statements.
The Council and the Board of the Bank approved the issue of these Bank's separate and Group's consolidated financial statements as presented on pages 11 to 87 on 31 March 2023.

Jurijs Adamovičs
Chairman of the Council

Raivis Kakānis
Chairman of the Board

31 March 2023

The Bank's separate and the Group's consolidated statements of profit or loss and other comprehensive income

EUR'000	Note	2022 Group	2022 Bank	2021 Group	2021 Bank
Interest income	18	3,481	3,554	2,315	2,376
including income at effective interest rate		*2,930*	*3,212*	*2,047*	*2,309*
Interest expenses	19	(1,053)	(1,053)	(1,136)	(1,136)
Net interest income		**2,428**	**2,501**	**1,179**	**1,240**
Commission and fee income	20	8,788	8,786	12,710	12,708
Commission and fee expense	21	(2,476)	(2,476)	(5,036)	(5,036)
Net commission income		**6,312**	**6,310**	**7,674**	**7,672**
Gain on trading with financial instruments	22	260	350	239	42
Net gain on revaluation of financial assets measured at fair value through profit or loss	22	(167)	(167)	(7)	(7)
Net gain from Bargain purchase	39	3,093	3,093	-	-
Other operating income	23	1,143	427	564	127
Other operating expenses		(436)	(283)	(369)	(119)
Net operating income		**12,633**	**12,231**	**9,280**	**9,337**
Administrative expenses	24	(8,279)	(8,123)	(7,182)	(6,888)
Depreciation of property, equipment and right-of-use assets	25	(431)	(423)	(411)	(409)
Revaluation of investment property	12	(195)	-	73	273
Net impairment allowance result	9	573	334	(241)	(663)
Profit before taxation		**4,301**	**4,019**	**1,519**	**1,650**
Income tax expenses		-	-	-	-
Profit after taxation		**4,301**	**4,019**	**1,519**	**1,650**
Profit for the reporting period		**4,301**	**4,019**	**1,519**	**1,650**
Other comprehensive income					
Items that could be reclassified to profit or loss					
Net (loss)/gains on financial assets (debt instruments) at fair value through other comprehensive income		(14)	(14)	8	8
Other comprehensive income for the reporting year		**(14)**	**(14)**	**8**	**8**
Total comprehensive income		**4,287**	**4,005**	**1,527**	**1,658**

The accompanying notes on pages 16 to 87 form an integral part of these Bank's separate and Group's consolidated financial statements.
The Council and the Board of the Bank approved the issue of these Bank's separate and Group's consolidated financial statements as presented on pages 11 to 87 on 31 March 2023.

Jurijs Adamovičs
Chairman of the Council

Raivis Kakānis
Chairman of the Board

31 March 2023

The Bank's separate and the Group's consolidated statements of changes in shareholder's equity

Group EUR'000	Share capital	Share premium	Reserve capital	Fair value reserve	Accumulated loss	Total equity
As at 31 December 2020	**25,599**	**260**	**4,156**	**20**	**(17,377)**	**12,658**
Issue of shares	*2,002*	-	-	-	-	*2,002*
Profit for the reporting year	-	-	-	-	*1,519*	*1,519*
Other comprehensive income	-	-	-	*8*	-	*8*
Total comprehensive income	**2,002**	**-**	**-**	**8**	**1,519**	**3,529**
As at 31 December 2021	**27,601**	**260**	**4,156**	**28**	**(15,858)**	**16,187**
Profit for the reporting year	-	-	-	-	4,301	4,301
Other comprehensive income	-	-	-	(14)	-	(14)
Total comprehensive income	**-**	**-**	**-**	**(14)**	**4,301**	**4,287**
As at 31 December 2022	**27,601**	**260**	**4,156**	**14**	**(11,557)**	**20,474**

Bank EUR'000	Share capital	Share premium	Reserve capital	Fair value reserve	Accumulated loss	Total equity
As at 31 December 2020	**25,599**	**260**	**4,156**	**20**	**(16,890)**	**13,145**
Issue of shares	*2,002*	-	-	-	-	*2,002*
Profit for the reporting year	-	-	-	-	*1,650*	*1,650*
Other comprehensive income	-	-	-	8	-	8
Total comprehensive income	**2,002**	**-**	**-**	**8**	**1,650**	**3,660**
As at 31 December 2021	**27,601**	**260**	**4,156**	**20**	**(15,240)**	**16,805**
Profit for the reporting year	-	-	-	-	4,019	4,019
Other comprehensive income	-	-	-	(14)	-	(14)
Total comprehensive income	**-**	**-**	**-**	**(14)**	**4,019**	**4,005**
As at 31 December 2022	**27,601**	**260**	**4,156**	**14**	**(11,221)**	**20,810**

The accompanying notes on pages 16 to 87 form an integral part of these Bank's separate and Group's consolidated financial statements.
The Council and the Board of the Bank approved the issue of these Bank's separate and Group's consolidated financial statements as presented on pages 11 to 87 on 31 March 2023.

Jurijs Adamovičs
Chairman of the Council

Raivis Kakānis
Chairman of the Board

31 March 2023

The Bank's separate and the Group's consolidated statements of cash flows

EUR'000		2022 Group	2022 Bank	2021 Group	2021 Bank
Cash flows from operating activities					
Profit before taxation		4,301	4,019	1,519	1,650
Depreciation of property, equipment and right-of use assets		431	423	411	409
Impairment allowance		(573)	(334)	241	663
Revaluation of investment property		195	-	(73)	(273)
Interest income		(3,481)	(3,554)	(2,315)	(2,376)
Interest expense		1,053	1,053	1,136	1,136
Bargain gain purchase (non-cash)		(3,093)	(3,093)	-	-
Other changes		(14)	(14)	74	(38)
Increase in cash and cash equivalents used in operating activities before changes in operating assets and liabilities		**(1,181)**	**(1,500)**	**993**	**1,171**
(Increase)/decrease in loans and advances to customers		(4,469)	(194)	(2,821)	309
Decrease in financial assets at amotrised cost – debt securities		(49,903)	(49,903)	-	-
(Increase)/decrease in other financial assets		(1,839)	(1,839)	1,570	1,570
(Increase)/decrease in other assets		(109)	(1,381)	(1,641)	46
Increase/(decrease) in deposits		43,529	43,539	19,742	19,755
Increase/(decrease) in other liabilities		(81)	(492)	1,725	1,590
Interest received		3,472	3,554	2,302	2,363
Interest paid		(1,053)	(1,053)	(1,136)	(1,136)
Net cash flows from operating activities		**(8,136)**	**(5,591)**	**20,734**	**25,668**
Cash flow from investing activities					
Purchase of property and equipment		(286)	(235)	(120)	(120)
Disposal of property and equipment		-	-	120	120
Acquisition of investment property		(1,950)	-	(1,800)	-
Disposal of investment property		2,596	-	6,734	-
Cash paid net of cash acquired in a business combination	39	20,890	20,890	-	-
Net cash flow from investing activities		**23,200**	**20,655**	**4,934**	**-**
Cash flow from financing activities					
Issue of shares		-	-	2,002	2,002
Increase in subordinated liabilities		(976)	(976)	17	17
Repayment of lease liabilities (IFRS 16)		(203)	(203)	(209)	(209)
Net cash flows from financing activities		**(1,179)**	**(1,179)**	**1,810**	**1,810**
Net increase in cash and cash equivalents		**13,885**	**13,885**	**27,478**	**27,478**
Cash and cash equivalents at the beginning of the year		**103,639**	**103,639**	**76,161**	**76,161**
Cash and cash equivalents at the end of the year	**26**	**117,524**	**117,524**	**103,639**	**103,639**

The accompanying notes on pages 16 to 87 form an integral part of these Bank's separate and Group's consolidated financial statements.

The Council and the Board of the Bank approved the issue of these Bank's separate and Group's consolidated financial statements as presented on pages 11 to 87 on 31 March 2023.

Jurijs Adamovičs
Chairman of the Council

Raivis Kakānis
Chairman of the Board

31 March 2023

NOTES TO THE BANK'S SEPARATE AND THE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

Notes to the Bank's separate and the Group's consolidated financial statements

1 GENERAL INFORMATION

Information on the Bank

AS Industra Bank (previously – AS Meridian Trade Bank, AS SMP Bank; hereinafter – the Bank) was incorporated in the Republic of Latvia as joint stock company "Multibanka" in 1994, in Riga and is licensed as a bank offering a wide range of financial services to enterprises and individuals. The legal address of the Bank on 31st December 2022 is Elizabetes iela 57, Riga, Latvia, but from 19th January 2023 the Bank's new legal address is Muitas iela 1, Riga, Latvia. The Bank has 4 client service centres in Riga, and client service centres in Liepāja, Ventspils, Daugavpils and Jelgava.

These financial statements include the Group's consolidated and the Bank's separate financial statements. The consolidated financial statements for the year ended 31 December 2022 include the financial statements of the Bank and its subsidiary AS Industra Invest (until 20.03.2023. - AS MTB Finance) (hereinafter - the Group). The legal address of the AS Industra Invest on 31st December 2022 is Elizabetes iela 57, Riga, Latvia, but from 30th January 2023 AS Industra Invest new legal address is Muitas iela 1, Riga, Latvia. AS Industra Invest manages investment properties portfolio and provides leasing services.

The financial statements were approved for issue by the Board on 31 March 2023. The shareholders have the right to reject these financial statements and request that new financial statements are prepared.

Legislation regulating the Bank's operations

The Bank's operations are governed by the law "On Credit Institutions", "Commercial Law" and regulations issued by the EU and the Financial and Capital Market Commission (FCMC) (since 01.01.2023. joined to Latvijas Banka). The above regulations govern capital adequacy, minimum equity, liquidity, foreign exchange positions, risk transaction restrictions with respect to one counterparty, group of related customers and related parties of the Bank, as well as other applicable requirements.

2 BASIS OF PREPARATION

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) on a going concern basis. The financial statements were prepared on a historical cost basis, except for financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and investment properties measured at fair value.

After considering key risks the management believes that the going concern basis is appropriate for the preparation of these financial statements, which is described in Note 41. The financial and capital position of the Group and the Bank and their business activities, the objectives and policies of risk management and the key risks to which the Group and the Bank are exposed are described in Note 4. Liquidity risk management is particularly important with regard to the going concern basis as the inability to attract sufficient funds to settle its liabilities may cause the Bank to borrow funds at excessive cost, breach regulatory requirements, delay regular settlements or make the Group and the Bank no longer compliant with the going concern basis. For more information, please refer to Note 4 section "Liquidity risk". Of equal importance to the Group's and the Bank's compliance with the going concern basis is compliance with regulatory requirements, in particular those relating to capital adequacy.

Business activities are planned and carried out by the Group and the Bank in view of the available capital and liquidity and in line with regulatory requirements. The capital adequacy calculation and wider disclosures on current and expected capital adequacy requirements are provided in section "Capital management". In addition to other risk policies and procedures the Group and the Bank have a comprehensive liquidity risk management and capital planning framework in place.

The management of the Group and the Bank consistently monitors and evaluates the market situation and its potential impact on the Group and the Bank.

The preparation of the financial statements under IFRS as adopted by the EU requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities and the reported income and expenses for the reporting period. Although such estimates

Notes to the Bank's separate and the Group's consolidated financial statements

2 BASIS OF PREPARATION (continued)

are based on reasonable information available to management regarding these events and activities, actual results may differ from these estimates.

Basis of measurement

The financial statements are prepared on the historical cost basis except for the following:

- financial assets at fair value through profit or loss are stated at fair value (including financial assets held for trading);
- financial assets at fair value through other comprehensive income are stated at fair value;
- investment property is carried at fair value.

Functional and Presentation Currency

The financial statements are presented in euros and all figures are rounded to thousands of euros unless indicated otherwise. Euro is functional currency of the Bank and its subsidiaries.

Presentatin of statement of financial position in order of liquidity

The Group and the Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 35 for analysis of financial instruments by their maturity.

Restatement of Statement of financial position

The consolidated statement of financial position of the Group as of 31st December 2021 has been restated due to reclassification of a long term debt agreement between AS Industra Invest and its debtor. The outstanding amount and impairments for this agreement in net amount have been reclassified from "Other assets" to "Loans and receivables" so that the amounts in the financial statements for 2022 would be comparable accordingly.

There are no other impacts to the statement of financial position from the restatement. All the relevant notes with regards to "Other assests" and to "Loans and receivables" for the Group 2021 have been restated accordingly.

Statement of financial position:

EUR'000 Group	2021 before restatement	Restatement	2021 after restatement
Financial assets at amortised cost	44,416	1,883	46,299
Loans and receivables	44,416	1,883	46,299
Other assets	7,809	(1,883)	5,926
Total assets	**172,325**	**-**	**172,325**

Below disclosed more detailed split for restatement of receivable amount by groups, gross amount and impairment in Note 9 Loans and receivables (a) by groups (Group):

EUR'000 Group	2021 before restatement	Restatement	2021 after restatement
Individuals	8,619	-	8,619
Legal entities	49,320	2,058	51,378
Total loans, gross	**57,939**	**2,058**	**59,997**
Impairment allowance	(13,523)	(175)	(13,698)
Total loans, net	**44,416**	**1,883**	**46,299**

The restated amounts for the Group have been represented in Notes 8, 9, 13, 31, 32, 33, 34, 35, 37 and 38.

Notes to the Bank's separate and the Group's consolidated financial statements

3 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the consolidated and separate financial statements:

Basis for consolidation

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.

The investment in AS Industra Invest, in which the Bank holds a 100% interest and voting rights, is accounted for in the Bank's separate financial statements at cost less impairment.

Transactions eliminated on consolidation

Intra-group transactions, balances and unrealised profits arising from intra-group transactions are eliminated in the course of consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Loss of control

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

Currency translation

Foreign exchange transactions are translated into the respective functional currency at the reference exchange rate published by the European Central Bank on the date of the respective transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated 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 amortised cost in the functional currency at the beginning of the period, adjusted for effective interest rate and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the spot exchange rate at the date of acquisition or the date that the fair value was determined, respectively. Foreign currency differences arising on translation are recognised in the statement of profit or loss.

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

Currency	Reporting date	
	31.12.2022	**31.12.2021**
USD	1.0666	1.1326
RUB*	78.73	85.30040
CNY	7.35820	7.19470

* Until 1st of March 2022 the Bank used European Central Bank official EUR / RUB exchange rate. After 1st of March 2022 the Bank used EUR / RUB exchange rate that was daily published by Bloomberg.

Financial instruments

Initial recognition

All purchases and sales of financial assets that require delivery in accordance with accepted market principles ("ordinary" purchases and sales) are accounted for at the date of the transaction, which is the date on which the Group / the Bank commits to deliver the financial asset. Other purchases are recognised when the Group / the Bank becomes a party to the contractual terms of the instrument.

Notes to the Bank's separate and the Group's consolidated financial statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

Financial instruments are classified into the following categories:

- Financial assets at fair value through profit or loss (FVTPL);
- Financial assets at fair value through other comprehensive income (FVOCI);
- Financial assets at amortised cost (AC).

The classification and subsequent measurement of financial assets depends on: (i) the Group's and the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

The business model reflects how the Group and the Bank manages the assets in order to generate cash flows – whether the Group's and the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group and the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group and the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this 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 credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

Financial assets at fair value through profit or loss

Financial assets are measured at fair value through profit or loss if they are not measured at amortised cost or measured at fair value through other comprehensive income.

For equity instruments that would otherwise be measured at fair value through profit or loss, at initial recognition an irrevocable election may be made to recognise those at fair value through other comprehensive income. The option to choose is applicable to each instrument individually.

Interest on financial assets measured at fair value through profit or loss is included in net interest income. Revaluation and trading gains or losses arising from changes in the fair value of the respective financial assets are included directly in the income item "Net gain on revaluation of financial assets measured at fair value through profit or loss". Such financial assets and liabilities after initial recognition are revalued at fair value based on available market prices or broker quoted prices.

Financial assets at fair value through other comprehensive income

For a financial asset to be measured at fair value through other comprehensive income, it should be concurrently held within a business model the aim thereof is both to receive contractual cash flows and to sell the financial asset and the contractual terms of the financial asset should give rise on specific dates to cash flows that are "solely payments of principal and interest on the principal amount outstanding". The Group's financial assets

Notes to the Bank's separate and the Group's consolidated financial statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

measured at fair value through other comprehensive income are expected to be held for an indefinite period of time and may be sold if required by liquidity or changes in interest rates, exchange rates or share prices.

Financial assets measured at fair value through other comprehensive income are subsequently, after initial recognition, re-measured at fair value based on available market prices. A revaluation gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. For debt securities the difference between the initial carrying amount and amortised cost determined by the effective interest rate method is treated as interest income; upon de-recognising of a security the cumulative fair value revaluation gain previously recognised in other comprehensive income is reclassified from equity to profit or loss.

For non-equity financial instruments measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income and does not reduce the carrying amount in the statement of financial position. For equity instruments, that are not held for trading and not acquired as a result of business combinations, the Group and the Bank, upon initial recognition, should make an irrevocable election to present the subsequent changes in fair value of the instruments in other comprehensive income or in profit or loss. This election is made on an instrument-by- instrument basis. Amounts presented in other comprehensive

income are not subsequently transferred to profit or loss, but cumulative gain or loss on disposal is transferred directly to retained earnings.

Financial assets at amortised cost

In order to measure a financial asset at amortised cost, it should be held concurrently within a such business model that aims to hold a financial asset in order to receive its contractual cash flows and the contractual terms of the financial asset should give rise on specific dates to cash flows that are "solely payments of principal and interest on the principal amount outstanding" (SPPI principle). Financial assets measured at amortised cost are carried at amortised cost using the effective interest rate method, less any allowance for impairment.

A gain or loss on a financial asset that is measured at amortised cost is recognised in profit or loss when the financial asset is derecognised, reclassified through the amortisation process or in order to recognise impairment gains or losses. Financial assets at amortised cost are recognised on drawdown. From the date of signing of a relevant contract till drawdown they are accounted for as off-balance sheet commitments.

When amending or revising the contractual cash flows of financial assets that do not result in derecognition, the Group and the Bank shall recalculate the gross carrying amount of the financial assets and recognise gain or loss from changes in the statement of profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The new gross carrying amount is an estimate of the present value resulting from the initial effective interest rate of the financial asset or the credit-adjusted effective interest rate on a financial asset that is impaired or impaired by discounting the modified or revised contractual cash flows. Estimates of expected cash flows include all contractual cash flows and payments, except for expected credit losses, unless the financial asset is acquired or issued with impairment. Costs or commissions adjust the carrying amount of the modified financial asset and are amortised over the remaining period of repayment of the modified asset.

If financial assets cannot be recovered, they are written off and charged against allowance for credit losses. The management of the Group and the Bank decides on writing-off of financial assets. Recoveries of loans previously written off are credited to the statement of profit or loss.

This category includes claims on credit institutions, loans and advances to customers and fixed income securities that correspond to the principle of "solely principal and interest payments".

Notes to the Bank's separate and the Group's consolidated financial statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Liabilities at amortised cost

Liabilities at amortised cost include deposits and account balances of credit institutions, balances of customer current accounts and customer deposits, subordinated liabilities and other financial liabilities.

Financial liabilities at amortised cost are initially measured at fair value less direct transaction costs and subsequently measured at amortised cost using the effective interest rate method.

The fixed maturity of subordinated deposits is at least five years at the time of their creation and these deposits must be repaid before maturity only in the event of the cessation of business or bankruptcy of the Bank, when those are ranked before shareholders' claims. Likewise, issued subordinated debt securities must be repaid before maturity only in the event of the cessation of business or bankruptcy of the Bank, when they rank before the shareholders' claims.

Derecognition

Financial assets – write-off

Financial assets are written off in full or in part when the Group and the Bank has exhausted all practical possibilities of recovery and has concluded that there is no reason to believe that the amounts will be recovered. The write-off is a de-recognition 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 due under contracts, however, there is no reason to believe that they will be recovered.

Financial assets – de-recognition

The Group and the Bank derecognises financial assets when:
- the assets are redeemed or the rights to cash flows from the assets expired; or
- the Group and the Bank transfer the rights to the cash flows from the financial assets or enter into a relevant agreement, while

(i) transferring all material risks and rewards of ownership of the asset, or
(ii) neither transferring nor retaining all material risks and rewards inherent in the ownership of the asset, nor retaining control. Control is maintained if the other party to the transaction does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale transaction.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents the interest expense and is recognised in the statement of comprehensive income over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the "reverse repo" agreement using the effective interest method. If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Derivatives

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are initially recognised in the statement of financial position at their fair value. Attributable transaction costs are recognised in the statement of profit or loss of the relevant period. Fair values are obtained from quoted market prices or discounted cash flow models, as appropriate. OTC derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group and the Bank do not use hedge accounting.

Notes to the Bank's separate and the Group's consolidated financial statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting

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

Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Property and equipment are recognized if the expected usage is more than a year and the cost is at least 300 EUR, incl. VAT.

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. Cost includes expenses that are directly attributable to the acquisition of the asset.

Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date when the asset becomes available for use or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Depreciation methods, useful lives and residual values are assessed annually. The annual depreciation rates are as follows:

Buildings	5%
Furniture and cars	20%
Computers	35%
Other fixed assets	20%

Intangible assets

Intangible assets acquired by the Group or the Bank are stated at cost less accumulated amortisation and impairment losses.

Software licences are capitalised based on the costs incurred to acquire and customise the specific software. Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the individual assets. The estimated useful lives are 5 to 7 years.

Repossessed assets

As part of the normal course of business the Group and the Bank occasionally take possession of property that originally was pledged as security for a loan. When the Group and the Bank acquire (i.e., gains full title to) a property in this way, the property's classification follows the nature of its intended use by the Group and the Bank. When the Group and the Bank are uncertain of their intentions with respect to property that they have repossessed, those properties are classified as investment property. Other types of collateral (repossessed finance lease objects) are classified as other assets and carried at cost net of impairment loss.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or for administrative purposes. All investment properties are carried at fair value through statement of profit or loss. The fair value of investment property is based on a valuation by an independent appraiser who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The fair value of the Group's and the Bank's investment property is measured by independent appraisers on a regular basis.
The Group and the Bank transfers a property to, or from, investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.
Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Recognition of income and expenses

All significant categories of income and expenses are recognised on an accrual basis.

Notes to the Bank's separate and the Group's consolidated financial statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest income is recognised as it accrues in the statement of profit or loss using the effective interest method. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Loan origination fees and other fees including the related direct costs that are considered an integral part of the total loan profitability are deferred and amortised to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been supplied.

Fair value measurement principles

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 has access at that date. The fair value of liabilities represents the risk of default.

A number of the Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities carried at fair value or disclosures on their fair value should be made in the financial statements.

The Group and the Bank have an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- a review and approval process for new models against observed market transactions;
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month.

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 (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in the statement of profit or loss 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 the Bank measure the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the fair value is established by the Group and the Bank 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 should make maximum use of market inputs, rely as little as possible on estimates specific to the Group and the Bank, incorporate all factors that market participants would consider in setting a price, and be consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group and the Bank calibrate valuation techniques and test them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Notes to the Bank's separate and the Group's consolidated financial statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, the Group and the Bank assess and document 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 the 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.

In determining the fair value of assets or liabilities the Group and the Bank use observable market data to the extent possible. 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 categorised in different levels of the fair value hierarchy, the fair value measurement is categorised 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 recognise transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. For further analysis of the basis for fair value refer to Note 38.

Credit impairment

Financial assets

The Management of the Group and the Bank considers both specific exposures and portfolio-level risks in determining the balance of impairment allowance for expected credit losses. The expected credit loss assessment is forward-looking and is based on unbiased and probability-weighted information about past events, current conditions and forecasts of future economic conditions. Impairment allowance for expected credit losses is recognised even if no credit loss event has happened. A loan or portfolio of loans is impaired and impairment losses are incurred if, and only if, there is objective evidence that the estimated present value of future cash flows is less than the current carrying value of the loan or portfolio of loans, and it can be reliably estimated.

For off-balance contingent liabilities, allowances for expected future losses are recognised as provisions. The provisioning principles for expected losses arising from off-balance sheet financial commitments and contingent liabilities are consistent with the principles and methods applied for on-balance sheet exposures. Additional considerations are applied to adjustments for expected conversion and future use patterns of the committed limits as well as the Group's performance in timely identification and termination of limits for deteriorating exposures.

The Group and the Bank have grouped the loans into 4 stages, based on the applied impairment methodology, as described below:

Stage 1 – performing loans: when loans are first recognised, the Group and the Bank recognise an allowance based on twelve months expected credit losses.

Stage 2 – loans with significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the Group and the Bank record an allowance for the lifetime expected credit loss. The Group and the Bank use the following criteria to determine a significant increase in credit risk: contractual payments are overdue by more than 30 days, the loan is included in the watch list, a negative outlook for the industry.

Stage 3 – loans in default or with indication for unlikeliness to pay. The Group and the Bank recognise lifetime expected credit losses for these loans and, in addition, accrue interest income on the amortised cost of the loan net of allowances. Provisions for impairment losses on individual loans are calculated according to the present value of their discounted future cash flows, however, the collateral value is adjusted to reflect the amount expected to be earned from the collateral. The definition of "default" as used by the Group and the Bank to classify financial assets into Stage 3 does not differ from the one provided in Article 178 of Regulation 575/2013,

Notes to the Bank's separate and the Group's consolidated financial statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

i.e., exposure delayed 90 and more days (less days for some products), significant restructuring, insolvency or bankruptcy, or similar legal proceedings started or other indicators of unlikeliness to pay. Evidence that a financial asset is in default of unlikely to pay includes the following observable data:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting to the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, a concession that the Group or the Bank would not otherwise consider;
- the borrower entering bankruptcy or other financial reorganisation becomes highly probable;
- a combination of several other events that cause a loan to become credit impaired.

POCI – credit-impaired financial asset at the time when they were purchased or originated.

The Group and the Bank recognise impairment for fair value through other comprehensive income (FVOCI) debt securities as applicable, depending on whether they are classified as Stage 1, 2, 3 or POCI, as explained above. However, in this event the expected credit losses will not reduce the carrying amount of these financial assets in the financial statement, 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 recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss.

For FVOCI debt securities considered to be ''low risk", the Group and the Bank apply a policy which assumes that the credit risk on the instrument has not increased significantly since initial recognition. Such instruments will include investment grade securities where the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. For "low risk" assets Expected Credit Loss (ECL) is calculated as explained in Stage 1 above.

When estimating lifetime ECLs for undrawn loan commitments, the Group and the Bank: a) estimate the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment, and b) calculate the present value of cash shortfalls between the contractual cash flows that are due to the Group and the Bank and the cash flows the Group and the Bank expect to receive for that expected portion of the loan drawn down.

For financial guarantee contracts, the Group and the Bank calculate the ECL based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party.

For revolving facilities such as credit cards and overdrafts, the Group and the Bank measure ECLs by determining the period over which they expect to be exposed to credit risk, taking into account the credit risk management actions that they expect to take once the credit risk has increased and that serve to mitigate losses.

Following a decrease in credit risk, a financial asset may be re-classified from Stage 3 to Stage 2 or from Stage 2 to Stage 1. The Group and the Bank use a sufficiently long (in some events – up to 2 years) probation period until all factors of enhanced risk or default do not exist anymore, to establish a possibility to move a financial asset from Stage 3 to Stage 2 and from Stage 2 to Stage 1. The classification of POCI assets will not change over the assets' lifetime.

Expected credit loss will be determined by the Group and the Bank using the so-called EAD x PD x LGD method, where EAD is exposure at default, PD is probability of default and LGD is loss given default. For measurement of expected credit losses financial instruments are grouped based on similar probability of default and common credit peculiarities as well as individual assessment of borrowers.

As part of the portfolio based EAD x PD x LGD method each component is determined separately and then all components are aggregated on the portfolio level. PD evaluation is made by the Bank using migration matrices based on historical performance of portfolio of financial assets adjusted for forward-looking forecasts. The main macroeconomic and industry factors taken into account are gross domestic product, geopolitical and COVID-19 most affected industries and real estate prices. EAD evaluation is made by the Group and the Bank using payment schedules adjusted, where necessary, for advance payments and taking into account off-balance sheet transactions.

Model validation includes reviews of input data, underlying assumptions used for expected credit loss evaluation, and review of model output data. Back-testing is performed by testing whether the Stage 2 indicators correctly reflect an increase in credit risk, and namely, the Bank analyses the number and amount of cases when a loan is

Notes to the Bank's separate and the Group's consolidated financial statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

reclassified directly from Stage 1 to Stage 3, as well as it is intended to compare the actual historical performance of portfolio to the expected credit loss estimation results as per developed models.

The assessment of whether lifetime expected credit losses should be recognised is based on significant increases in the likelihood (Stage 2) or a default (Stage 3) occurring since initial recognition. In most cases, there will be a significant increase in credit risk before a financial asset becomes credit-impaired or an actual default occurs (Stage 3), thus default (Stage 3) and credit-impaired loan classification will be closely aligned and will indicate non-performance of the borrower or significance of forbearance measures undertaken, but classification will not necessarily equal in all cases.

For purchased or originated credit-impaired (POCI) financial assets, expected credit losses are discounted using the credit-adjusted effective interest rate determined at initial recognition. For purchased or originated credit-impaired financial assets only the cumulative changes in lifetime expected credit losses since initial recognition are recognised as a loss allowance. Favourable changes in lifetime expected credit losses are recognised as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

Fully impaired loans, the recovery of which may become economically unviable, may be written-off and charged against impairment allowance. These loans are not written-off until the necessary legal procedures have been completed and the amount of the loss is determined. When a loan or receivable is written-off, the claim against the borrower normally is not forgiven. Subsequent recoveries of amounts previously written-off are reported in the statement of profit or loss as recovered written-off assets within net credit losses on financial instruments.

For unused credits that have been granted, under the terms of the credit agreement, but not used, a conversion factor is calculated, which depends on historical data on the use of credit limits for the past 3 years (but in any case by applying a minimum conversion factor depending on the time limits available). The unused credit amount is multiplied by the conversion factor and added to the loan balance.

Similarly, as for loans to customers, the Group and the Bank estimate expected credit losses to reflect changes in credit risk since initial recognition of debt securities, loans to credit institutions and central banks exposures and commitments to extend credit. Impairment allowances are recognised based on forward looking information, even if no credit loss event has happened. The assessment considers a broad range of information, but as most of these types of exposures are rated, it relies heavily on external credit ratings and rating agencies' reported default rates derived by calculating multi-period rating transition matrices. The LGD depends on the type of issuer (counterparty) and the external credit rating. Discounted cash flow is used to calculate EAD. The effective interest rate on debt securities is the yield at the time of purchase. The effective interest rate on a money market transaction is the interest rate of the transaction. Expected losses for balances in correspondent accounts and interbank overnight loans are not calculated due to the short-term nature of transactions (not exceeding one day).

If no credit rating is assigned, then the country's long-term credit rating is used, downgraded by 1 rating notch. Impairment provisions apply to financial assets measured at amortised cost but does not apply to financial assets measured at fair value through profit or loss. The Group and the Bank will recognise impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as described above. The expected credit losses will not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value.

For financial assets measured at fair value through other comprehensive income, the loss allowances are recognised in other comprehensive income and does not reduce their carrying amount in the statement of financial position.

Geopolitical risks

As the consequence of the Russia invasion of Ukraine, the imposed EU, USA and other sanctions as well as the counter measures implemented by Russia, the geopolitical risks increase significantly. Businesses and assets directly located in Russia, Belarus, as well as Ukraine have been negatively impacted. The Group and the Bank were successful to rapidly reduce exposures in the mentioned regions and remaining exposures are minor (17 thousand EUR as at 31st December 2022). There are also indirect consequences resulting in changes of payment flows, sanctioned goods flows as well as price shocks of multiple commodities and products. Credit customers that are affected by such negative events (e.g., manufacturers of metal products, energy production from natural gas, etc.) have been added to credit watch list and consequently reclassified as Stage 2 exposures.

Notes to the Bank's separate and the Group's consolidated financial statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-financial assets

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. The main assets and cash generating units considered by the Group comprise investment properties. Properties are valued on an individual basis. Impairment losses are recognised as in the statement of profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, except goodwill, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Loan commitments

In the normal course of business, the Group and the Bank enter into credit related commitments comprising irrevocable credit line facilities, letters of credit and guarantees, and provides other forms of credit insurance.

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

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably. For unused credit amounts that have been granted but not used in accordance with the terms of the loan agreement, a conversion factor is calculated, depending on the historical use of the credit limits over the last 3 years. The amount of unused credit is multiplied by the conversion factor and added to the loan balance. For the purpose of calculating EAD for unused loans, it is assumed that the unused credits will be repaid in accordance with the repayment schedule of the relevant loan agreement.

Financial guarantee liabilities and provisions for other credit related commitments are included within other liabilities.

Taxation

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 tax on distributed profit will be recognized when the shareholders of the Company make a decision about profit distribution.

The Company calculates and pays corporate income tax also for the conditionally distributed profit (20/80 of calculated taxable base), which includes taxable objects in accordance with the Corporate Income Tax law, such as the expenditure not related to economic activity, the doubtful debts of debtors and the loans to the related parties, if they meet criteria provided in the Corporate Income Tax law, as well other expenses exceeding statutory limits for deduction. Corporate income tax for the conditionally distributed profit is recognized in the statement of profit or loss in the year for which it is assessed. Corporate income tax for the distributed profit and corporate income tax for the conditionally distributed profit is included in the statement of profit or loss line item "Income tax expenses" and disclosed by the components in the notes to the financial statements.

Notes to the Bank's separate and the Group's consolidated financial statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax

According to the Law on Enterprise Income Tax of the Republic of Latvia adopted on 28 July 2017, and effective from 1 January 2018, a 20% rate is only applied to distributed profits. Therefore no deferred tax assets and liabilities are recognised.

Cash and Cash Equivalents

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

Leases

Finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

When assets are leased out under finance lease terms, the net investment in finance lease is recognised as a receivable. The net investment in finance lease represents the difference between the gross receivable and the unearned finance income.

Operating lease

An operating lease is a lease other than a finance lease.

Assets leased out under an operating lease are presented within property and equipment in the statement of financial position net of accumulated depreciation. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment.

The Group and the 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 in the statement of financial position.

Depreciation of the RoU assets and interest expenses related to lease liabilities are recognised in the statement of profit or loss. In the statements of cash flows 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 and the Bank 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.

Provisions

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

Notes to the Bank's separate and the Group's consolidated financial statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

The Group and the Bank receive dividends from the equity instruments that are recorded in profit or loss when the right to receive payment is established.

Proposed dividends are recognised in the financial statements only when approved by the shareholders.

Employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in administrative expenses on an accrual basis. The Group and the Bank pay contributions to the State Social Insurance 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 employee services in respect to pension of retired employees.

Adoption of new and/or amended IFRSs and IFRIC interpretations

The following amended standards became effective for the first time for the annual periods beginning 1 January 2022, but did not have any material impact on the Group's and the Bank's financial statements:

- **Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS9, IFRS16 and IAS 41**.

- **Covid-19-Related Rent Concessions – Amendments to IFRS 16 (effective for annual periods beginning on or after 1 April 2021).** The amendments provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification.

The amendments did not have any impact on the Group's and the Bank's financial position, results or cash flows.

Standards or interpretations effective for the first time for the annual periods beginning on or after 1 January 2022 or not yet adopted by the EU.

- **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).

- **Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies** (effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies.

- **Amendments to IAS 8: Definition of Accounting Estimates** (effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

- **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). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations.

- **Transition option to insurers applying IFRS 17 – Amendments to IFRS** 17 (effective for annual periods beginning on or after 1 January 2023).

- **Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (**effective for annual periods beginning on or after 1 January 2024, not yet endorsed by the EU). The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.

Notes to the Bank's separate and the Group's consolidated financial statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

- **Classification of liabilities as current or non-current – Amendments to IAS 1** (effective for annual periods beginning on or after 1 January 2024, not yet endorsed by the EU). These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period.

The Group and the Bank are assessing impact of new standards and amendments on their financial statements.

4 RISK MANAGEMENT

The Board of the Bank has developed a system for the identification, supervision and management of the key financial risks. The Bank's Council has approved this risk management system. This system is being constantly updated to consider market conditions and the development of the Group's and the Bank's main operations. The following policies have been approved in order to achieve the Group's and the Bank's objectives related to capital adequacy, liquidity risk, credit risk, market risk, operational risk management, reputation risk, conflict of interest prevention activities, personal data protection and processing activities, internal control and anti-money laundering and counter-terrorism and proliferation financing and sanctions risk management:

1. Liquidity risk management policy;
2. Credit policy;
3. Credit risk management policy and strategy;
4. Risk transactions and risk control policy for large transactions;
5. Currency risk management policy;
6. Country risk management policy;
7. Interest rate risk management policy;
8. Internal control policy;
9. Anti-money laundering and counterterrorism and proliferation financing and sanctions risk management policy;
10. Operational compliance risk management policy;
11. Capital and liquidity adequacy assessment policy;
12. Operational risk management policy;
13. Conflicts of interest prevention policy;
14. Reputation risk management policy;
15. Personal data protection and processing policy.

The Board of the Bank is responsible for the implementation of the risk management policy approved by the Council of the Bank.

Comprehensive management of the risk control functions at the Bank is ensured by Chief Risk Officer (CRO). The CRO ensures that the following functions are performed:

- Set-up, supervision and timely improvement of the Bank's risk management system;
- Providing, on a regular basis, to the Bank's Council, Board and heads of relevant units comprehensive and clear information on the Bank's overall risk profile, all key risks to the Bank and compliance with the risk strategy;
- Advising and supporting the Bank's Council and Board in the development of risk strategies and in making other decisions related to the Bank's risks.

To promote independence, the CRO's duties exclude such functions that relate to the performance of the activities to be controlled.

Liquidity risk

Liquidity risk is defined as the risk that the Group and the Bank may be unable to sustain its current and future cash flows and secure borrowings to prevent threats to the Bank's daily operations or overall financial position of the Bank (liquidity risk of financing) and risk that the Group and the Bank may be unable to sell its financial assets in the desired term without material losses due to a market collapse or insufficient market depth (market liquidity risk).

The Group and the Bank maintains adequate amounts of liquid assets to ensure compliance with liquidity ratio required by the normative acts of the Republic of Latvia. According to the requirement set by the Financial and Capital Market Commission (now Latvijas Banka), during 2022 the Bank was required to maintain an individual liquidity ratio 40%. The Bank is following this requirement. The Bank's liquidity ratio as at 31 December 2022 is 88.72% and that as at 31 December 2021 was 86.12%.

Notes to the Bank's separate and the Group's consolidated financial statements

4 RISK MANAGEMENT (continued)

Regulations (EC) No.575/2013 introduced the concept of liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) as measurements of the Bank's and the Group's liquidity position. The minimum liquidity coverage ratio requirement is being introduced gradually. The minimum requirements to be complied with is 100%.

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Liquidity reserve	163,130	163,130	101,198	101,198
Net cash outflows	42,228	42,235	24,976	24,743
Liquidity coverage ratio, %	**386 %**	**386 %**	**405 %**	**410 %**

The minimum net stable funding ratio (NSFR) requirement of 100% was introduced in June 2021. NSFR is the minimum amount required of stable funding in order to cover liquidity of long-term assets for a duration of one year. The ratio is calculated by dividing the available stable funding with the required stable funding.

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Required stable funding	84,034	77,985	57,812	50,336
Available stable funding	221,350	222,847	142,854	144,810
Net stable funding ratio, %	**263 %**	**286 %**	**247 %**	**288 %**

The Group and the Bank have approved internal limits for liquidity net position of the term structures of assets and liabilities in all currencies, EUR and USD. Internal limits for liquidity are used for risk analysis and control of liquidity and desirable structure of financing sources. An early warning system was developed in order to help identify exposure of the Bank's and the Group's liquidity position and necessity to attract additional sources. Based on data from early notification indices the Group and the Bank identify adverse trends impacting liquidity and analyse these trends and assess whether any hedging measures are required for liquidity risk. The Bank's Treasury Division organises and manages the daily process of resource management in order to ensure solvency, liquidity and profitability of the Bank. The Risk Management Division of the Bank evaluates and plans the term structure of assets and liabilities on a regular basis and carries out control over liquidity risk management, including monitors compliance with the required liquidity norms and internal limits defined by the Group and the Bank. Liquidity stress testing is performed using multiple scenarios. Scenarios include both internal and external factors. Stress testing is performed to the following stress levels: internal and typical to the Bank unfavourable events, changes of general market conditions, banking crisis and general market crisis at the same time. The impact of various shock scenarios on the liquidity ratio, liquidity coverage ratio and the Bank's income is analysed. The reverse stress testing is also carried out. The Board develops and the Council approves a Business Continuity Plan for liquidity crises that specifies: preventive measures for the reduction of the likelihood of liquidity crisis, methods and activities of timely identification of liquidity crisis and risk assessment, measures that have to be taken immediately in order to overcome liquidity crisis. The plan is tested on a regular basis. For maturity analysis of assets and liabilities refer to Note 35.

Credit risk

Credit risk is the risk that a counterparty, or borrower, fails or refuses to meet contractual obligations to the Group and the Bank.

The main objective of the Group's and the Bank's credit risk management is to ensure an optimal level of profit, financial stability of the Group and the Bank in a long term by adhering to the set credit risk appetite and tolerance limits across various categories, ensuring effective credit risk identification, measurement, monitoring and evaluation system, risk forecasting, estimation of its probable volumes and consequences, identifying, developing and implementing risk mitigation measures.

The Group and the Bank have developed appropriate credit risk management strategy, policies and procedures to manage the credit risk. The Credit Policy of the Group and the Bank sets out the basic principles for the management of credit exposures, credit risk diversification instruments, various permitted concentration levels and limits, basic principles for assessing the creditworthiness of borrowers and the document governing the decision on granting loans and changing credit conditions. The Group's and the Bank's credit risk management policies and strategies set out basic methods for credit risk management, identification, measurement and

Notes to the Bank's separate and the Group's consolidated financial statements

4 RISK MANAGEMENT (continued)

monitoring (ongoing supervision), control and mitigation, credit monitoring policies and quality evaluation criteria. The credit risk evaluation system includes:

- risk assessment to make a decision on granting a loan;
- monitoring and management of credit risk;
- profit adjustment representing risk;
- risk analysis of credit portfolios;
- capital adequacy and capital distribution assessment;
- regular credit risk stress testing by the use of different scenarios.

The Group and the Bank apply various credit risk minimisation methods:

- limits and other restrictions, including limits on the total amount of loans granted to a single borrower or group of related persons, compliance with which is regularly monitored;
- diversification of the loan portfolio;
- assessing the creditworthiness of borrowers and guarantors;
- taking security and regular revaluation;
- setting special and / or additional conditions for loan issue;
- loan monitoring and supervision, including through the Early Warning Indicator System;
- regular loan quality assessment, etc.

The Group's and the Bank's credit risk is managed by Council, Board, Chief Risk Officer and Credit Committee. The established Asset Valuation Committee regularly monitors the Group's and the Bank's credit risk.

Credit risk control at the Group and the Bank is carried out by a dedicated unit – Credit Risk Management Unit. The Group and the Bank continuously monitor the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. The current market value of collateral is regularly determined by either independent appraisal companies or the Bank's specialists, the changes in real estate prices are regularly monitored and analysed.

The Group and the Bank's maximum exposure to credit risk in the statement of financial position is generally reflected in the carrying amount of financial assets. The impact of possible netting of assets and liabilities to reduce potential credit risk exposure is not significant.

The Group and the Bank determine concentration limits and monitor credit risk concentration by industry/ sector, geographic location, type of loan, country of residence, loan currency and type of collateral. Overall, concentration of the loan portfolio is verified across seven positions. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 9 "Loans and receivables" and Note 37 "Maximum credit risk exposure". In order to meet the requirements defined in the Risk transactions and large risk transactions control policy, the Group and the Bank perform an assessment and control of risks associated with all assets and liabilities, including contingent liabilities of the Group and the Bank on a regular basis. Limits are regarded as the main tool for the control of risk transactions.

Capital management

Regulation No 575/2013 requires credit institutions to maintain Common Equity Tier 1 capital ratio of 4.5%, Tier 1 capital ratio of 6% and total capital ratio of 8%. Capital ratios are calculated by the Bank as follows: Common Equity Tier 1 capital ratio is Tier 1 equity of the Bank expressed as a percentage against total exposures; Tier 1 capital ratio is Tier 1 capital expressed as a percentage against total exposures; and total capital ratio is equity expressed as a percentage against total exposures. Total exposures are the sum of notional risk weighted assets and contingent liabilities are determined as the sum of capital requirements of risks multiplied by 12.5. According to the requirement set by the Financial and Capital Market Commission (now Latvijas Banka), during 2021 the Bank was required to maintain an individual capital adequacy ratio of 11.40%. During 2022 the Bank was required to maintain an individual capital adequacy ratio of 10.15%. In addition, according to the Credit Institutions Law, the Bank is required to maintain a sufficient level of Tier 1 capital to cover the total capital buffer requirement, which consists of a capital buffer of 2.5% of total exposures and the specific countercyclical capital buffer determined as the total value of exposures multiplied by the countercyclical capital buffer rate specific for the particular credit institution.

Weighted average value of assets is estimated in accordance with pre-defined risk grades, determining risks in accordance with the amount of capital, necessary to maintain these assets. Weighted average value of guarantees

Notes to the Bank's separate and the Group's consolidated financial statements

4 RISK MANAGEMENT (continued)

and potential liabilities are estimated in accordance with lending risk adjustment grades and risk grades defined for liabilities of partners. The following risk grades are applied: 0%, 20%, 35%, 50%, 100%, 150%.

Capital management is carried out at the Bank according to the Capital and Liquidity Adequacy Assessment Policy. The process of capital adequacy assessment is organised at the Bank by CRO and implemented by the Risk Management Division.

An integral part of the capital adequacy assessment process at the Bank is the calculation, planning and maintenance of capital adequacy. The Bank's objectives when managing capital, which complies with the term "equity" in the statement of financial position, are:

- To comply with the capital regulatory requirements.
- To safeguard the Bank's ability to continue as a going concern to provide returns for shareholders.
- To maintain the sufficient capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management on a regular basis, employing techniques based on the guidelines developed by the Basel Committee and the European Union directives, as implemented by the Financial and Capital Market Commission (now Latvijas Banka).

For the calculation of capital adequacy refer to Note 36 and for the impact on the ability of the Group and the Bank to continue as a going concern to Note 41.

Capital adequacy calculation of the Group and the Bank implies several transitional adjustments as implemented by the European Union and Financial and Capital Market Commission (now Latvijas Banka). Some of the transitional adjustments are expected to have a favourable impact for several future years which will then gradually reduce over time. The transitional adjustments are applicable to 2018 and later periods. For the purpose of capital adequacy calculation, the Group and the Bank use the 5-year transition period ending at 31 December 2022 provided under Regulation (EU) 2017/2395 (of 12 December 2017) concerning the impact of IFRS 9 on equity (CET1). The Group's and the Bank's long-term capital position for regulatory purposes is planned and managed in line with expected regulatory requirements.

Currency risk

Currency risk represents the potential losses from revaluation of balance sheet and off-balance-sheet items denominated in foreign currencies due to movements in foreign exchange rates. Gold is regarded as foreign currency. The objective of currency risk management is to mitigate the impact of adverse changes in exchange rates by minimising open positions in foreign currencies. The Bank does not use foreign currency open positions to generate income from speculative operations. The Group and the Bank performs daily controls of compliance with limits defined in Currency risk management policy, for transactions with foreign currency. The Group and the Bank are subject to the Credit Institutions Law which requires that the open position in an individual currency should not exceed 10% of the Bank's capital and the total open foreign currency position should not exceed 20% of the Bank's capital applicable to limiting large exposures according to Regulation No 575/2013. In accordance with the Currency Risk Management Policy, structural units of the Group and the Bank are cooperating with the Risk Management Division in evaluation of the currency risk component of the planned transactions and elaboration of risk hedging method for it. For currency analysis refer to Note 34.

Interest rate risk

Interest rate risk is represented by possible negative influence on the Group's and the Bank's income that can result from possible changes of interest rates. The GAP analysis is used for measurement of interest rates risk. Assets, liabilities, guarantees and contingent liabilities, subjected to interest rate risk, are divided in accordance with minimum period, left till possible repricing dates of interest rates. Basis risk is the likelihood to incur losses due to changes in interest rates on financial instruments with equal repricing dates but different base rates. Basis risk is managed by repricing loans (at floating interest rates) and deposits (with floating interest rates) to the same base rates. Repricing risk is the likelihood to incur losses due to changes in interest rates and different remaining maturities of assets, liabilities and contingent items. Yield curve risk is the likelihood to incur losses due to unexpected changes in the slope and shape of the yield curve. Repricing risk and yield curve risk are managed by matching interest rate sensitive assets and liabilities in each term interval (i.e., maintaining the net position of interest rate risk in each term interval within internal limits). Optionality risk is the likelihood to incur losses when the financial instrument directly (options) or indirectly (loans with early repayment option, demand deposits etc.) provides the customer with an option. Optionality risk is managed by setting enough commission fees for early withdrawal of a deposit and early repayment of a loan. The Group and the Bank calculate the influence on yearly

Notes to the Bank's separate and the Group's consolidated financial statements

4 RISK MANAGEMENT (continued)

interest income, with parallel increase of interest rates for 100 base points. In order to assess the impact of adverse changes in interest rates on profitability and economic value in market emergencies the Bank performs interest rate risk stress testing. In accordance with requirements of Interest rate risk management policy, interest rate risk must be assessed whenever limits for financial instruments are determined. For the results of sensitivity analysis refer to Note 32.

Country risk

Country risk is represented by possible losses in cases, where a debtor of the Group and the Bank, being non-resident, will not be able to meet its liabilities against the Group and the Bank, due to political, social or economic circumstances of the country of residency of the debtor. Country risk is managed by the Board of the Bank. Based on analysis of economic, political and social conditions of each country, limits are determined for geographic concentration of assets, liabilities and off-balance sheet items, for the purpose of management of country risk. The evaluation provided by international rating agencies is considered when assessing country risk. Limitations have been approved for placement of assets in countries graded as non-OECD, as well as for limitations on residual balances of nostro accounts. Limits for partners and transaction types are determined based on evaluation of risks of country and partners. Compliance with the limits is ensured by the Risk Management Division via regular control. For geographical concentration refer to Note 31.

Anti-money laundering and counter-terrorism and proliferation financing and risk sanctions management

The Bank's objective in anti-money laundering and counter-terrorism and proliferation financing (hereinafter referred to as - AML/CTF/CPF) and sanctions risk management is to safeguard the Bank's reputation and stability in relationships with customers and in the society as a whole, to cooperate and provide financial services to trustworthy customers and business partners, the business activity of which is understandable to the Bank to prevent the Bank from being involved in ML/TF/PF in breach of sanctions, so that to prevent losses related to loss of customers and trust.

The Bank's Money Laundering and Terrorism Financing and Proliferation Financing Risk Management Strategy (hereinafter referred to as - ML/TF risk management strategy) defines the framework for the ML/TF risk management, measures restricting and reducing the ML/TF risk as well as ML/TF risk exposure.

The Bank maintains strict compliance with the applicable national, international and supranational regulations and sanctions. The main focus in this respect is currently on the measures related to the Russian Federation invasion of Ukraine.

The Bank's ML/TF/PF and sanction risk is regularly assessed and analysed, preventing any significant increase. The Bank also constantly monitors its compliance with the risk exposure defined in the ML/TF/PF risk management strategy.

Within the framework of the ML/TF/PF risk and sanctions risk management, the adequacy of the Bank's resources is determined, as well as the amount of capital required to cover the risks related to the Bank's operations is provided.

The Bank ensures the management of the ML/TF/PF risk and sanctions risk in compliance with:
- the requirements of regulatory enactments in force in the Republic of Latvia;
- the Bank's business development strategy;
- the ML/TF risk management strategy;
- the ML/TF/PF risk and sanctions risk management policy;
- the internal procedures and instructions governing the field of the Bank's ML/TF/PF risk and sanctions risk management.

To ensure effective management of the risk, the Bank is constantly developing its internal control system applicable to AML/CTF area. In 2022, the Bank has implemented various new software solutions and enhanced the use of the solutions in place. This has enabled to improve real time transaction monitoring and properly maintain customer due diligence activities.

During the reporting period, the Bank took various measures to strengthen its internal control system, including implementation of additional measures for sanctions control in the context of the Russian Federation invasion of Ukraine. The main activities were as follows:
- reviewing and updating the Bank's policies and internal procedures to align to regulatory and industry expectations;

Notes to the Bank's separate and the Group's consolidated financial statements

4 RISK MANAGEMENT (continued)

- improving management reporting system for providing more comprehensive and qualitative reporting for senior management including ML/TF/PF risk management quarterly report and regular ML/TF/PF and sanction risk assessment report;
- increasing the capacity and expertise of ML/TF/PF and sanction risk management units, including hiring new experienced employees and conducting external and internal training for all employees involved in risk management.

Operational risk

Operational risk is the risk of losses resulting from inadequate or improper internal processes, human and systems error, or the impact of external events, including legal risk but excluding strategic and reputational risk. Aiming to set up a system for the management of operational risk that would reduce the frequency of risk occurrences and the amount of loss to a level acceptable to the Bank and to safeguard the Bank's assets and capital, the Council has approved an appropriate policy. In order to implement this policy, the Board has approved a procedure that specifies the methods for identification, assessment, regular monitoring, control and mitigation of operational risk. Operational risk is managed by the Bank employing the following approaches: reporting of operational risk events; maintaining a data base of operational risk; establishing and controlling operational risk indicators any changes in which may indicate an increased likelihood of risk; self-assessing operational risk; and stress testing using both internal data and information on external operational risk events. The Bank uses insurance to reduce risk. Operational risk is managed by Risk Management Division.

To support the Bank's business continuity and to decrease operational losses due to *force majeure* circumstances the Board drafts and the Council approves and improves the business continuity plan and the information system recovery plan.

Operational compliance risk

Operational compliance risk is the risk that the Bank may incur losses or legal obligations, be subject to sanctions or suffer impairment of reputation as a result of a failure to comply or a breach of compliance laws, regulations and standards. Operational compliance risk is inherent in all operations of the Bank. Management of operational compliance risk involves control, due identification, documentation, assessment, classification and efficient prevention of this risk or decreasing it to a level that the Bank finds acceptable, and follow-up of the risk. The operational compliance control is directed at the existing Bank's operations and due planning and execution of measures to prevent or decrease operational compliance risk regarding new products and services of the Bank or other lines of business. Management of operational compliance risk is effected according to a policy approved by the Council using the following measures and approaches: compliance legislation changes monitoring; implementation of the appropriate changes to internal normative documents of the Bank; providing the information on the recent changes in external regulation to the Bank's employees; systemic compliance reviews of the Bank's structural units, policies, internal procedures, other normative and informative materials; assessment of innovations; identification of operational compliance risks caused by external conditions; analysis of reports of internal and external auditors and regulator or other parties; performance of quality assurance controls; analysis of the Bank client's complaints; maintenance of an operational compliance risk data base and control over due prevention of identified risks or decreasing such risks to an acceptable level. Operational compliance risk is managed by the Compliance Control Division who reports to the management on a regular basis about the Bank's compliance risk level, as well as on recommended and completed tasks to improve compliance risk management.

5 ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS as adopted by the EU requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. 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 recognised in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Bank's separate and the Group's consolidated financial statements

5 ESTIMATES AND JUDGMENTS (continued)

Going concern

These consolidated and separate financial statements are prepared on a going concern basis. The application of the going concern basis requires management to make a number of considerations and exercise judgment. Refer to Note 41.

Impairment of financial assets at amortised cost

The management makes a number of judgements regarding financial instruments: classification of financial assets, evaluation of the business model assets, and the contractual terms of a financial asset, in accordance with the "principal and interest payments only" principle. Note 3, "Credit impairment": criteria for determining a significant increase in the credit risk of a financial asset from initial recognition, including Forward-Looking Information in the Estimation of expected credit loss and models used to calculate expected credit loss.

Fair value measurement of financial instruments

Financial instruments measured at fair value are based on their market values. The fair value of financial instruments measured at amortized cost is the present value of estimated future cash flows discounted at the market rate of interest. The fair value of short term financial assets and liabilities approximates their amortized cost.

Fair value of investment property

In assessing the fair value of investment property, management relies on external experts, independent property appraisers who have appropriate and recognised professional qualifications and recent experience in valuing the same category of property in the same place. External evaluations use the income method or the comparative method (or both). The income method is based on the discounted estimated future cash flows of the property. The comparative method is based on recent transactions with similar properties.

6 CASH AND BALANCES DUE FROM THE LATVIJAS BANKA

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Cash	1,712	1,712	2,127	2,127
Due from the Latvijas Banka (including obligatory reserve)	115,212	115,212	100,853	100,853
Total	**116,924**	**116,92**	**102,98**	**102,980**

Due from the Latvijas Banka represents the EUR nominated balance on the correspondent account with the Latvijas Banka.

According to the regulations of the European Central Bank, the Bank is required to maintain obligatory reserves with the Latvijas Banka equal to 1% of the closing monthly balances due of deposits with agreed maturity or period of notice up to 2 years and debt securities issued with initial maturity up to 2 years. For all other liabilities included in the reserve calculation the applicable rate is 0%.

The compulsory reserve is compared to the Bank's average monthly balance on the correspondent account with the Latvijas Banka. The Bank's average cash and correspondent account balance should exceed the compulsory reserve requirement.

As at 31 December 2022 and 31 December 2021 the Bank was in compliance with the above requirements.

Cash and balances are available on request from the Latvijas Banka, thus, given the very low probability of default, the expected credit loss is not material.

Notes to the Bank's separate and the Group's consolidated financial statements

7 DEMAND DEPOSITS WITH CREDIT INSTITUTIONS

(a) Geographical segments

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Credit institutions of OECD countries	124	124	230	230
Credit institutions of Latvia	-	-	-	-
Credit institutions of non-OECD countries	476	476	429	429
Total	**600**	**600**	**659**	**659**

The Bank maintained relationships with 7 correspondent banks (2021: 13).

The main outstanding balance per correspondent bank of the Group and the Bank is Deutsche Bundesbank - 124 thousand EUR, (2021 - 230 thousand EUR).

(b) Credit rating structure (Standard&Poors)

When allocating financial resources to monetary financial institutions, external credit ratings assigned to financial institutions are assessed. For financial institutions with no individual rating, the rating of the parent bank as well as the assessment of financial and operational performance is considered. After commencement of business relations, the Group and the Bank monitors monetary financial institutions and controls the compliance of granted limits with credit risk assessment.

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
-rated from AAA to A-	598	598	19	19
-rated from BBB+ to BBB-	-	-	73	73
-rated from BB+ to B-	1	1	14	14
-not rated	1	1	553	553
Total	**600**	**600**	**659**	**659**

8 FINANCIAL ASSETS

(a) By category

EUR'000	2022 Group	2022 Bank	2021 Group (restated)	2021 Bank
Financial assets at amortised cost:				
Debt securities	49,903	49,903	-	-
Loans and receivables	70,004	83,217	46,299	61,495
Financial assets at fair value through profit or loss:				
Equity securities (Visa Inc. Class C convertible participating preferred stock)	1,662	1,662	501	501
Financial assets at fair value through other comprehensive income:				
Debt securities	992	992	1,008	1,008
SWIFT shares	23	23	23	23

Notes to the Bank's separate and the Group's consolidated financial statements

8 FINANCIAL ASSETS (continued)

(b) Debt securities:

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Financial assets at amortised cost:	49,903	49,903	-	-
Latvian government bonds with fixed income (S&P: A+; Moody's: A3)	28,514	28,514	-	-
Lithuanian government bonds with fixed income (S&P: A+; Moody's: A2)	21,389	21,389	-	-
Financial assets at fair value through other comprehensive income:	992	992	1,008	1,008
Latvian government bonds with fixed income (S&P: A+; Moody's: A3)	992	992	1,008	1,008

9 LOANS AND RECEIVABLES

(a) Loans by groups:

EUR'000	2022 Group	2022 Bank	2021 Group (restated)	2021 Bank
Individuals	21,630	21,105	8,619	7,921
Legal entities	56,227	73,537	51,378	69,399
Total loans, gross	**77,857**	**94,642**	**59,997**	**77,470**
Impairment allowance	(7,853)	(11,425)	(13,698)	(15,975)
Total loans, net	**70,004**	**83,217**	**46,299**	**61,495**

(b) Loans by type:

EUR'000	2022 Group	2022 Bank	2021 Group (restated)	2021 Bank
Loans	72,185	76,780	56,291	64,705
Credit lines	5,335	17,525	3,683	12,742
Overdrafts	337	337	23	23
Loans, gross	**77,857**	**94,642**	**59,997**	**77,470**
Impairment allowance	(7,853)	(11,425)	(13,698)	(15,975)
Total loans, net	**70,004**	**83,217**	**46,299**	**61,495**

Notes to the Bank's separate and the Group's consolidated financial statements

9 LOANS AND RECEIVABLES (continued)

(c) Loans issued by industry, gross (*restated) **:**

EUR'000	2022 Group	%	2022 Bank	%	2021 Group *	%	2021 Bank	%
Legal entities								
Real estate	24,723	44%	25,047	34%	25,257	49%	23,712	34%
Construction	347	1%	347	1%	513	1%	188	0%
Electricity	2,867	5%	2,867	4%	6,916	14%	6,916	10%
Wholesale and retail	5,523	10%	5,523	8%	3,321	6%	3,274	5%
Industrial markets	7,582	13%	7,582	10%	5,685	11%	5,685	8%
Transport, warehousing and communications	6,661	12%	6,661	9%	2,471	5%	26	0%
Financial intermediaries	4	0%	20,264	27%	-	0%	24,020	35%
Finance lease	3,274	6%	-	0%	4,489	9%	-	0%
Others	5,246	9%	5,246	7%	2,726	5%	5,578	8%
Total	**56,227**	**100%**	**73,537**	**100%**	**51,378**	**100%**	**69,399**	**100%**
Individuals								
Consumer loans	1,520	7%	1,520	7%	187	2%	187	2%
Credit cards	337	2%	337	2%	285	3%	285	4%
Mortgage loans	17,747	82%	17,747	84%	3,605	42%	3,605	45%
Finance lease	525	2%	0	0%	548	6%	0	0%
Business loans	1,365	6%	1,365	6%	119	1%	119	1%
Others	136	1%	136	1%	3,875	46%	3,875	48%
Total	**22,630**	**100%**	**21,105**	**100%**	**8,619**	**100%**	**8,071**	**100%**

(d) Loans by geographical classification:

EUR'000	2022 Group	2022 Bank	2021 Group (restated)	2021 Bank
Residents of Latvia	77,377	94,162	55,950	73,423
Residents of OECD countries	464	464	465	465
Residents of non-OECD countries	16	16	3,582	3,582
Loans and advances to non-banking customers, gross	**77,857**	**94,642**	**59,997**	**77,470**
Impairment allowance	(7,853)	(11,425)	(13,698)	(15,975)
Loans and advances to customers, net	**70,004**	**83,217**	**46,299**	**61,495**

(e) Movements in the impairment allowance:

EUR'000	2022 Group	2022 Bank	2021 Group (restated)	2021 Bank
Balance at the beginning of the year	**13,698**	**15,975**	**15,081**	**16,832**
Increase in provisions for impairment	1,322	2,666	476	1,002
Release of prior periods' loan loss provisions	(893)	(1,942)	(401)	(401)
Write-off of prior periods' loan loss provisions	(6,274)	(5,274)	(1,458)	(1,458)
Balance at the end of the reporting period	**7,853**	**11,425**	**13,698**	**15,975**

Notes to the Bank's separate and the Group's consolidated financial statements

9 LOANS AND RECEIVABLES (continued)

(f) Loans and accrued interest allocation, depending on delay of payments:

Group EUR'000		Loans not overdue (restated)	Overdue loans					
			Up to 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days
31 December 2022								
Gross loans	**77,857**	57,763	4,427	390	668	1,090	90	13,429
Impairment allowance	**(7,853)**	(2,197)	(1,044)	(16)	(23)	(17)	(5)	(4,551)
31 December 2021								
Gross loans	**59,997**	36,590	2,848	408	-	48	98	20,005
Impairment allowance	**(13,698)**	(1,918)	(600)	(110)	-	(26)	(98)	(10,946)

Bank EUR'000		Loans not overdue	Overdue loans					
			Up to 30 days	30-60 days	61-90 days	91-180 days	181-360 days	More than 360 days
31 December 2022								
Gross loans and advances	**94,642**	75,884	3,849	349	161	556	90	13,753
Impairment allowance	**(11,425)**	(5,877)	(912)	(16)	(23)	(17)	(5)	(4,575)
31 December 2021								
Gross loans and advances	**77,470**	55,739	2,200	382	-	48	98	19,003
Impairment allowance	**(15,975)**	(5,397)	(398)	(110)	-	(26)	(98)	(9,946)

The amounts shown in the table represent the gross carrying amount of the loans by type of collateral and do not necessarily represent the fair value of the underlying security:

	2022, Group		2022, Bank		2021, Group (restated)		2021, Bank	
	EUR '000	%	EUR '000	%	EUR '000	%	EUR '000	%
Commercial buildings	35,783	46%	36,189	38%	30,086	50%	28,028	36%
Commercial assets pledge	7,187	9%	5,369	6%	8,399	14%	8,399	11%
Land mortgage	5,448	7%	5,448	6%	5,471	9%	5,471	7%
Mortgage on residential properties	19,859	26%	19,859	21%	7,163	12%	7,163	9%
Guarantee	704	1%	704	1%	895	2%	895	1%
Lease and other	7,057	9%	5,076	5%	7,620	13%	3,131	4%
No collateral	1,819	2%	21,997	23%	363	0%	24,383	32%
Incl.: credit card limits	*337*	-	*337*	-	*289*	-	*289*	-
Consumer loans	*1,482*	-	*1,482*	-	*74*	-	*74*	-
Loans to Consolidated subsidiaries	-	-	*20,178*	-	-	-	*24,020*	-
Total	**77,857**	**100%**	**94,642**	**100%**	**59,997**	**100%**	**77,470**	**100%**

Notes to the Bank's separate and the Group's consolidated financial statements

9 LOANS AND RECEIVABLES (continued)

Significant credit risk concentration

As at 31 December 2022 the Bank had 12 borrowers or groups of related borrowers and as at 31 December 2021, the Bank had 12 borrowers or groups of related borrowers, respectively, whose total loan liabilities exceeded 10% of the Bank's capital as disclosed in Note 36. The gross amount of the above loans as at 31 December 2022 and 31 December 2021 was 60,023 thousand EUR and 61,899 thousand EUR, respectively. An impairment allowance was recognised for the above loans as at 31 December 2022 and 31 December 2021 in the amount of 7,839 thousand EUR and 9,876 thousand EUR, respectively.

According to regulatory requirements, the credit exposure to one client or a group of related clients cannot exceed more than 25% of the Bank's Tier 1 capital. The Bank was in compliance with this requirement as at 31 December 2022 and exceeded this requirement in one case (28.25%) as at 31 December 2021.

(g) Breakdown of the Group's and the Bank's loans by their qualitative assessment:

EUR'000	31 December 2022		31 December 2021	
	Group	Bank	Group (restated)	Bank
Credit risk has not increased significantly (Stage 1)	44,717	42,544	29,993	27,234
Credit risk has increased significantly (Stage 2)	15,765	27,865	5,317	20,483
Loans in default or with evidence of impairment (Stage 3)	16,498	21,559	24,278	27,588
Loans purchased or originated credit-impaired financial assets (POCI)	877	2,674	409	2,165
Total gross loans	**77,857**	**94,642**	**59,997**	**77,470**
Impairment allowance	(7,853)	(11,425)	(13,698)	(15,975)
Total net loans	**70,004**	**83,217**	**46,299**	**61,495**

Notes to the Bank's separate and the Group's consolidated financial statements

9 LOANS AND RECEIVABLES (continued)

Breakdown of the Group's and the Bank's loans by their qualitative assessment:

Group EUR'000	Credit loss allowances					Gross carrying amount				
	Stage 1 (restated)	Stage 2	Stage 3	POCI	Total (restated)	Stage 1 (restated)	Stage 2	Stage 3	POCI	Total (restated)
31 December 2021	**872**	**481**	**12,345**	**-**	**13,698**	**29,993**	**5,317**	**24,278**	**409**	**59,997**
Movements between stages:										
to lifetime ECL (from Stage 1 to Stage 2)	(236)	231	-	-	(5)	(6,327)	4,729	-	-	(1,598)
to lifetime ECL with credit impairment (from Stage 1 and Stage 2 to Stage 3)	(50)	-	73	-	23	(511)	(60)	415	-	(156)
to lifetime ECL without credit impairment (from Stage 3 to Stage 2)	-	2	(42)	-	(40)	-	103	(107)	-	(4)
to 12-months ECL (from Stage 2 to Stage 1)	5	(17)	-	-	(12)	276	(288)	-	-	(12)
New originated or purchased	569	705	48	-	1,322	26,117	6,351	314	657	33,439
Movements without impact on impairment allowance charge for the period:	(250)	(201)	(371)	-	(822)	(942)	186	(1,727)	(189)	(2,672)
De-recognized	(32)	(4)	-	-	(36)	(3,889)	(573)	(20)	-	(4,482)
Other changes	-	-	(1)	-	(1)	-	-	(381)	-	(381)
Total movements for the period	**6**	**716**	**(293)**	**-**	**429**	**14,724**	**10,448**	**(1,506)**	**468**	**24,134**
Write-offs	-	-	(6,274)	-	(6,274)	-	-	(6,274)	-	(6,274)
31 December 2022	**878**	**1,197**	**5,778**	**-**	**7,853**	**44,717**	**15,765**	**16,498**	**877**	**77,857**

Notes to the Bank's separate and the Group's consolidated financial statements

9 LOANS AND RECEIVABLES (continued)

Bank EUR'000	Credit loss allowances					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
On 31 December 2021	**697**	**481**	**14,313**	**484**	**15,975**	**27,234**	**20,483**	**27,588**	**2,165**	**77,470**
Movements between stages:										
to lifetime ECL (from Stage 1 to Stage 2)	(237)	231	-	-	(6)	(6,255)	4,661	-	-	(1,594)
to lifetime ECL with credit impairment (from Stage 1 and Stage 2 to Stage 3)	(50)	-	73	-	23	(503)	-	359	-	(144)
to lifetime ECL without credit impairment (from Stage 3 to Stage 2)	-	2	(42)	-	(40)	-	103	(107)	-	(4)
to 12-months ECL (from Stage 2 to Stage 1)	5	(17)	-	-	(12)	276	(288)	-	-	(12)
New originated or purchased	569	705	48	-	1,322	26,117	6,434	313	698	33,562
Movements without impact on impairment allowance charge for the period:	(174)	(200)	(119)	(33)	(526)	(625)	(1,406)	(1,243)	(189)	(3,463)
De-recognized	(32)	(4)	-	-	(36)	(3,700)	(2,122)	(20)	-	(5,842)
Other changes	-	-	(1)	-	(1)	-	-	(57)	-	(57)
Total movements for the period	**81**	**717**	**(41)**	**(33)**	**724**	**15,310**	**7,382**	**(755)**	**509**	**22,446**
Write-offs	-	-	(5,274)	-	(5,274)	-	-	(5,274)	-	(5,274)
On 31 December 2022	**778**	**1,198**	**8,998**	**451**	**11,425**	**42,544**	**27,865**	**21,559**	**2,674**	**96,642**

Notes to the Bank's separate and the Group's consolidated financial statements

9 LOANS AND RECEIVABLES (continued)

Breakdown of the Group's and the Bank's loans by their qualitative assessment:

Group EUR'000	Credit loss allowances				Gross carrying amount			
	Stage 1 (restated)	Stage 2	Stage 3	Total (restated)	Stage 1 (restated)	Stage 2	Stage 3	Total (restated)
As at 31 December 2020	**939**	**507**	**13,635**	**15,081**	**24,432**	**5,618**	**28,751**	**58,801**
Movements between stages:								
to lifetime ECL (from Stage 1 to Stage 2)	-	-	-	-	(62)	60	-	(2)
to lifetime ECL with credit impairment (from Stage 1 and Stage 2 to Stage 3)	-	(42)	43	1	-	(586)	390	(196)
New originated or purchased	211	16	-	227	10,635	940	1,902	13,477
Movements without impact on impairment allowance charge for the period:	(234)	8	474	248	(2,458)	(259)	(846)	(3,563)
De-recognised	(44)	(8)	(349)	(401)	(2,554)	(456)	(4,052)	(7,062)
Total movements with impact on impairment allowance charge for the period	**(67)**	**(26)**	**168**	**75**	**5,561**	**(301)**	**(2,606)**	**2,654**
Write-offs	-	-	(1,458)	(1,458)	-	-	(1,458)	(1,458)
As at 31 December 2021	**872**	**481**	**12,345**	**13,698**	**29,993**	**5,317**	**24,687**	**59,997**

BANK EUR'000	Credit loss allowances				Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2020	**764**	**507**	**15,561**	**16,832**	**21,479**	**26,509**	**31,103**	**79,091**
Movements between stages:								
to lifetime ECL with credit impairment (from Stage 1 and Stage 2 to Stage 3)	-	(42)	43	1	-	(586)	390	(196)
New originated or purchased	211	16	485	712	10,599	673	2,576	13,848
Movements without impact on impairment allowance charge for the period:	(234)	8	515	289	(2,327)	(3,194)	(850)	(6,371)
De-recognised	(44)	(8)	(349)	(401)	(2,517)	(2,919)	(2,008)	(7,444)
Total movements with impact on impairment allowance charge for the period	**(67)**	**(26)**	**694**	**601**	**5,755**	**(6,026)**	**108**	**(163)**
Write-offs	-	-	(1,458)	(1,458)	-	-	(1,458)	(1,458)
As at 31 December 2021	**697**	**481**	**14,797**	**15,975**	**27,234**	**20,483**	**29,753**	**77,470**

Notes to the Bank's separate and the Group's consolidated financial statements

9 LOANS AND RECEIVABLES (continued)

Finance lease receivables:

Loans and advances to customers include the following finance lease receivables for leases of certain fixed assets where the Group is a lessor:

EUR'000	2022	2021 (restated)
Gross investment in finance leases, receivable with maturity:		
Less than one year	859	1,026
Between one and five years	2,716	3,958
More than 5 years	224	1,563
Total gross investment in finance leases, receivables	**3,799**	**6,547**
Impairment allowance	(232)	(1,377)
Net investment in finance lease	**3,567**	**5,170**
Net investments in finance leases with maturity:		
Less than one year	727	1,026
Between one and five years	2,616	3,581
More than 5 years	224	563
Total	**3,567**	**5,170**

10 INTANGIBLE ASSETS

EUR'000	Group	Bank
Cost		
As at 31 December 2020	**2**	**2**
Additions	-	-
Disposals	-	-
31 December 2021	**2**	**2**
Additions	597	597
Disposals	-	-
31 December 2022	**599**	**599**
Accumulated depreciation		
As at 31 December 2020	**-**	**-**
Depreciation	-	-
31 December 2021	**-**	**-**
Depreciation	36	36
31 December 2022	**36**	**36**
Balance		
As at 31 December 2020	**2**	**2**
As at 31 December 2021	**2**	**2**
As at 31 December 2022	**563**	**563**

In 2022 new Industra internet bank was launched and the related development costs were capitalized.

Notes to the Bank's separate and the Group's consolidated financial statements

11 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

Group EUR'000	Buildings	Vehicles	Office equipment	Right-of-use assets	Total
Cost					
As at 31 December 2020	**561**	**37**	**1,338**	**749**	**2,685**
Additions	-	-	120	168	288
Sales	(82)	-	-	-	(82)
Disposals	-	-	(5)	(10)	(15)
As at 31 December 2021	**479**	**37**	**1,453**	**907**	**2,876**
Additions	-	51	235	-	281
Sales	-	-	-	-	-
Disposals	-	-	(9)	-	(9)
As at 31 December 2022	**479**	**88**	**1,679**	**907**	**3,153**
Accumulated depreciation					
As at 31 December 2020	**341**	**35**	**1,032**	**420**	**1,828**
Depreciation for the reporting year	28	2	171	211	412
Depreciation of disposed fixed assets	(35)	-	(5)	-	(40)
As at 31 December 2021	**334**	**37**	**1,198**	**631**	**2,200**
Depreciation for the reporting year	24	9	153	210	395
Depreciation of disposed fixed assets	-	-	-	-	-
As at 31 December 2022	**358**	**46**	**1,351**	**841**	**2,596**
Balance					
As at 31 December 2020	**220**	**2**	**306**	**329**	**857**
As at 31 December 2021	**145**	**-**	**255**	**276**	**676**
As at 31 December 2022	**121**	**42**	**328**	**66**	**557**

Notes to the Bank's separate and the Group's consolidated financial statements

11 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS (continued)

Bank EUR'000	Buildings	Vehicles	Office equipment	Right-of-use assets	Total
Cost					
As at 31 December 2020	**561**	**-**	**1,338**	**749**	**2,648**
Additions	-	-	120	168	288
Sales	(82)		-	-	(82)
Disposals	-	-	(5)	(10)	(15)
As at 31 December 2021	**479**	**-**	**1,453**	**907**	**2,839**
Additions	-	-	235	-	235
Sales	-	-	-	-	-
Disposals	-	-	(9)	-	(9)
As at 31 December 2022	**479**	**-**	**1,679**	**907**	**3,065**
Accumulated depreciation					
As at 31 December 2020	**341**	**-**	**1,032**	**421**	**1,794**
Depreciation for the reporting year	28	-	171	210	409
Depreciation of disposed fixed assets	(35)	-	(5)	-	(40)
As at 31 December 2021	**334**	**-**	**1,198**	**631**	**2,163**
Depreciation for the reporting year	24	-	153	210	387
Depreciation of disposed fixed assets	-	-	-	-	-
As at 31 December 2022	**358**	**-**	**1,351**	**841**	**2,550**
Balance					
As at 31 December 2020	**220**	**-**	**306**	**329**	**855**
As at 31 December 2021	**145**	**-**	**255**	**276**	**676**
As at 31 December 2022	**121**	**-**	**328**	**66**	**515**

Movement of lease liability

As at 31 December 2020	**341**
Lease payments	(209)
Lease additions	147
Interest accrued	6
Interest paid	(6)
As at 31 December 2021	**279**
Lease payments	(197)
Interest accrued	5
Interest paid	(5)
As at 31 December 2022	**82**

Notes to the Bank's separate and the Group's consolidated financial statements

12 INVESTMENT PROPERTIES

Group EUR'000	Land	Buildings	Total
Cost			
As at 31 December 2020	**5,344**	**15,953**	**21,297**
Disposed	(357)	(6,405)	(6,762)
Acquired	-	1,800	1,800
31 December 2021	**4,987**	**11,348**	**16,335**
Disposed	-	(2,596)	(2,596)
Acquired	1,950	5	1,955
Acquired through business combination (note 39)	-	8,942	8,942
31 December 2022	**6,937**	**17,699**	**24,636**
Change in fair value			
As at 31 December 2020	**-**	**(2,051)**	**(2,051)**
Revaluation impact	273	(200)	73
Adjustments	(14)	(92)	(106)
31 December 2021	**259**	**(2,343)**	**(2,084)**
Revaluation impact	-	(244)	(244)
Adjustments	(1,066)	1,064	(2)
31 December 2022	**(807)**	**(1,523)**	**(2,330)**
Balance			
As at 31 December 2020	**5,344**	**13,902**	**19,246**
As at 31 December 2021	**5,246**	**9,005**	**14,251**
As at 31 December 2022	**6,130**	**16,176**	**22,306**

Income from lease of investment property in 2022 amounted to EUR 378 thousand (2021: EUR 374 thousand) and related maintenance expenses in 2022 amounted to EUR 131 thousand (2021: EUR 188 thousand).

Investment property consists of land, residential properties and commercial properties.

The fair value measurement for investment property is categorised as Level 3 in the fair value hierarchy.

Group EUR'000	Fair value 31.12.2022	Fair value 31.12.2021	Key assumptions
Commercial building, Muitas iela 1, Riga	8,792	-	Determined based on external market evaluation during Privatbank asset take over deal.
Residential real estate, Salaspils region (partly sold off during 2022)	407	1,123	Determined based on comparable market transactions method and income method (50% and 50% respectively). Discount rate 9%.
Sand and gravel deposit, Talsi region	3,700	3,700	Discount rate of 15.12%. Cash flow period of 10 years. Income based on sale of various quality of extracted sand and gravel.
Commercial real estate, Daugavpils	750	750	Discount rate of 11,32%. Cash flow period of 6 years. Occupancy rate of 80% to 95%. Rent ranging from EUR 2,5 to EUR 10,38 per m^2

Notes to the Bank's separate and the Group's consolidated financial statements

12 INVESTMENT PROPERTY (continued)

Bank EUR'000	Land	Buildings	Total
Cost			
As at 31 December 2020	**53**	**867**	**920**
Disposed	-	-	-
Acquired	-	-	-
31 December 2021	**53**	**867**	**920**
Disposed	-	-	-
Acquired through business combinaton (Note 39)	-	8,947	8,947
31 December 2022	**53**	**9,814**	**9,867**
Change in fair value			
As at 31 December 2020	**-**	**-**	**-**
Revaluation impact	273	-	273
Adjustments	-	-	-
31 December 2021	**273**	**-**	**273**
Revaluation impact	-	-	-
Adjustments	-	-	-
31 December 2022	**273**	**-**	**273**
Balance			
As at 31 December 2020	**53**	**867**	**920**
As at 31 December 2021	**326**	**867**	**1,193**
As at 31 December 2022	**326**	**9,814**	**10,140**

There were three properties acquired through business combination. The main acquired property was land and building at Muitas iela 1, Riga the value of which was determined based on independent external appraisal. Until 31 December 2022 the property was used solely for the renting purposes. In mid-January 2023 the headquarters of the Bank were transfered to one part of the building acquired.

13 OTHER ASSETS

Other assets are as follows:

EUR'000	2022 Group	2022 Bank	2021 Group (restated)	2021 Bank
Financial assets:				
Receivables	273	13	1,426	6
Credit card transactions in transit	483	483	436	436
Security deposits with VISA, MasterCard	1,668	1,668	1,575	1,575
VISA Inc A class shares sale in process	1,529	1,529	-	-
Other financial assets	828	828	1,051	1,051
	4,781	**4,521**	**4,488**	**3,068**
Non-financial assets:				
Deferred expenses	670	594	758	666
Assets held for sale	584	-	584	-
Other non-financial assets	-	-	96	-
	1,254	**594**	**1,438**	**666**
Total	**6,035**	**5,115**	**5,926**	**3,734**

Notes to the Bank's separate and the Group's consolidated financial statements

14 FINANCIAL LIABILITIES AT AMORTISED COST

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Sector profile:				
Non-banking deposits				
Legal entities	117,376	117,440	70,229	70,283
Individuals	126,279	126,279	80,629	80,629
State institutions	51	51	175	175
Total non-banking deposits:	**243,706**	**243,770**	**151,033**	**151,087**
Total deposits	**243,706**	**243,770**	**151,033**	**151,087**
Geographical profile:				
Residents	163,863	163,927	99,733	99,787
Non-residents	79,843	79,843	51,300	51,300
Residents of OECD countries	*36,056*	*36,056*	*19,469*	*19,469*
Residents of non-OECD countries	*43,787*	*43,787*	*31,831*	*31,831*
Incl. Residents of Cyprys	*20,903*	*20,903*	*10,213*	*10,213*
Residents of Russia	*11,690*	*11,690*	*6,296*	*6,296*
Residents of Ukraine	*5,316*	*5,316*	*3,730*	*3,730*
Other non-OECD countries	*5,878*	*5,878*	*11,592*	*11,592*
Total deposits	**243,706**	**243,770**	**151,033**	**151,087**

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Demand deposits				
Legal entities	106,945	107,009	67,793	67,847
Private individuals	81,324	81,324	54,700	54,700
State institutions	51	51	175	175
Total demand deposits	**188,320**	**188,384**	**122,668**	**122,722**
Term deposits				
Legal entities	10,431	10,431	2,875	2,875
Private individuals	44,955	44,955	25,490	25,490
Total term deposits	**55,386**	**55,386**	**28,365**	**28,365**
Total current accounts and deposits from non-banking customers	**243,706**	**243,770**	**151,033**	**151,087**

As at 31 December 2022, the customer deposit balances of EUR 1,509 thousand (2021: EUR 362 thousand) were blocked by the Bank as collateral for loans and other contingent liabilities granted by the Bank.

Concentrations of current accounts and customer deposits

As at 31 December 2022 and 31 December 2021 the Bank had no customers whose balances exceeded 10% of total customer deposits.

Notes to the Bank's separate and the Group's consolidated financial statements

15 SUBORDINATED LIABILITIES

As at 31 December 2022 subordinated liabilities comprise loans received from 4 private individuals and 4 legal entities (31 December 2021: 7 private individuals and 4 legal entity).

EUR'000	Maturity	Interest rate	2022 Group	2022 Bank	2021 Group	2021 Bank
Loan No. 1	26.04.2025	4.00%	-	-	433	433
Loan No. 2	05.04.2023	4.00%	281	281	281	281
Loan No. 3	02.09.2022	4.00%	615	615	598	598
Loan No. 4	01.09.2022	4.00%	-	-	288	288
Loan No. 5	31.03.2022	3.50%	-	-	203	203
Loan No. 6	28.08.2023	3.75%	210	210	500	500
Loan No. 7	13.07.2025	5.00%	501	501	280	280
Loan No. 8	27.08.2025	5.00%	315	315	315	315
Loan No. 9	29.12.2025	5.00%	501	501	501	501
Loan No. 10	30.11.2025	5.00%	1,004	1,004	1,004	1,004
Loan No. 11	22.12.2025	5.00%	125	125	125	125
Loan No. 12	22.12.2025	5.00%	125	125	125	125
Total			**3,677**	**3,677**	**4,653**	**4,653**

In case of liquidation of the Bank subordinated loans are to be satisfied after the claims of all other creditors of the Bank, but before claims of shareholders of the Bank.

16 OTHER LIABILITIES

Other liabilities are as follows:

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Financial liabilities				
Cash in transit	982	982	1,867	1,867
Unmatched funds	328	328	17	17
Other financial liabilities, incl.	2,798	2,798	1,122	1,122
Lease liabilities (IFRS 16)	*82*	*82*	*279*	*279*
	4,108	**4,108**	**3,006**	**3,006**
Non-financial liabilities				
Accrued expenses and deferred income	1,268	953	2,092	1,366
	1,268	**953**	**2,092**	**1,366**
Total	**5,376**	**5,061**	**5,098**	**4,372**

Cash in transit includes amounts requested by customers for payment with a value date of 2 January 2022 and 2021 respectively.

Unmatched funds include amounts which are under investigation and are not yet attributed to the Bank's customer accounts. Unmatched funds are investigated within ten working days after they are received.

Other liabilities include provisions for unused vacations in amount of EUR 476 thousand for the Group and EUR 465 thousand for the Bank (2021: EUR 388 thousand and EUR 373 thousand, respectively).

Notes to the Bank's separate and the Group's consolidated financial statements

17 SHARE CAPITAL

		2022		2021	
	Nominal value EUR	Number of shares	Share capital EUR'000	Number of shares	Share capital EUR'000
Ordinary shares	71.10	388 200	27,601	388 200	27,601

Shareholders

	2022		2021	
	Number of shares	%	Number of shares	%
Private individuals	-	0%	23 125	6%
Legal entities	388 200	100%	365 075	94%
Total	**388 200**	**100%**	**388 200**	**100%**

The Bank's capital is registered and fully paid. Ordinary shares rank equally with respect to dividends, as may be declared, and entitle all holders to equal voting rights at the shareholders' meeting. All shares rank equal with respect to residual assets. As at 31 December 2022, there were 5 shareholders – 5 legal entities (as at 31 December 2021: 7 shareholders – 6 legal entities and 1 individuals).

In 2022, the Bank's shareholder structure changed and after receiving European Central Bank's approval SIA "Ouroboros" owns 25.00% of capital, the shares were purchased from other and previous shareholders. The total amount of the capital remained unchanged.

As at 31.12.2022 SIA "J.A. Investment Holdings" owns 33.63% of the capital, SIA "HPI 2" and SIA "Ouroboros" owns 25.00% each.

At 31.12.2022 the Group and the Bank fully complies with EU Regulation no. 575/2013 - the total capital adequacy ratio of the Group and the Bank is 18.94% and 20.21%, respectively, while the total capital adequacy ratio of the Bank and the Group set by the Financial and Capital Market Commission (now Latvijas Banka) is 12.65%.

The use of share premium is defined by applicable Latvian legislation.

18 INTEREST INCOME

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Interest income calculated using effective interest rate:				
Interest income on assets at amortised cost:	2,930	3,212	2,047	2,309
Loans and receivables from customers	*2,534*	*2,816*	*2,046*	*2,308*
Loans and receivables from banks	*396*	*396*	*1*	*1*
Interest income from financial assets at fair value through profit or loss	254	254	25	25
Other interest income	88 -	88 -	4217	4217
Interest income from finance lease	209	-	201	-
Total	**3,481**	**3,554**	**2,315**	**2,376**

Notes to the Bank's separate and the Group's consolidated financial statements

19 INTEREST EXPENSES

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Interest expenses on liabilities at amortised cost:				
Current accounts and deposits of customers	467	467	381	381
Other interest expense	586	586	755	755
Total	**1,053**	**1,053**	**1,136**	**1,136**

20 COMMISSION AND FEE INCOME

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Commissions from money transfers, cash operations and servicing accounts	4,530	4,530	3,787	3,787
Fees from cards services	3,698	3,698	8,485	8,485
Commissions from lending services and guarantees	209	209	189	189
Brokerage fees	20	20	75	75
Other commission income	331	329	174	172
Total	**8,788**	**8,786**	**12,710**	**12,708**

21 COMMISSION AND FEE EXPENSE

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Commissions paid to correspondent banks	96	96	88	88
Commissions for transactions with payment cards	2,353	2,353	4,915	4,915
Fees for operations with securities	23	23	26	26
Other commission expense	4	4	7	7
Total	**2,476**	**2,476**	**5,036**	**5,036**

22 GAIN ON TRADING WITH FINANCIAL INSTRUMENTS, NET

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Profit from foreign currency transactions	366	366	354	354
(Loss)/profit from revaluation of foreign currencies	(111)	(21)	(117)	68
Loss on the revaluation of financial assets measured at fair value through profit or loss	(167)	(167)	(7)	(7)
Income from dividends	5	5	2	2
Total	**93**	**183**	**232**	**417**

Notes to the Bank's separate and the Group's consolidated financial statements

23 OTHER OPERATING INCOME

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Income from real estate rental and maintenance	508	204	331	24
Income from real estate sale	415	179	182	58
Written off asset recovery	43	43	43	43
Income from penalties	163	1	2	2
Other income	14	-	6	-
Total	**1,143**	**427**	**564**	**127**

24 ADMINISTRATIVE EXPENSES

Salaries represent the basic remuneration of the employees, social insurance contributions as well as other personnel expenses. As at 31 December 2022 the Group and the Bank employed on average 207 and 202 employees, respectively (2021: 166 and 164). Administrative expenses are as follows:

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Salaries to members of the Council and the Board	780	722	602	590
Personnel salaries	4,523	4,499	3,997	3,894
State compulsory social insurance contributions	1,130	1,111	946	921
Professional services	1,024	1,020	848	848
Office supplies and maintenance expenses	252	252	284	284
Advertising and marketing	45	45	38	38
Other expenses	525	474	467	313
Total	**8,279**	**8,123**	**7,182**	**6,888**

Fees paid to the audit company PricewaterhouseCoopers SIA for annual audit of financial statements and other services included in the professional services line item are as follows:

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Annual audit fees	107	102	93	89
Non-audit services	9	9	2	2

Total personnel expenses are included in the following profit or loss line item:

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Administrative expenses	6,433	6,332	5,545	5,405
Total	**6,433**	**6,332**	**5,545**	**5,405**

Notes to the Bank's separate and the Group's consolidated financial statements

25 DEPRECIATION OF PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

Total depreciation of property, equipment and right of use assets consists of:

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Depreciation of PPE	186	177	200	198
Depreciation of right-of-use assets	210	210	211	211
Depreciation of Intangible assets	36	36	-	-
Total	**432**	**423**	**411**	**409**

26 CASH AND CASH EQUIVALENTS

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Cash	1,712	1,712	2,126	2,126
Current placements with the Latvijas Banka	115,212	115,212	100,854	100,854
Demand deposits and term deposits with other credit institutions with initial maturity of less than three months	600	600	659	659
Total	**117,524**	**117,524**	**103,639**	**103,639**

27 INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries

Investments in subsidiaries	Investment %	
EUR'000	2022	2021
AS Industra Invest *	100%	100%
Investments in subsidiaries	44	44
Impairment allowance	(44)	(44)
Investment in subsidiary, net	-	-

EUR'000	Current Assets	Long-term assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Net assets
31 December 2022	2,974	14,104	17,078	15,617	7,062	22,679	(5,601)
31 December 2021	4,610	16,065	20,675	18,679	7,337	26,016	(5,341)

EUR'000	Income	Expenses	Net loss
31 December 2022	924	(1,183)	(259)
31 December 2021	741	(1,417)	(676)

* AS "Industra Invest" (reg.No.40003471282) owns 100% shares of:

- MULT YATIRIM VE DANISMANLIK EMLAK TURIZM INSAAT ITHALAT IHRACAT SANAYI TICARET LIMITED SIRKETI (reg.No.52424) in Turkey, Antalya district, Kumluca region, Karaoz micro region, Jenica village

- SIA "Stabu 70" (reg.No.40203363910) in Latvia, Rīga, Dzirnavu iela 62 - 20, LV-1050

- SIA "Talsu Grants" (reg.No.40203271851) in Latvia, Rīga, Dzirnavu iela 62 - 20, LV-1050

- SIA "Jāņogu iela" (reg.No 40103514535) in Latvia, Rīga, Dzirnavu iela 62 - 20, LV-1050

- SIA "Slokas 60" (reg.No 40203445579) in Latvia, Rīga, Muitas iela 1, LV- 1010

Notes to the Bank's separate and the Group's consolidated financial statements

28 RELATED PARTY TRANSACTIONS

Related parties are defined as shareholders of the Bank who have a significant influence over the Bank, members of the Council and the Board, head of the Internal Audit Service, CRO, compliance controller, their close relatives and companies in which they have a controlling interest. In line with Section 43 of the Credit Institution Law, risk transactions with related parties must not exceed 20% of the Bank's equity, applicable to limiting large exposures according to Regulation No 575/2013.

As at 31 December 2022 and 31 December 2021 the Bank was in compliance with this requirement.

The transactions carried out with AS Industra Invest were as follows:

EUR'000	2022 Bank	Average weighted rate	2021 Bank	Average weighted rate
Loans issued to AS Industra Invest	22,039	2.45%	25,290	2.0%
Deposits from AS Industra Invest	64	-	54	-

The Bank's and the Group's assets and liabilities from transactions with related parties:

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Credit exposures to other related parties, net				
Loans				
- Consolidated subsidiaries	-	22,039	-	25,290
- Management	-	-	-	-
- Companies related to the shareholders	523	523	1,200	1,200
Impairment	(72)	(3,926)	(50)	(3,704)
Credit exposures to related parties, net	**451**	**18,636**	**1,150**	**22,786**

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Liabilities to other related parties				
Deposits				
- Consolidated subsidiaries	-	64	-	54
- Management	254	254	230	230
- Companies related to the shareholders	1,297	1,297	565	565
- Subordinated liabilities	-	-	-	-
Liabilities to related parties	**1,551**	**1,615**	**795**	**849**

The Bank's and the Group's operating income and expenses from transactions with related parties:

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Interest income				
- Consolidated subsidiaries	-	282	-	262
- Management	-	-	-	-
- Companies related to shareholders	92	92	33	33
Interest expense				
- Consolidated subsidiaries	-	-	-	-
- Management	-	-	-	-
- Companies related to shareholders	1	1	8	8

Notes to the Bank's separate and the Group's consolidated financial statements

28 RELATED PARTY TRANSACTIONS (continued)

The total amount of related party loans and deposits at the year end:

EUR'000	2022 Bank	Weighted average rate	2021 Bank	Weighted average rate
Loans to other related parties				
Opening balance	1,200		80	
Issued loans in current year (net)	-		1,200	
Repaid loans in current year	(177)		-	
The relationship with the bank ended in the reporting year	(500)		(80)	
Loans to other related parties	**523**	**10,15%**	**1,200**	**8.09%**

Remuneration to the Council and the Board:

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Remuneration to the Council and the Board	780	722	602	590
Total	**780**	**722**	**602**	**590**

29 ASSETS AND LIABILITIES UNDER MANAGEMENT

Assets EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Fiduciary loan	1,000	1,000	1,000	1,000
Total	**1,000**	**1,000**	**1,000**	**1,000**

Liabilities EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Funds received from corporate customers	1,000	1,000	1,000	1,000
Total	**1,000**	**1,000**	**1,000**	**1,000**

Liabilities under management consist of funds of non-resident clients in the total amount of 1,000 thousand EUR.

A fiduciary loan is a transaction whereby the Group and the Bank have attracted a fiduciary deposit that has been issued to a borrower specified by those depositors on behalf of the depositors and at the depositor's risk. The property owned by customers is managed separately from the property of the Group and the Bank and is kept in separate accounts at credit institutions through which the funds are invested. Assets under management often represent a securities portfolio separated from the Group's and the Bank's assets and is treated as a unified management object with its own structure, liquidity degree, sources of resources, yield and common risk. The Group and the Bank are engaged in securities purchase and sales on behalf of their clients. Such securities are not recognised on statement of financial position of the Group and the Bank.

30 CONTINGENT LIABILITIES AND COMMITMENTS

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans, 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 ten years. The Bank also provides guarantees by acting as settlement agent in transactions with securities.

Notes to the Bank's separate and the Group's consolidated financial statements

30 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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 exposure that would be recognised in the statement of comprehensive income if counterparties failed to honour their contracted liabilities to any extent.

EUR'000	2022 Group	2022 Bank	2021 Group	2021 Bank
Loans and credit line liabilities	2,512	2,512	1,623	1,698
Guarantees and letters of credit	374	374	259	259
Total	**2,886**	**2,886**	**1,882**	**1,957**
Impairment allowance	(13)	(13)	(7)	(7)

31 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES AND COMMITMENTS

The geographical segmentation of the Group's and the Bank's assets, liabilities and contingent liabilities and commitments as at 31 December 2022 was as follows:

Group Assets EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Cash and balances due from the Latvijas Banka	116,882	42	-	-	116,924
Demand deposits with credit institutions	-	131	2	467	600
Financial assets at amortised cost	28,514	21,389	-	-	49,903
Financial assets at fair value through profit or loss	-	1,662	-	-	1,662
Financial assets at fair value through other comprehensive income	992	23	-	-	1,015
Loans and receivables	70,001	-	-	3	70,004
Intangible assets	563	-	-	-	563
Property, equipment and right-of-use assets	557	-	-	-	557
Investment properties	22,185	121	-	-	22,306
Other assets	3,972	2,027	-	36	6,035
Total assets	**243,666**	**25,395**	**2**	**506**	**269,569**

Group Liabilities EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Deposits	161,292	36,056	12,774	29,907	240,029
Subordinated liabilities	2,571	-	615	491	3,677
Other liabilities	5,188	201	-	-	5,389
Capital and reserves	20,474	-	-	-	20,474
Total equity, reserves and liabilities	**189,525**	**36,257**	**13,389**	**30,398**	**269,569**
Contingent liabilities and commitments	**2,686**	**200**	**-**	**-**	**2,886**

Notes to the Bank's separate and the Group's consolidated financial statements

31 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES AND COMMITMENTS (continued)

31 December 2022

Bank Assets EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Cash and balances due from the Latvijas Banka	116,882	42	-	-	116,924
Demand deposits with credit institutions	-	131	2	467	600
Financial assets at amortised cost	28,514	21,389	-	-	49,903
Financial assets at fair value through profit or loss	-	1,662	-	-	1,662
Financial assets at fair value through other comprehensive income	992	23	-	-	1,015
Loans and receivables	83,214	-	-	3	83,217
Intangible assets	563	-	-	-	563
Property, equipment and right-of-use assets	515	-	-	-	515
Investment properties	10,140	-	-	-	10,140
Other assets	3,098	1,981	-	36	5,115
Total assets	**243,918**	**25,228**	**2**	**506**	**269,654**

Bank Liabilities EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Deposits	161,356	36,056	12,774	29,907	240,093
Subordinated liabilities	2,571	-	615	491	3,677
Other liabilities	4,875	200	-	-	5,075
Capital and reserves	20,809	-	-	-	20,809
Total equity, reserves and liabilities	**189,611**	**36,256**	**13,389**	**30,398**	**269,654**
Contingent liabilities and commitments	**2,686**	**200**	**-**	**-**	**2,886**

Notes to the Bank's separate and the Group's consolidated financial statements

31 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES AND COMMITMENTS (continued)

The geographical segmentation of the Group's and the Bank's assets, liabilities and contingent liabilities and commitments as at 31 December 2021 was as follows:

Group Assets EUR'000	Latvia (restated)	OECD countries	CIS countries	Other countries	Total (restated)
Cash and balances due from the Latvijas Banka	102,921	59	-	-	102,980
Demand deposits with credit institutions	-	240	410	9	659
Financial assets at amortised cost	-	-	-	-	-
Financial assets at fair value through profit or loss	-	501	-	-	501
Financial assets at fair value through other comprehensive income	1,007	24	-	-	1,031
Loans and receivables	43,303	1,349	1,647	-	46,299
Intangible assets	2	-	-	-	2
Property, equipment and right-of-use assets	676	-	-	-	676
Investment property	14,092	159	-	-	14,251
Other assets	3,808	1,641	4	473	5,926
Total assets	**165,809**	**3,973**	**2,061**	**482**	**172,325**

Group Liabilities EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Deposits	97,163	19,036	10,725	19,456	146,380
Subordinated liabilities	2,570	433	1,447	203	4,653
Other liabilities	4,903	202	-	-	5,105
Capital and reserves	16,187	-	-	-	16,187
Total equity, reserves and liabilities	**120,823**	**19,671**	**12,172**	**19,659**	**172,325**
Contingent liabilities and commitments	**1,682**	**200**	**-**	**-**	**1,882**

Notes to the Bank's separate and the Group's consolidated financial statements

31 GEOGRAPHICAL CONCENTRATION OF ASSETS, LIABILITIES, EQUITY AND CONTINGENT LIABILITIES AND COMMITMENTS (continued)

31 December 2021

Bank Assets EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Cash and balances due from the Latvijas Banka	102,921	59	-	-	102,980
Demand deposits with credit institutions	-	240	410	9	659
Financial assets at amortised cost	-	-	-	-	-
Financial assets at fair value through profit or loss	-	501	-	-	501
Financial assets at fair value through other comprehensive income	1,007	24	-	-	1,031
Loans and receivables	58,499	1,349	1,647	-	61,495
Intangible assets	2	-	-	-	2
Property, equipment and right-of-use assets	676	-	-	-	676
Investment property	1,193	-	-	-	1,193
Other assets	1,676	1,581	4	473	3,734
Total assets	**165,974**	**3,754**	**2,061**	**482**	**172,271**

Bank Liabilities EUR'000	Latvia	OECD countries	CIS countries	Other countries	Total
Deposits	97,217	19,036	10,725	19,456	146,434
Subordinated liabilities	2,570	433	1,447	203	4,653
Other liabilities	4,179	200	-	-	4,379
Capital and reserves	16,805	-	-	-	16,805
Total equity, reserves and liabilities	**120,771**	**19,669**	**12,172**	**19,659**	**172,271**
Contingent liabilities and commitments	**1,757**	**200**	**-**	**-**	**1,957**

Notes to the Bank's separate and the Group's consolidated financial statements

32 INTEREST RATE REPRICING ANALYSIS

The interest rate repricing analysis of the Bank's and the Group's assets and liabilities as at 31 December 2022 was as follows:

Group EUR'000	Less than 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Not sensitive to changes in interest rates	Total
Assets								
Cash and balances due from the Latvijas Banka	115,212	-	-	-	-	-	1,712	116,924
Demand deposits with credit institutions	600	-	-	-	-	-	-	600
Financial assets at amortised cost	-	-	-	-	49,903	-	-	49,903
Financial assets at fair value through profit or loss	-	-	-	-	-	-	1,662	1,662
Financial assets at fair value through other comprehensive income	-	-	992	-	-	-	23	1,015
Loans and receivables	15,225	6,381	42,209	4,488	1,682	19	-	70,004
Intangible assets	-	-	-	-	-	-	563	563
Property, equipment and right-of-use assets	-	-	-	-	-	-	557	557
Investment property	-	-	-	-	-	-	22,306	22,306
Other assets	-	-	-	-	-	-	6,035	6,035
Total assets	**131,037**	**6,381**	**43,201**	**4,488**	**51,585**	**19**	**32,858**	**269,569**
Liabilities								
Deposits	181,029	4,995	5,592	15,496	22,203	10,714	-	240,029
Subordinated liabilities	-	-	-	210	2,852	615	-	3,677
Other liabilities	-	-	-	-	-	-	5,389	5,389
Total liabilities	**181,029**	**4,995**	**5,592**	**15,706**	**25,055**	**11,329**	**5,389**	**249,095**
Capital and reserves	-	-	-	-	-	-	20,474	20,474
Total liabilities, capital and reserves	**181,029**	**4,995**	**5,592**	**15,706**	**25,055**	**11,329**	**25,863**	**269,569**
Interest rate risk	**(49,992)**	**1,386**	**37,609**	**(11,218)**	**26,530**	**(11,310)**	**6,995**	**-**

Notes to the Bank's separate and the Group's consolidated financial statements

32 INTEREST RATE REPRICING ANALYSIS (continued)

31 December 2022

Bank EUR'000	Less than 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Not sensitive to changes in interest rates	Total
Assets								
Cash and balances due from the Latvijas Banka	115,212	-	-	-	-	-	1,712	116,924
Demand deposits with credit institutions	600	-	-	-	-	-	-	600
Financial assets at amortised cost	-	-	-	-	49,903	-	-	49,903
Financial assets at fair value through profit or loss	-	-	-	-	-	-	1,662	1,662
Financial assets at fair value through other comprehensive income	-	-	992	-	-	-	23	1,015
Loans and receivables	15,504	6,158	42,633	15,560	3,275	87	-	83,217
Intangible assets	-	-	-	-	-	-	563	563
Property, equipment and right-of-use assets	-	-	-	-	-	-	515	515
Investment property	-	-	-	-	-	-	10,140	10,140
Other assets	-	-	-	-	-	-	5,115	5,115
Total assets	**131,316**	**6,158**	**43,625**	**15,560**	**53,178**	**87**	**19,730**	**269,654**
Liabilities								
Deposits	181,093	4,995	5,592	15,496	22,203	10,714	-	240,093
Subordinated liabilities	-	-	-	210	2,852	615	-	3,677
Other liabilities	-	-	-	-	-	-	5,074	5,074
Total liabilities	**181,093**	**4,995**	**5,592**	**15,706**	**25,055**	**11,329**	**5,074**	**248,844**
Capital and reserves	-	-	-	-	-	-	20,810	20,810
Total liabilities, capital and reserves	**181,093**	**4,995**	**5,592**	**15,706**	**25,055**	**11,329**	**25,884**	**269,654**
Interest rate risk	**(49,777)**	**1,163**	**38,033**	**(146)**	**28,123**	**(11,242)**	**(6,154)**	**-**

Notes to the Bank's separate and the Group's consolidated financial statements

32 INTEREST RATE REPRICING ANALYSIS (continued)

The interest rate repricing analysis of the Group's and the Bank's assets and liabilities as at 31 December 2021 was as follows:

Group EUR'000	**Less than 1 month** (restated)	**1 - 3 months** (restated)	**3 - 6 months** (restated)	**6 - 12 months** (restated)	**1 - 5 years** (restated)	**Over 5 years** (restated)	**Not sensitive to changes in interest rates** (restated)	**Total** (restated)
Assets								
Cash and balances due from the Latvijas Banka	100,853	-	-	-	-	-	2,127	102,980
Demand deposits with credit institutions	659	-	-	-	-	-	-	659
Financial assets at amortised cost	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-	501	501
Financial assets at fair value through other comprehensive income	-	-	-	-	1,007	-	24	1,031
Loans and receivables	10,079	1,887	27,048	2,766	4,218	301	-	46,299
Intangible assets	-	-	-	-	-	-	2	2
Property, equipment and right-of-use assets	-	-	-	-	-	-	676	676
Investment property	-	-	-	-	-	-	14,251	14,251
Other assets	-	-	-	-	-	-	5,926	5,926
Total assets	**111,591**	**1,887**	**27,048**	**2,766**	**5,225**	**301**	**23,507**	**166,399**
Liabilities								
Deposits	113,724	1,609	2,376	7,435	10,753	10,483	-	146,380
Subordinated liabilities	-	280	-	721	3,054	598	-	4,653
Other liabilities	-	-	-	-	-	-	5,105	5,105
Total liabilities	**113,724**	**1,889**	**2,376**	**8,156**	**13,807**	**11,081**	**5,105**	**156,138**
Capital and reserves	-	-	-	-	-	-	16,187	16,187
Total liabilities, capital and reserves	**113,724**	**1,889**	**2,376**	**8,156**	**13,807**	**11,081**	**21,292**	**172,325**
Interest rate risk	**(2,133)**	**(2)**	**24,672**	**(5,390)**	**(8,582)**	**(10,780)**	**2,215**	**-**

Notes to the Bank's separate and the Group's consolidated financial statements

32 INTEREST RATE REPRICING ANALYSIS (continued)

31 December 2021

Bank EUR'000	Less than 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Not sensitive to changes in interest rates	Total
Assets								
Cash and balances due from the Latvijas Banka	100,853	-	-	-	-	-	2,127	102,980
Demand deposits with credit institutions	659	-	-	-	-	-	-	659
Financial assets at amortised cost	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-	501	501
Financial assets at fair value through other comprehensive income	-	-	-	-	1,007	-	24	1,031
Loans and receivables	10,116	1,650	26,136	16,765	6,597	231	-	61,495
Intangible assets	-	-	-	-	-	-	2	2
Property, equipment and right-of-use assets	-	-	-	-	-	-	676	676
Investment property	-	-	-	-	-	-	1,193	1,193
Other assets	-	-	-	-	-	-	3,734	3,734
Total assets	**111,628**	**1,650**	**26,136**	**16,765**	**7,604**	**231**	**8,257**	**172,271**
Liabilities								
Deposits	113,778	1,609	2,376	7,435	10,753	10,483	-	146,434
Subordinated liabilities	-	280	-	721	3,054	598	-	4,653
Other liabilities	-	-	-	-	-	-	4,379	4,379
Total liabilities	**113,778**	**1,889**	**2,376**	**8,156**	**13,807**	**11,081**	**4,379**	**155,466**
Capital and reserves	-	-	-	-	-	-	16,805	16,805
Total liabilities, capital and reserves	**113,778**	**1,889**	**2,376**	**8,156**	**13,807**	**11,081**	**21,184**	**172,271**
Interest rate risk	**(2,150)**	**(239)**	**23,760**	**8,609**	**(6,203)**	**(10,850)**	**(12,927)**	**-**

Notes to the Bank's separate and the Group's consolidated financial statements

32 INTEREST RATE REPRICING ANALYSIS (continued)

Sensitivity analysis

The following table disclose the sensitivity analysis of the Bank's statement of comprehensive income to reasonably possible changes in interest rates. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The sensitivity of statement of comprehensive income is the effect of the assumed changes in the interest rates on the net interest income for one year, following the reporting period end date, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2022 and 31 December 2021.

The sensitivity of the Group's profit and loss to changes in interest rates is not disclosed separately as it does not differ significantly from that of the Bank.

An increase and decrease of interest rates by 100 basis points would result in the following change to the statement of comprehensive income and equity:

EUR'000	2022		2021	
	Profit or loss	Shareholders' equity	Profit or loss	Shareholders' equity
Increase in interest rates	(230)	(3)	45	(13)
Decrease in interest rates	230	3	(45)	13
Increase in USD interest rates	(7)	-	(22)	-
Decrease in USD interest rates	7	-	22	-

33 FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES

31 December 2022

Group EUR'000	Financial assets at amortised cost	Financial assets and liabilities at fair value through profit or loss	Financial assets and liabilities at fair value through other comprehensive income	Liabilities at amortised cost	Total
Financial assets					
Cash and balances due from the Latvijas Banka	116,924	-	-	-	116,924
Demand deposits with credit institutions	600	-	-	-	600
Financial assets at amortised cost	49,903	-	-	-	49,903
Financial assets at fair value through profit or loss	-	1,662	-	-	1,662
Financial assets at fair value through other comprehensive income	-	-	1,015	-	1,015
Loans and receivables	70,004	-	-		70,004
Other financial assets	4,781	-	-	-	4,781
Total financial assets	**242,212**	**1,662**	**1,015**	**-**	**244,889**
Financial liabilities					
Deposits	-	-	-	240,029	240,029
Subordinated liabilities	-	-	-	3,677	3,677
Other financial liabilities	-	-	-	4,108	4,108
Total financial liabilities	**-**	**-**	**-**	**247,814**	**247,878**

Notes to the Bank's separate and the Group's consolidated financial statements

33 FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES (continued)

31 December 2022

Bank EUR'000	Financial assets at amortised cost	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities designated at fair value through other comprehensive income	Liabilities at amortised cost	Total
Financial assets					
Cash and balances due from the Latvijas Banka	116,924	-	-	-	116,924
Demand deposits with credit institutions	600	-	-	-	600
Financial assets at amortised cost	49,903	-	-	-	49,903
Financial assets at fair value through profit or loss	-	1,662	-	-	1,662
Financial assets at fair value through other comprehensive income	-	-	1,015	-	1,015
Loans and receivables	83,167	-	-		83,217
Other financial assets	4,521	-	-	-	4,521
Total financial assets	**255,115**	**1,662**	**1,015**	**-**	**257,842**
Financial liabilities					
Deposits	-	-	-	240,093	240,093
Subordinated liabilities	-	-	-	3,677	3,677
Other financial liabilities	-	-	-	4,108	4,108
Total liabilities	**-**	**-**	**-**	**247,878**	**247,878**

Notes to the Bank's separate and the Group's consolidated financial statements

33 FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES (continued)

31 December 2021

Group EUR'000	Financial assets at amortised cost (restated)	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities designated at fair value through other comprehensive income	Liabilities at amortised cost	Total (restated)
Financial assets					
Cash and balances due from the Latvijas Banka	102,980	-	-	-	102,980
Demand deposits with credit institutions	659	-	-	-	659
Financial assets at amortised cost	-	-	-	-	-
Financial assets at fair value through profit or loss	-	501	-	-	501
Financial assets at fair value through other comprehensive income	-	-	1,031	-	1,031
Loans and receivables	46,299	-	-		46,299
Other financial assets	4,488	-	-	-	4,488
Total financial assets	**154,426**	**501**	**1,031**	**-**	**155,958**
Financial liabilities					
Deposits	-	-	-	146,380	146,380
Subordinated liabilities	-	-	-	4,653	4,653
Other financial liabilities	-	-	-	3,006	3,006
Total financial liabilities	**-**	**-**	**-**	**154,039**	**154,039**

Notes to the Bank's separate and the Group's consolidated financial statements

33 FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES (CONTINUED)

31 December 2021

Bank EUR'000	Financial assets at amortised cost	Financial assets and liabilities designated at fair value through profit or loss	Financial assets and liabilities designated at fair value through other comprehensive income	Liabilities at amortised cost	Total
Financial assets					
Cash and balances due from the Latvijas Banka	102,980	-	-	-	102,980
Demand deposits with credit institutions	659	-	-	-	659
Financial assets at amortised cost	-	-	-	-	-
Financial assets at fair value through profit or loss	-	501	-	-	501
Financial assets at fair value through other comprehensive income	-	-	1,031	-	1,031
Loans and receivables	61,495	-	-		61,495
Other financial assets	3,068	-	-	-	3,068
Total financial assets	**168,202**	**501**	**1,031**	**-**	**169,734**
Financial liabilities					
Deposits	-	-	-	146,434	146,434
Subordinated liabilities	-	-	-	4,653	4,653
Other financial liabilities	-	-	-	3,006	3,006
Total financial liabilities	**-**	**-**	**-**	**154,093**	**154,093**

Notes to the Bank's separate and the Group's consolidated financial statements

34 CURRENCY ANALYSIS

The Group and the Bank actively controls foreign exchange open positions. The Bank operates based on the Law on Credit Institutions stating that the open position in any currency should not exceed 10% of the Tier 1 capital and that the total open position should not exceed 20% of the Tier 1 capital.

The currency analysis of the Group's and the Bank's expected and contingent liabilities of the financial position as at 31 December 2022 was as follows:

Group **EUR'000**	**EUR**	**USD**	**Other**	**Total**
Assets				
Cash and balances due from the Latvijas Banka	116,543	168	213	116,924
Demand deposits with credit institutions	124	-	476	600
Financial assets at amortised cost	49,903	-	-	49,903
Financial assets at fair value through profit or loss	-	1,662	-	1,662
Financial assets at fair value through other comprehensive income	1,015	-	-	1,015
Loans and receivables	69,162	842	-	70,004
Intangible assets	563	-	-	563
Property, equipment and right-of-use assets	557	-	-	557
Investment property	22,306	-	-	22,306
Other assets	3,087	2,927	21	6,035
Total assets	**263,260**	**5,599**	**710**	**269,569**
Liabilities				
Deposits	232,912	5,927	1,190	240,029
Subordinated liabilities	3,677	-	-	3,677
Other liabilities	5,378	11	-	5,389
Total liabilities	**241,967**	**5,938**	**1,190**	**249,095**
Capital and reserves	20,474	-	-	20,474
Total liabilities, capital and reserves	**262,441**	**5,938**	**1,190**	**269,569**
Net open position in the statement of financial position	819	(339)	(480)	-
Net position arising from currency exchange transactions	(348)	348	-	-
Total net open position	**471**	**9**	**(480)**	**-**

Notes to the Bank's separate and the Group's consolidated financial statements

34 CURRENCY ANALYSIS (continued)

31 December 2022

Bank EUR'000	EUR	USD	Other	Total
Assets				
Cash and balances due from the Latvijas Banka	116,543	168	213	116,924
Demand deposits with credit institutions	124	-	476	600
Financial assets at amortised cost	49,903	-	-	49,903
Financial assets at fair value through profit or loss	-	1,662	-	1,662
Financial assets at fair value through other comprehensive income	1,015	-	-	1,015
Loans and receivables	82,271	946	-	83,217
Intangible assets	563	-	-	563
Property, equipment and right-of-use assets	515	-	-	515
Investment property	10,140	-	-	10,140
Other assets	2,175	2,919	21	5,115
Total assets	**263,249**	**5,695**	**710**	**269,654**
Liabilities				
Deposits	232,976	5,927	1,190	240,093
Subordinated liabilities	3,677	-	-	3,677
Other liabilities	5,063	11	-	5,074
Total liabilities	**241,716**	**5,938**	**1,190**	**248,844**
Capital and reserves	20,810	-	-	20,810
Total liabilities, capital and reserves	**262,526**	**5,938**	**1,190**	**269,654**
Net open position in the statement of financial position	723	(243)	(480)	-
Net position arising from currency exchange transactions	(348)	348	-	-
Total net open position	**375**	**105**	**(480)**	**-**

Notes to the Bank's separate and the Group's consolidated financial statements

34 CURRENCY ANALYSIS (continued)

The currency analysis of the Group's and the Bank's expected and contingent liabilities as at 31 December 2021 was as follows:

Group EUR'000	EUR (restated)	USD	Other	Total (restated)
Assets				
Cash and balances due from the Latvijas Banka	102,308	282	390	102,980
Demand deposits with credit institutions	390	152	117	659
Financial assets at fair value through profit or loss	24	501	(24)	501
Financial assets at fair value through other comprehensive income	1,007	-	24	1,031
Loans and receivables	45,549	780	(30)	46,299
Intangible assets	2	-	-	2
Property, equipment and right-of-use assets	400	-	276	676
Investment property	14,251	-	-	14,251
Other assets	4,614	856	456	5,926
Total assets	**168,545**	**2,571**	**1,209**	**172,325**
Liabilities				
Deposits	135,421	9,141	1,818	146,380
Subordinated liabilities	4,653	-	-	4,653
Other liabilities	4,737	10	358	5,105
Total liabilities	**144,811**	**9,151**	**2,176**	**156,138**
Capital and reserves	16,187	-	-	16,187
Total liabilities, capital and reserves	**160,998**	**9,151**	**2,176**	**172,325**
Net open position in the statement of financial position	7,547	(6,580)	(967)	-
Net position arising from currency exchange transactions	(7,888)	6,292	1,596	-
Total net open position	**(341)**	**(288)**	**629**	**-**

Notes to the Bank's separate and the Group's consolidated financial statements

34 CURRENCY ANALYSIS (continued)

31 December 2021

Bank EUR'000	EUR	USD	Other	Total
Assets				
Cash and balances due from the Latvijas Banka	102,308	282	390	102,980
Demand deposits with credit institutions	390	152	117	659
Financial assets at fair value through profit or loss	24	501	(24)	501
Financial assets at fair value through other comprehensive income	1,007	-	24	1,031
Loans and receivables	60,670	855	(30)	61,495
Intangible assets	2	-	-	2
Property, equipment and right-of-use assets	400	-	276	676
Investment property	1,193	-	-	1,193
Other assets	2,422	856	456	3,734
Total assets	**168,416**	**2,646**	**1,209**	**172,271**
Liabilities				
Deposits	135,475	9,141	1,818	146,454
Subordinated liabilities	4,653	-	-	4,653
Other liabilities	4,011	10	358	4,379
Total liabilities	**144,139**	**9,151**	**2,176**	**155,466**
Capital and reserves	16,805	-	-	16,805
Total liabilities, capital and reserves	**160,944**	**9,151**	**2,176**	**172,271**
Net open position in the statement of financial position	7,472	(6,505)	(967)	-
Net position arising from currency exchange transactions	(7,888)	6,292	1,596	-
Total net open position	**(416)**	**(213)**	**629**	**-**

An analysis of sensitivity of the Group's and Bank's net income for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2022 and 2021 and a simplified scenario of a 10% change in USD to EUR exchange rates is as follows:

Group EUR'000	2022 Net profit	2021 Net profit
10% appreciation of USD against EUR	-	1
10% depreciation of USD against EUR	-	(1)

Bank EUR'000	2022 Net profit	2021 Net profit
10% appreciation of USD against EUR	11	(49)
10% depreciation of USD against EUR	(11)	49

Notes to the Bank's separate and the Group's consolidated financial statements

35 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The amounts below represent the assets and liabilities grouped by residual maturity.

In line with liquidity management policy the liquidity risk is managed by Treasury Division. All units whose operations affect the liquidity of the Group and the Bank are involved in liquidity management. The structure of assets/liabilities and the difference between them are calculated in order to carry out liquidity control. Liquidity is managed by using monetary instruments.

The Bank is active in managing its net liquidity position by means of:

- reducing maturities of assets, including by maintaining large balances on correspondent accounts or interbank overnight deposits and by investing funds in highly liquid debt securities in the available-for-sale portfolio or in highly liquid debt securities in the held-to-maturity portfolio, which are accepted as collateral by the European Central Bank or other market players.
- increasing maturities of liabilities by attracting term deposits.

The Bank approves limits on net liquidity positions in general, as well as in EUR and USD.

As at 31 December 2022 and 31 December 2021 the liquidity coverage ratio for the Group was 386% and 405%, respectively, and for the Bank it was 386% and 409% respectively.

The contractual maturity analysis of the Group's and the Bank's assets and liabilities as at 31 December 2022 was as follows:

Group EUR'000	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Over 5 years or not determined	Total
Assets							
Cash and balances due from the Latvijas Banka	116,924	-	-	-	-	-	116,924
Demand deposits with credit institutions	600	-	-	-	-	-	600
Financial assets at amortised cost	49,903	-	-	-	-	-	49,903
Financial assets at fair value through profit or loss	-	-	-	-	1,662	-	1,662
Financial assets at fair value through other comprehensive income	992	-	-	-	23	-	1,015
Loans and receivables	986	1,360	3,552	9,030	35,052	20,024	70,004
Intangible assets	-	-	-	-	563	-	563
Property, equipment and right-of-use assets	-	-	-	-	557	-	557
Investment property	-	-	-	-	-	22,306	22,306
Other assets	3,805	-	-	-	-	2,230	6,035
Total assets	**173,210**	**1,360**	**3,552**	**9,030**	**37,857**	**44,560**	**269,569**
Liabilities							
Deposits	181,029	4,995	5,592	15,496	22,203	10,714	240,029
Subordinated liabilities	-	-	-	210	2,852	615	3,677
Other liabilities	5,015	-	1	302	71	-	6,647
Total liabilities	**186,044**	**4,995**	**5,593**	**16,008**	**25,126**	**11,329**	**249,095**
Capital and reserves	-	-	-	-	-	20,474	20,474
Total capital, liabilities and reserves	**186,044**	**4,995**	**5,593**	**16,008**	**25,126**	**31,803**	**269,569**
Liquidity risk	**(12,835)**	**(3,635)**	**(2,041)**	**(6,978)**	**12,732**	**12,757**	**-**

Notes to the Bank's separate and the Group's consolidated financial statements

35 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

31 December 2022

Bank EUR'000	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**More than 1 year**	**Over 5 years or not determined**	**Total**
Assets							
Cash and balances due from the Latvijas Banka	116,924	-	-	-	-	-	116,924
Demand deposits with credit institutions	600	-	-	-	-	-	600
Financial assets at amortised cost	49,903	-	-	-	-	-	49,903
Financial assets at fair value through profit or loss	-	-	-	-	1,662	-	1,662
Financial assets at fair value through other comprehensive income	992	-	-	-	23	-	1,015
Loans and receivables	966	1,137	4,722	20,043	36,182	20,167	83,217
Intangible assets	-	-	-	-	563	-	563
Property, equipment and right-of-use assets	-	-	-	-	515	-	515
Investment property	-	-	-	-	-	10,140	10,140
Other assets	3,469	-	-	-	-	1,646	5,115
Total assets	**172,854**	**1,137**	**4,722**	**20,043**	**38,945**	**31,953**	**269,654**
Liabilities							
Deposits	181,093	4,995	5,592	15,496	22,203	10,714	240,093
Subordinated liabilities	-	-	-	210	2,852	615	3,677
Other liabilities	4,701	-	1	302	70	-	5,074
Total liabilities	**185,794**	**4,995**	**5,593**	**16,008**	**25,125**	**11,329**	**248,844**
Capital and reserves	-	-	-	-	-	20,810	20,810
Total capital, liabilities and reserves	**185,794**	**4,995**	**5,593**	**16,008**	**25,125**	**32,139**	**269,654**
Liquidity risk	**(12,940)**	**(3,858)**	**(871)**	**4,035**	**13,820**	**(186)**	**-**

Notes to the Bank's separate and the Group's consolidated financial statements

35 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The contractual maturity analysis of the Group's and the Bank's assets and liabilities as at 31 December 2021 was as follows:

Group EUR'000	Up to 1 month including (restated)	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year (restated)	Over 5 years or not determined (restated)	Total (restated)
Assets							
Cash and balances due from the Latvijas Banka	102,980	-	-	-	-	-	102,980
Demand deposits with credit institutions	659	-	-	-	-	-	659
Financial assets at fair value through profit or loss	-	-	-	-	501	-	501
Financial assets at fair value through other comprehensive income	-	-	-	-	1,031	-	1,031
Loans and receivables	969	633	1,278	6,725	24,947	11,747	46,299
Intangible assets	-	-	-	-	2	-	2
Property, equipment and right-of-use assets	-	-	-	-	676	-	676
Investment property	-	-	-	-	-	14,251	14,251
Other assets	3,767	-	-	-	-	2,159	5,926
Total assets	**108,375**	**633**	**1,278**	**6,725**	**27,157**	**28,157**	**172,325**
Liabilities							
Deposits	113,724	1,609	2,376	7,435	10,753	10,483	146,380
Subordinated liabilities	-	280	-	721	3,054	598	4,653
Other liabilities	4,845	2	-	247	11	-	5,105
Total liabilities	**118,569**	**1,891**	**2,376**	**8,403**	**13,818**	**11,081**	**156,138**
Capital and reserves	-	-	-	-	-	16,187	16,187
Total capital, liabilities and reserves	**118,569**	**1,891**	**2,376**	**8,403**	**13,818**	**27,268**	**172,325**
Liquidity risk	**(10,193)**	**(1,258)**	**(1,098)**	**(1,678)**	**13,339**	**889**	**-**

Notes to the Bank's separate and the Group's consolidated financial statements

35 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

31 December 2021

Bank EUR'000	Up to 1 month including	1 to 3 months	3 to 6 months	6 to 12 months	More than 1 year	Over 5 years or not determined	Total
Assets							
Cash and balances due from the Latvijas Banka	102,980	-	-	-	-	-	102,980
Demand deposits with credit institutions	659	-	-	-	-	-	659
Financial assets at fair value through profit or loss	-	-	-	-	501	-	501
Financial assets at fair value through other comprehensive income	-	-	-	-	1,031	-	1,031
Loans and receivables	1,007	396	1,308	20,504	26,865	11,415	61,495
Intangible assets	-	-	-	-	2	-	2
Property, equipment and right-of-use assets	-	-	-	-	676	-	676
Investment property	-	-	-	-	-	1,193	1,193
Other assets	2,159	-	-	-	-	1,575	3,734
Total assets	**106,805**	**396**	**1,308**	**20,504**	**29,075**	**14,183**	**172,271**
Liabilities							
Deposits	113,778	1,609	2,376	7,435	10,753	10,483	146,434
Subordinated liabilities	-	280	-	721	3,054	598	4,653
Other liabilities	4,119	2	-	247	11	-	4,379
Total liabilities	**117,897**	**1,891**	**2,376**	**8,403**	**13,818**	**11,081**	**155,466**
Capital and reserves	-	-	-	-	-	16,805	16,805
Total capital, liabilities and reserves	**117,897**	**1,891**	**2,376**	**8,403**	**13,818**	**27,886**	**172,271**
Liquidity risk	**(11,092)**	**(1,495)**	**(1,068)**	**12,101**	**15,257**	**(13,703)**	**-**

Notes to the Bank's separate and the Group's consolidated financial statements

35 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

The table below presents the cash flows payable by the Bank under both non-derivative and derivative financial liabilities by remaining contractual maturities as at 31 December 2022 and 31 December 2021.

The amounts disclosed in the table are the contractual undiscounted cash flows in comparison with carrying amounts of financial liabilities, comprising discounted cash flows as at the reporting date.

The Group's analysis of financial liabilities' contractual undiscounted cash flows has not been presented as the differences to the Bank analysis are insignificant.

EUR'000 31 December 2022	Carrying amount	Gross nominal outflow	Less than 1 month	1 - 3 months	3 months to 1 year	1-5 years	Over 5 years
Non-derivative financial liabilities							
Deposits	240,029	241,272	181,183	5,027	21,237	23,190	10,635
Subordinated liabilities	3,677	3,677	-	-	210	2,852	615
Other financial liabilities	4,108	4,108	4,108	-	-	-	-
Total non-derivative financial liabilities	**247,814**	**249,057**	**185,291**	**5,027**	**21,447**	**26,042**	**11,250**
Loans and credit line liabilities	2,512	2,512	2,512	-	-	-	-
Guarantees and letters of credit	374	374	374	-	-	-	-
Total financial liabilities	**250,700**	**251,943**	**188,177**	**5,027**	**21,447**	**26,042**	**11,250**

EUR'000 31 December 2021	Carrying amount	Gross nominal outflow	Less than 1 month	1 - 3 months	3 months to 1 year	1-5 years	Over 5 years
Non-derivative financial liabilities							
Deposits	146,379	146,379	113,724	1,609	9,811	10,753	10,482
Subordinated liabilities	4,653	4,653	-	280	721	3,054	598
Other financial liabilities	3,006	3,006	3,006	-	-	-	-
Total non-derivative financial liabilities	**154,038**	**154,038**	**116,730**	**1,889**	**10,532**	**13,807**	**11,080**
Loans and credit line liabilities	1,623	1,623	1,623	-	-	-	-
Guarantees and letters of credit	259	259	259	-	-	-	-
Total financial liabilities	**155,920**	**155,920**	**118,612**	**1,889**	**10,532**	**13,807**	**11,080**

36 CAPITAL ADEQUACY

The capital requirement for the Group and the Bank is set and monitored by the Financial and Capital Market Commission (now Latvijas Banka).

Capital is defined by the Group and the Bank as items defined by statutory regulation as capital. Under the current capital requirements set by Financial and Capital Market Commission (now Latvijas Banka), banks must maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. Furthermore, according to Section 35.25 of the Credit Institution Law, the Bank is required to ensure that its Tier 1 basic capital is sufficient to meet the total capital buffer requirement which given the provisions of Section 35.3(1) of the Credit Institution Law is comprised of a capital conservation buffer of 2.5% of total exposures calculated according to Article 92(3) of the Regulation and, as required in Section 35.4(1) of the Credit Institutions Law, of the specific countercyclical capital buffer (CCyB) calculated by multiplying the total value of exposures as

Notes to the Bank's separate and the Group's consolidated financial statements

36 CAPITAL ADEQUACY (continued)

required by capital buffer (CCyB) calculated by multiplying the total value of exposures as required by Article 92(3) of the Regulation and the CCyB rate specific for the particular credit institution.

As at 31 December 2022 the individual minimum level is set 10.15% which is increased by the total capital buffer requirement of 2.5% calculated as the sum of the capital buffer and the countercyclical capital buffer specific for the particular credit institution (31 December 2021: 11.40% which is increased by the total capital buffer requirement of 2.5% calculated as the sum of the capital buffer and the countercyclical capital buffer specific for the particular credit institution).

The actual capital adequacy ratio of the Group and the Bank was above the individual capital adequacy ratio set by the Financial and Capital Market Commission (now Latvijas Banka) in the reporting year ended 31 December 2022 and above the individual capital adequacy ratio set by the Financial and Capital Market Commission (now Latvijas Banka) in the reporting year ended 31 December 2021.

The following table shows the composition of the Group's capital position as at 31 December 2022 and 31 December 2021:

Group EUR'000	31 December 2022	31 December 2021
Tier 1		
Share capital	27,601	27,601
Share premium	260	260
Reserve capital	4,156	4,156
Retained earnings/ (accumulated loss) carried forward from previous years	(15,858)	(17,377)
Profit/ (loss) for the reporting year	4,301	1,519
Revaluation reserve of financial assets at FVOCI	14	28
Additional value adjustment	(3)	(2)
Intangible assets	(1)	(2)
Other adjustments	(1,101)	(1,286)
Result of transition period conditions	473	946
Total Tier 1 capital	**19,842**	**15,843**
Tier 2 capital		
Subordinated capital (unamortised part)	1,860	2,663
Total Tier 2 capital	**1,860**	**2,663**
Statutory deductions from Tier 1 and Tier 2 capital	**(13)**	**(38)**
Total shareholders' equity	**21,688**	**18,468**
Risk weighted value of exposures to credit risk, counterparty credit risk, impairment of recoverable amounts and unpaid deliveries risk	96,538	73,752
Total exposure to position risk, foreign currency risk and commodity risk	644	497
Total exposure to operational risk	17,298	15,420
Total exposure to credit value adjustment risk	2	43
Total risk exposure	**114,482**	**89,712**
Total capital adequacy ratio	**18.94%**	**20.59%**
Minimum capital adequacy ratio set by the FCMC	**10.15%**	**11.40%**
Minimum capital adequacy ratio set by the FCMC including the total capital buffer requirement	**12.65%**	**13.90%**

Notes to the Bank's separate and the Group's consolidated financial statements

36 CAPITAL ADEQUACY (continued)

The following table shows the composition of the Bank's capital position as at 31 December 2022 and 31 December 2021:

Bank EUR'000	31 December 2022	31 December 2021
Tier 1		
Share capital	27,601	27,601
Share premium	260	260
Reserve capital	4,156	4,156
Retained earnings/ (accumulated loss) carried forward from previous years	(15,240)	(16,890)
Profit/ (loss) for the reporting year	4,019	1,650
Revaluation reserve of financial assets at FVOCI	14	29
Additional value adjustment	(3)	(2)
Intangible assets	(1)	(2)
Result of transition period conditions	473	946
Total Tier 1 capital	**21,278**	**17,748**
Tier 2 capital		
Subordinated capital (unamortised part)	1,860	2,663
Total Tier 2 capital	**1,860**	**2,663**
Statutory deductions from Tier 1 and Tier 2 capital	**(13)**	**(38)**
Total shareholders' equity	**23,124**	**20,373**
Risk weighted value of exposures to credit risk, counterparty credit risk, impairment of recoverable amounts and unpaid deliveries risk	97,835	73,681
Total exposure to position risk, foreign currency risk and commodity risk	644	364
Total exposure to operational risk	15,941	14,661
Total exposure to credit value adjustment risk	2	43
Total risk exposure	**114,422**	**88,749**
Total capital adequacy ratio	**20.21%**	**22.96%**
Minimum capital adequacy ratio set by the FCMC	**10.15%**	**11.40%**
Minimum capital adequacy ratio set by the FCMC including the total reserve requirement	**12.65%**	**13.90%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment with some adjustments is adopted for off-balance sheet exposure to reflect the more contingent nature of the potential losses. The additional value adjustment was calculated according to the simplified approach based on European Commission Delegated Regulation (EU) 2016/101.

Notes to the Bank's separate and the Group's consolidated financial statements

36 CAPITAL ADEQUACY (continued)

Capital adequacy ratio of the Group and the Bank without applying transitional regulations:

31 December 2022 EUR'000	Group	Bank
Tier 1 capital	19,369	20,805
Tier 2 capital	1,860	1,860
Statutory deductions from Tier 1 and Tier 2 capital	(13)	(13)
Total capital, fully loaded	**21,215**	**22,652**
Total risk exposure amount, fully loaded	**114,073**	**113,872**
Capital adequacy ratio, fully loaded	**18.61%**	**19.89%**

The above information is based on the Group's and the Bank's internal reports that are submitted to the Bank's management.

37 MAXIMUM CREDIT RISK EXPOSURE

The table below shows the maximum credit risk for the components of the statement of the financial position, including derivatives. Credit risk exposure is disclosed based on subjected to credit risk net carrying amount of statement of financial position items less impairment provisions for loans and advances to customers.

The maximum credit exposures are shown gross, i.e. without taking into account any pledges and collaterals. Detailed information on the type and amount of collateral is presented in the Note 9.

Group EUR'000	2022	2021 (restated)
Balances with the Latvijas Banka	115,212	100,853
Demand deposits with credit institutions	600	659
Financial assets at amortised cost	49,903	-
Financial assets at fair value through profit or loss	1,662	501
Financial assets at fair value through other comprehensive income	1,015	1,031
Loans and receivables	70,004	46,299
Other financial assets	4,781	4,488
Total items of the statement of financial position subjected to credit risk	**243,177**	**153,831**
Loans and credit line liabilities	2,512	1,623
Guarantees and letters of credit	374	259
Contingent liabilities and commitments	**2,886**	**1,882**
Total maximum credit risk exposure	**246,063**	**155,713**

As disclosed above, 28% from total gross maximum credit risk amount refers to loans and receivables (2021: 30% (restated)).

Notes to the Bank's separate and the Group's consolidated financial statements

37 MAXIMUM CREDIT RISK EXPOSURE (continued)

Bank EUR'000	2022	2021
Balances with the Latvijas Banka	115,212	100,853
Demand deposits with credit institutions	600	659
Financial assets at amortised cost	49,903	-
Financial assets at fair value through profit or loss	1,662	501
Financial assets at fair value through other comprehensive income	1,015	1,031
Loans and receivables	83,217	61,495
Other financial assets	4,521	3,068
Total items of the statement of financial position subjected to credit risk	**256,130**	**167,607**
Loans and credit line liabilities	2,512	1,698
Guarantees and letters of credit	374	259
Contingent liabilities and commitments	**2,886**	**1,957**
Total maximum credit risk exposure	**259,016**	**169,564**

As disclosed above, 32% from total gross maximum credit risk amount refers to loans and receivables (2021: 36%).

38 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

The table below analyses the financial instruments of the Group and the Bank 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.

31 December 2022 EUR'000	Level 1:	Level 2:	Level 3:	Total
Financial assets at fair value through profit or loss	-	1,662	-	1,662
Financial assets at fair value through other comprehensive income	-	1,015	-	1,015
Total	**-**	**2,677**	**-**	**2,677**

31 December 2021				
Financial assets at fair value through profit or loss	-	501	-	501
Financial assets at fair value through other comprehensive income	-	1,031	-	1,031
Total	**-**	**1,532**	**-**	**1,532**

Notes to the Bank's separate and the Group's consolidated financial statements

38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(b) Financial instruments not measured at fair value

The table below analyses the fair values of the financial instruments of the Group and the Bank other than measured at fair value by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2022 Group EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
Financial assets					
Cash and due from central banks	-	116,924	-	116,924	116,924
Demand deposits with credit institutions	-	600	-	659	659
Loans and receivables	-	-	70,004	70,004	70,004
Financial assets at amortised cost	-	49,903	-	-	49,903
Other financial assets	-	-	4,781	4,781	4,781
Financial liabilities					
Deposits	-	240,029	-	240,029	240,029
Subordinated liabilities	-	-	3,677	3,677	3,677
Other financial liabilities	-	-	4,108	4,108	4,108

31 December 2021 Group EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount (restated)
Financial assets					
Cash and due from central banks	-	102,980	-	102,980	102,980
Demand deposits with credit institutions	-	659	-	659	659
Loans and receivables	-	-	44,416	44,416	46,299
Financial assets at amortised cost	-	-	-	-	-
Other financial assets	-	-	6,371	6,371	4,488
Financial liabilities					
Deposits	-	146,380	-	146,380	146,380
Subordinated liabilities	-	-	4,653	4,653	4,653
Other financial liabilities	-	-	3,006	3,006	3,006

The carrying amounts of financial assets and liabilities approximate their fair value.

Notes to the Bank's separate and the Group's consolidated financial statements

38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(b) Financial instruments not measured at fair value (continued)

31 December 2022 Bank EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
Financial assets					
Cash and due from central banks	-	116,924	-	116,924	116,924
Demand deposits with credit institutions	-	600	-	600	600
Loans and advances to customers	-	-	83,217	83,217	83,217
Financial assets at amortised cost	-	49,903	-	-	49,903
Other financial assets	-	-	4,521	4,521	4,521
Financial liabilities					
Deposits	-	240,093	-	240,093	240,093
Subordinated liabilities	-	-	3,677	3,677	3,677
Other financial liabilities	-	-	4,108	4,108	4,108

31 December 2021 Bank EUR'000	Level 1:	Level 2:	Level 3:	Total fair value	Total carrying amount
Financial assets					
Cash and due from central banks	-	102,980	-	102,980	102,980
Demand deposits with credit institutions	-	659	-	659	659
Loans and advances to customers	-	-	61,495	61,495	61,495
Financial assets at amortised cost	-	-	-	-	-
Other financial assets	-	-	3,068	3,068	3,068
Financial liabilities					
Deposits	-	146,434	-	146,434	146,434
Subordinated liabilities	-	-	4,653	4,653	4,653
Other financial liabilities	-	-	3,006	3,006	3,006

39 BUSINESS COMBINATIONS

In spring 2022 AS PrivatBank entered into negotiations with AS Industra Bank with an aim to negotiate a transfer of its business. On 20 August 2022, the Bank and AS PrivatBank performed the transfer of all of AS PrivatBank unencumbered client current accounts and deposits, the major part of its retail loan portfolio and other assets through a Business Transfer agreement. The acquisition has significantly increased the Banks' assets, market share in retail market and its immediate and future profitability.

In accordance with IFRS 3 "Business Combinations", the Bank accounts for acquisitions based on fair values of the identifiable assets acquired, and liabilities and contingent liabilities assumed. The excess of the fair value of the acquiree's identifiable assets, over the fair value of the liabilities of the business combination is recognized immediately in profit or loss for the year.

Notes to the Bank's separate and the Group's consolidated financial statements

39 BUSINESS COMBINATIONS (continued)

The acquisition-date fair value of the total purchase consideration and its components are as follows:

EUR'000	Attributed fair value
Cash consideration paid	699
Financial liabilities at amortized cost (deposits) assumed	50,120
Total consideration	**50,819**

Acquisition related transaction costs of 212 thousand EUR were expensed as general and administrative expenses.

Details of the fair value of the acquired assets and liabilities are as follows:

EUR'000	Note	Attributed fair value
Cash and cash equivalents		21,589
Loans and receivables	9	20,397
Financial assets at fair value through profit or loss	8	2,984
Investment property	11	8,942
Fair value of identifiable assets acquired		53,912
Total purchase consideration	14	50,819
Bargain Gain recognized in profit or loss		**3,093**

Inflow of cash and cash equivalents

EUR'000	Gross contractual amount
Total purchase consideration	**50,819**
Less: non-cash consideration	50,120
Less: cash and cash equivalents acquired	21,589
Net inflow of cash and cash equivalents	**20,890**

For each class of acquired receivables, the gross contractual amounts receivable and the best estimate of the contractual cash flows not expected to be collected are as follows:

EUR'000	Note	Gross contractual amount
Cash and due from the Latvijas Banka	6	20,890
Loans and receivables	9	22,889
Impairment allowance	9	(2,492)
Financial assets at fair value through profit or loss	8	2,984
Investment property	11	8,942
Total assets		**53,213**
Financial liabilities at amortized cost (deposits)	14	(50,120)
Total liabilities		**(50,120)**

Notes to the Bank's separate and the Group's consolidated financial statements

The fair values of assets and liabilities acquired are based on following evaluation methods:

- for Loans and receivables – discounted future cash flows where the expected credit loss, credit risk and impairments were taken into consideration;
- for Financial assets at fair value through profit or loss – discounted market value;
- Investment property – independent external valuation;
- Financial liabilities at amortized cost - amortised cost considered to equal FV as rates applied are consistent with market rates for similar deposits.

As displayed in the table above the total investment in the assets and liabilities were remeasured to its fair value at the acquisition date and a bargain gain of 3,093 thousand EUR was recognised in profit or loss for the year.

The acquired portfolios contributed revenue of 3,495 thousand EUR and profit of 3,494 thousand EUR to the Group for the period from the date of acquisition to 31 December 2022. If the acquisition had occurred on 1st January 2022, Group revenue for 2022 would have been 5,013 thousand EUR, and profit for 2022 would have been 4,819 thousand EUR.

40 LITIGATIONS

In the ordinary course of business the Group and the Bank are subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions of the results of future operations of the Group or the Bank.

41 GOING CONCERN

As disclosed in Note 36, in the year ended 31 December 2022, the Group and the Bank were in compliance with the total individual capital adequacy requirement as set by the regulator and above minimum capital requirements set by EU banking regulator.

The minimum level of total capital adequacy ratio set for the Group and the Bank by the regulator is 12.65%. Total capital adequacy requirement was exceeded by 5.35% for the Group and 6.70% for the Bank.

In line with its transformation plan, the Bank restored operational profitability in early 2021 and closed the year 2021 and the year 2022 (even ignoring the gain arising on the acquisition of the PrivatBank business) with a profit. The Bank plans to continue to work with profit.

As a part of Internal Liquidity Adequacy Assessment Process (ILAAP) the stress testing of the Bank's liquidity portfolio is carried out quarterly. Both short-term and long-term testing results confirm that the Bank has sufficient short-term and mid-term liquid assets to ensure its liquidity requirements. As at 31 December 2022 and 31 December 2021 the Bank's liquidity ratio was 88.72% and 86.1% respectively and liquidity coverage ratio was 386% and 409% respectively.

The Russian-Ukrainian war and the ensuing sanctions and negative effects on the economic situation have not produced any significant immediate negative effects on the Bank's activities.

Based on above, the Management of the Group and the Bank conclude that the going concern principle is applicable to the preparation of these separate and consolidated financial statements.

42 SUBSEQUENT EVENTS

European Central Bank has continued to raise the key interest rates, and the Bank as of 1st of March 2023 has implemented the interest rate payment to its resident private person customers for the current account balance that exceeds 10'000 EUR.

In January 2023, the Bank has moved its headquarters to the building obtained in 2022 during the purchase of AS PrivatBank assets and liabilities. The legal address was also changed to the new address in Muitas iela 1, Riga, Latvia.

The government has announced in March 2023 that it is going to consider a possible "excess profits tax" on banks, however no decision on this has been made or in what format such a tax would be applied.

Except for the above, there have been no other events during the period since the end of the reference year which would need to be reflected in these financial statements.

Independent Auditor's Report

To the Shareholders of AS Industra Bank

Auditor's report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the accompanying separate and consolidated financial statements set out on pages 11 to 87 of the accompanying annual report give a true and fair view of the separate and consolidated financial position of AS Industra Bank ("the Bank") and its subsidiaries (together – "the Group") as at 31 December 2022, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year ended in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS).

Our opinion is consistent with our additional report to the Audit Committee dated 31 March 2023.

What we have audited

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

- the Bank's separate and the Group's consolidated statements of financial position as at 31 December 2022;
- the Bank's separate and the Group's consolidated statements of profit or loss and other comprehensive income for the year ended 31 December 2022;
- the Bank's separate and the Group's consolidated statements of changes in shareholders' equity for the year ended 31 December 2022;
- the Bank's separate and the Group's consolidated statements of cash flows for the year ended 31 December 2022; and
- the notes to the Bank's separate and the Group's consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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Independence

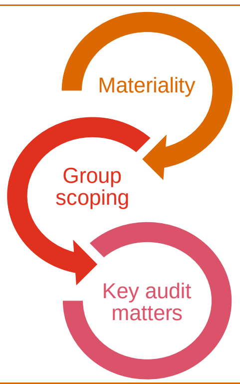
We are independent of the Bank and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of 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 and its subsidiaries are in accordance with the applicable law 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 Bank and its subsidiaries in the period from 1 January 2022 to 31 December 2022 are disclosed in Note 24 to the financial statements.

Our audit approach

Overview



- Overall Bank and Group materiality is EUR 200 thousand.

- We have audited the separate financial statements of the Bank.
- We have audited the Bank's subsidiary AS Industra Invest.

- Fair value of investment properties (the Group and the Bank).
- Expected credit losses on loans (the Group and the 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 Bank and Group materiality for the separate and consolidated 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, both individually and in aggregate on the financial statements as a whole.

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Overall materiality	Overall materiality applied to the Bank and the Group was EUR 200 thousand.
How we determined it	Approximately 1% of the net assets of the Group as at 31 December 2022.
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because, in our view, it is the benchmark which is of primary focus by the users of the financial statements and forms the basis for capital adequacy for regulatory purposes. We chose the threshold of 1%, which is within the range of accepted 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 10 thousand for the Bank and for the Group, as well as the 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 matters	How our audit addressed the key audit matters
Fair value of investment properties (the Bank and the Group) Refer to Note 12 "*Investment properties*" and Note 5 "*Estimates and judgements*" of the financial statements. We focused on this area because the management makes subjective judgements when determining the fair value of investment properties, especially where the properties are of a type and location in which currently there is limited or no active market. Therefore, a variety of valuation techniques are used with inputs that are observable in the market and inputs that are not observable in the market. Management obtains reports from certified independent appraisers to assist them in determining the investment properties' fair values. Based on the type of investment property different valuation methods are used – market evidence of transaction prices for similar properties or income method.	We assessed whether the Bank's and the Group's accounting policies in relation to the fair valuation of investment properties comply with IFRS requirements. For a selected sample of investment properties, we reviewed the independent valuations the Bank and the Group obtained in respect of the investment properties. We assessed the independence and experience of the valuers and involved our expert to assess the appropriateness of the independent appraisers' valuations. Where comparative market data was used, we evaluated whether the location, condition and other relevant attributes of the property are similar to those of the comparable assets used by valuators. We also performed our own independent search of comparable market data. Where valuation models were used, we evaluated the reasonableness of inputs into the valuation models - future cash flows, income growth rates,

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The most significant judgements made by the management in respect of fair valuation of investment properties are comparative market prices and discounted cash flows, including rent rates, expenses, income growth rates and discount rates etc.

and discount rates and checked the numerical accuracy of the models.

We reviewed the disclosures in the financial statements in respect of investment properties.

Expected credit losses on loans (the Bank and the Group)

Refer to Note 9 "*Loans and receivables*" and Note 5 "*Estimates and judgements*" of 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 ECL model include classification of loans to 3 stages, assessment of credit risk parameters and application of forward-looking information. The amount of ECL for the Bank's and the Group's loans is based on the model calculations taking into consideration the exposure at default (EAD), probability of default (PD), changes in customer credit risk and taking into account estimated future cash flows from the loan repayments or sale of collateral (loss given default) (LGD), and ECL adjustments by expected impact of future macroeconomic scenarios.

For all loans in Stage 1 and 2 the expected credit losses are calculated using the ECL model, while for all exposures in Stage 3 expected credit losses are calculated on an individual basis.

As at 31 December 2022 the impairment allowance amounted to EUR 7 853 thousand and EUR 11 425 thousand for the Bank and the Group respectively (refer to note 9).

We assessed whether the Bank's and the Group's accounting policies in relation to the ECL of loans to customers comply with the requirements of IFRS 9 by assessing each significant model component: exposure at default, probability of default and loss given default, definition of default and significant increase in credit risk, and the use of macroeconomic scenarios.

We assessed the design and implementation of the controls over relevant loan data. These controls included controls over monitoring of loan quality, credit file periodic reviews of individually significant loans, 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 testing for accuracy and completeness of loan data, including contract dates, interest rates, collateral values and types, performing/non-performing status and other inputs used in ECL calculation.

For a sample of individually assessed loans, we evaluated reasonableness of assumptions made by credit expert regarding future expected cash flow scenarios. We have verified the rationale of these assumptions and verified the reasonableness of the values of collateral used in the assessment. We then checked the mathematical accuracy of the ECL calculation.

For loans assessed using the ECL model, we checked that the PDs and LGDs used by the Bank and the Group were calculated consistent with prior periods and by using up to date data. We recalculated the credit loss allowance for loans and advances assessed using the ECL model and checked that any post model adjustments were reasonable.

We reviewed a selection of loans to borrowers most likely impacted by the current economic circumstances to evaluate the appropriateness of their staging as at 31 December 2022.

Finally, we reviewed the credit risk disclosures relating to loans and allowances for expected credit loss.

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 the Bank's subsidiary AS Industra Invest. Our audit work addressed substantially all of the Group's revenues and the Group's total assets.

Audit work in relation to the consolidated and separate financial statements was performed by the Group engagement team. No component auditors were involved.

Reporting on other information including the Management Report

Management is responsible for the other information. The other information, which we obtained prior to the date of our auditor's report, comprises:

- the Management Report, as set out on pages 3 to 6 of the accompanying annual report;
- the Information on the Bank's Management, as set out on pages 7 to 8 of the accompanying annual report; and
- the Statement of Responsibility of the Bank's Management, as set out on pages 9 to 10 of the accompanying annual 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 Management Report, we also performed the procedures required by 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 Management Report is prepared in accordance with the requirements of the applicable legislation.

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

- the information given in the Management Report and Information on the Bank's Management for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Management Report has been prepared in accordance with the requirements of the 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".

In addition, in light of the knowledge and understanding of the Bank and the Group and their operating 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 respect.

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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 International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank's and the Group'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 Bank's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Bank or the Group 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.

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

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

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

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

Appointment

We were first appointed as auditors of the Bank and the Group by the shareholders' resolution on 10 April 2019. Our appointment has been renewed annually by shareholders' resolution representing a total period of uninterrupted engagement appointment of 5 years.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Member of the Board

Riga, Latvia
31 March 2023

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

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