BluOr Bank

BluOr Bank AS

Group's Consolidated and Bank's Separate Unaudited Interim Report for the six months period ended 30 June 2023

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Report of the Council and the Board

BluOr Bank AS (Bank) is a joint–stock company established on 22 June 2001 and entered into the Register of Enterprises of the Republic of Latvia under uniform registration No. 40003551060. The bank's address is Smilšu iela 6, Rīga, LV–1050, Republic of Latvia. On 8 June 2001, the Bank received a license for conducting the activities of a credit institution, which was re-registered on 28 June 2011 and on 14 September 2017 – license No. 06.01.05.002/483 at the license register of the FCMC. The Bank operates in accordance with the applicable legislation of the Republic of Latvia and the European Union.

The Group consists of the Bank, which is a Parent company of the Group and a number of subsidiaries. The business operations of the subsidiaries are not related to the functions of the Bank and they were set up to manage repossessed collaterals and real estate property.

BluOr Bank's activity in the 1st half of 2023 is characterised by stability and targeted development, in line with the bank's business model and strategic goals.

The bank ended the reporting period with a profit of EUR 7.6 million. The bank's operating net income in H1 2023 was EUR 16.8 million. The bank's equity is EUR 83 million, total assets amount to EUR 708 million.

As of June 30, 2023, the bank's liquidity reached 171% (LCR), capital adequacy – 17.2%. The most important financial performance indicators for six months have also been successful: return on equity (ROE) is 18.3% and return on assets (ROA) is 2.1%.

The bank successfully implements its business strategy, which is focused on serving Latvian corporate clients: over the past 12 months, the number of clients – Latvian companies has increased by 19%.

BluOr Bank continues to actively lend to enterprises, providing financing to entrepreneurs of various industries. Within half a year, the bank has signed new loan agreements worth EUR 61 million. 83% of them have been allocated to lending to small and medium-sized enterprises and business promotion not only in Riga, but also in several regions of Latvia. As of June 30, 2023, the total portfolio of loans granted and issued amounted to EUR 372 million.

The bank closely follows economic developments both in Latvia and internationally. After assessing the current market situation, BluOr Bank has raised the deposit term rates several times during the six months of this year. And as for the still rising EURIBOR rates, the bank seeks solutions that help clients adapt to the market situation, thereby confirming that each client is important to the bank and that the bank is interested in continuous development of the client business.

As a bank founded by Latvian entrepreneurs, BluOr Bank focuses on long-term relationships with its clients, therefore it continuously improves and develops existing financial services in accordance with customer needs.

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

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

On behalf of the Bank,

Aleksandrs Peškovs	**Dmitrijs Latiševs**
Chairman of the Council	*Chairman of the Board*

Council and Board of the Bank

Council as of 30 June 2023

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

Board as of 30 June 2023

Name, Surname	Position	Date of Appointment
Dmitrijs Latiševs	Member of the Board	1 July 2002
	Deputy Chairman of the Board	25 April 2003
	Chairman of the Board	27 April 2011
Inga Preimane	Member of the Board	11 January 2016
Igors Petrovs	Member of the Board	31 May 2018
Dmitrijs Feldmans	Member of the Board	13 June 2019
Vadims Morozs	Member of the Board	12 August 2019

On behalf of the Bank,

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

Statement of the Management's responsibility

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

The Group's consolidated and the Bank's separate financial statements are prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Management in the preparation of the Group's consolidated and the Bank's separate financial statements.

The condensed interim financial statements are prepared in accordance with the source documents and present the financial position of the Bank and the Group as of 30 June 2023 and 31 December 2022 and the results of their operations, changes in shareholders' equity and cash flows for the six months periods ended 30 June 2023 and 30 June 2022 in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union. The management report presents fairly the financial results of the reporting period and future prospects of the Bank and the Group.

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 and other legislation of the Republic of Latvia applicable to credit institutions.

On behalf of the Bank,

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

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

	Note	6m 2023		6m 2022	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Interest income		15 451	15 451	10 982	10 982
From those income at effective interest rate		*15 291*	*15 291*	*10 878*	*10 878*
Interest expenses		(4 236)	(4 393)	(2 917)	(3 082)
Net interest income	5	**11 215**	**11 058**	**8 065**	**7 900**
Fee and commission income		6 002	6 002	3 523	3 524
Fee and commission expense		(869)	(869)	(1 006)	(1 006)
Net fee and commission income	6	**5 133**	**5 133**	**2 517**	**2 518**
Net profit from trading and revaluation of financial instruments	7	(315)	(315)	(1 204)	(1 204)
Net foreign exchange income	8	9	9	1 040	1 040
Other operating income		943	870	316	277
Total operating income		**16 985**	**16 755**	**10 734**	**10 531**
Administrative expenses	9	(7 070)	(6 730)	(6 660)	(6 272)
Other operating expenses	10	(1 045)	(1 047)	(865)	(865)
Credit loss allowances		(1 098)	(1 065)	716	716
Total operating expenses		**(9 213)**	**(8 842)**	**(6 809)**	**(6 421)**
Profit before taxation		**7 772**	**7 913**	**3 925**	**4 110**
Corporate income tax	11	(278)	(278)	(5)	(5)
Profit for the year		**7 494**	**7 635**	**3 920**	**4 105**

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

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

	6m 2023		6m 2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Profit for the year	**7 494**	**7 635**	**3 920**	**4 105**
Other comprehensive income				
Items that may be reclassified to profit or loss				
Foreign exchange revaluation reserve	(10)	-	1	-
Revaluation reserve – financial assets at fair value through other comprehensive income (debt instruments)	205	205	(1 460)	(1 454)
Total items that may be reclassified to profit or loss	**195**	**205**	**(1 459)**	**(1 454)**
Items that will not be reclassified to profit or loss				
Revaluation reserve – financial assets at fair value through other comprehensive income (equity instruments)	-	-	-	-
Total items that will not be reclassified to profit or loss	**-**	**-**	**-**	**-**
Other comprehensive (loss)/income	**195**	**205**	**(1 459)**	**(1 454)**
Total comprehensive income	**7 689**	**7 840**	**2 461**	**2 651**

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

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

Assets	**Note**	**30/06/2023**		**31/12/2022**	
		Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Cash and demand deposits with central bank	12	136 867	136 867	120 527	120 527
Loans and receivables from banks	13	25 029	25 018	25 306	25 292
Demand deposits with credit institutions		*23 634*	*23 623*	*25 306*	*25 292*
Term deposits with credit institutions		*1 395*	*1 395*	-	-
Trading financial assets	14	14	14	3	3
Derivatives		*14*	*14*	*3*	*3*
Investment securities	15	161 262	161 262	162 968	162 968
Fixed income securities		*160 892*	*160 892*	*162 630*	*162 630*
Non fixed income securities		*370*	*370*	*338*	*338*
Loans and receivables	16	315 954	315 954	308 310	308 310
Investments in associates	17	827	-	827	-
Investments in subsidiary undertakings	17	-	30 266	-	30 266
Investment property		2 882	1 614	2 830	1 614
Property and equipment		24 067	3 338	24 610	3 438
Right-of-use assets		-	9 592	-	9 924
Intangible assets		231	228	256	256
Non-current assets classified as held for sale		11 150	11 150	11 150	11 150
Prepayments and accrued income		1 313	1 309	1 661	1 657
Other assets		11 821	11 802	10 089	10 054
Corporate income tax receivable		5	5	3	3
Total assets		**691 422**	**708 419**	**668 540**	**685 462**

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

Liabilities and Equity	**Note**	**30/06/2023**		**31/12/2022**	
		Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Due to credit institutions on demand	18	3 487	3 487	6 623	6 623
Derivatives	21	2	2	-	-
Financial liabilities carried at amortized cost		602 864	605 045	581 695	583 711
Deposits	19	*594 278*	*596 459*	*573 707*	*575 723*
Deposits (subordinated)	19	*2 527*	*2 527*	*1 984*	*1 984*
Additional Tier 1 Debt securities (subordinated)	20	*1 177*	*1 177*	*1 122*	*1 122*
Debt securities (subordinated)	20	*4 882*	*4 882*	*4 882*	*4 882*
Lease liabilities		-	10 194	-	10 476
Deferred income and accrued expenses		1 152	1 153	1 112	1 107
Provisions		523	523	129	130
Other liabilities		4 844	4 825	3 120	3 065
Total liabilities		**612 872**	**625 229**	**592 679**	**605 112**
Shareholders' equity					
Share capital	22	44 493	44 493	44 493	44 493
Statutory reserves		24	24	24	24
Revaluation reserve – financial assets at fair value through other comprehensive income		(1 939)	(1 939)	(2 144)	(2 144)
Other reserves		(3 413)	(2 400)	(3 413)	(2 400)
Retained earnings		39 385	43 012	36 901	40 377
Total equity attributable to equity holders of the Bank		**78 550**	**83 190**	**75 861**	**80 350**
Total equity and liabilities		**691 422**	**708 419**	**668 540**	**685 462**
Contingent liabilities and commitments	24	59 505	59 508	59 124	59 127

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

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

	Note	Share capital	Statutory reserves	Revaluation reserve – FVOCI	Other reserves	Retained earnings	Total equity attributable to equity holders of the parent	Total equity
		EUR`000	EUR`000	EUR`000	EUR'000	EUR`000	EUR`000	EUR`000
Balance as at 31 December 2021		**44 493**	**24**	**(121)**	**(3 413)**	**34 155**	**75 138**	**75 138**
Dividends paid		-	-	-	-	(4 000)	**(4 000)**	**(4 000)**
Othet comprehensive income for the year:								
Revaluation reserve – financial assets		-	-	(1 454)	-	(6)	**(1 460)**	**(1 460)**
Foreign exchange revaluation reserve		-	-	-	1	-	**1**	**1**
Profit for the year		-	-	-	-	3 920	**3 920**	**3 920**
Total comprehensive income for the year		**-**	**-**	**(1 454)**	**1**	**3 914**	**2 461**	**2 461**
Balance as at 30 June 2022		**44 493**	**24**	**(1 575)**	**(3 412)**	**34 069**	**73 599**	**73 599**
Balance as at 31 December 2022		**44 493**	**24**	**(2 144)**	**(3 413)**	**36 901**	**75 861**	**75 861**
Dividends paid		-	-	-	-	(5 000)	**(5 000)**	**(5 000)**
Other comprehensive income for the year:								
Revaluation reserve – financial assets		-	-	205	-	(10)	**195**	**195**
Foreign exchange revaluation reserve		-	-	-	-	-	**-**	**-**
Profit for the year		-	-	-	-	7 494	**7 494**	**7 494**
Total comprehensive income for the year		**-**	**-**	**205**	**-**	**7 484**	**7 689**	**7 689**
Balance as at 30 June 2023		**44 493**	**24**	**(1 939)**	**(3 413)**	**39 385**	**78 550**	**78 550**

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Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

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

	Note	Share capital EUR`000	Statutory reserves EUR`000	Other reserves EUR`000	Revaluation reserve – FVOCI EUR'000	Retained Earnings EUR`000	Total capital and reserves EUR`000
Balance as at 31 December 2021		**44 493**	**24**	**(2 400)**	**(121)**	**37 415**	**79 411**
Dividends paid						(4 000)	(4 000)
Other comprehensive income for the year:							
Revaluation reserve –financial assets		-	-	-	(1 454)	-	(1 454)
Profit for the year		-	-	-	-	4 105	4 105
Total comprehensive income for the year		**-**	**-**	**-**	**(1 454)**	**4 105**	**2 651**
Balance at 30 June 2022		**44 493**	**24**	**(2 400)**	**(1 575)**	**37 520**	**78 062**
Balance at 31 December 2022		**44 493**	**24**	**(2 400)**	**(2 144)**	**40 377**	**80 350**
Dividends paid		-	-	-	-	(5 000)	**(5 000)**
Other comprehensive income for the year:							
Revaluation reserve – financial assets		-	-	-	205	-	**205**
Profit for the year		-	-	-	-	7 635	**7 635**
Total comprehensive income for the year		**-**	**-**	**-**	**205**	**7 635**	**7 840**
Balance as at 30 June 2023		**44 493**	**24**	**(2 400)**	**(1 939)**	**43 012**	**83 190**

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

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

	Note	6m 2023		6m 2022	
		Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash flow from operating activities					
Profit before taxation		**7 772**	**7 913**	**3 925**	**4 110**
Amortisation of intangible assets		69	69	94	94
Depreciation of property, equipment and right-of-use assets		622	511	690	540
Revaluation of financial assets		205	205	(1 454)	(1 454)
Interest income		(15 451)	(15 451)	(10 982)	(10 982)
Interest expense		4 236	4 393	2 917	3 082
Impairment of assets		1 098	1 065	(716)	(716)
Increase in cash and cash equivalents before changes in assets and liabilities, as a result of ordinary operations		**(1 449)**	**(1 295)**	**(5 526)**	**(5 326)**
(Increase) in loans and receivables		(8 701)	(8 668)	32 145	32 146
Decrease/(increase) in investment securities		1 688	1 688	7 956	7 956
Decrease/(increase) in trading financial assets		(11)	(11)	(1 498)	(1 498)
Decrease/(increase) in prepayments and accrued income		348	348	204	205
(Increase)/ decrease in other assets		(1 744)	(1 750)	(1 260)	(1 454)
Increase in due to central banks		-	-	(20 050)	(20 050)
Increase in deposits and due to banks		20 235	20 400	(121 543)	(122 333)
Decrease in held-for-trading financial liabilities		2	2	60	60
Interest received		15 124	15 124	10 991	10 991
Interest paid		(3 302)	(3 459)	(3 417)	(3 582)
Increase/(decrease) in other liabilities and current tax liabilities		2 118	2 153	2 041	2 253
Increase/(decrease) in deferred income and accrued expenses		40	46	(157)	(145)
Net cash from operating activities before tax and interest		**24 348**	**24 578**	**(100 054)**	**(100 777)**
Corporate income tax paid		(278)	(278)	(5)	(5)
Net cash from operating activities		**24 070**	**24 300**	**(100 059)**	**(100 782)**
Cash flows from investment activities					
Purchase of fixed and intangible assets		(123)	(120)	(39)	(39)
Purchase of investment property		(136)	-	-	-
Sale of investment property		84	-		
Capital decrease in investment in subsidiaries		-	-	-	1 000
Net cash (used in) investing activities		**(175)**	**(120)**	**(39)**	**961**
Cash flows from financing activities					
Lease liabilities repaid on right-of-use asset		-	(282)	-	(274)
Bonds (repaid)		-	-	(280)	(280)
Bonds issued		-	-	4 855	4 855
Dividends (paid)	22	(5 000)	(5 000)	(4 000)	(4 000)
Net cash (used in) financing activities		**(5 000)**	**(5 282)**	**575**	**301**
Net changes in cash and cash equivalents		**18 895**	**18 898**	**(99 523)**	**(99 520)**
Cash and cash equivalents at the beginning of the reporting year		**130 703**	**130 689**	**301 463**	**301 445**
Cash and cash equivalents at the end of the reporting year	23	**149 598**	**149 587**	**201 940**	**201 925**

Aleksandrs Peškovs
Chairman of the Council

Dmitrijs Latiševs
Chairman of the Board

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

1. GENERAL INFORMATION

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

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

The sole shareholder of the Bank is a Joint Stock Company BBG that holds 100% of voting shares of the Bank. JSC BBG is a financial management company registered in Latvia and owned by four Latvian companies and two private individuals. The consolidated financial statements of the parent company AS BBG can be obtained from the Enterprise Register of Latvia.

The Bank has a number of subsidiaries in Latvia and foreign countries as well as investments in associated companies. The above entities form the Group which comprises the following:

Name of the company	Country of incorporation, address	Line of business	Holding 30.06.2023 %	Holding 31.12.2022 %
SIA BluOr International	M. Pils iela 13, Riga, Latvia,	Real estate development	100	100
SIA CityCap Service	Kr. Valdemara iela 149, Riga, Latvia	Real estate development	100	100
SIA Zapdvina Development	Kr. Valdemara iela 149, Riga, Latvia	Real estate development	100	100
Kamaly Development EOOD	Etiera k-s ½B – 18, Sveti Vlas, Burgas obl., Nesebier 8256, Bulgaria	Real estate development	100	100
UAB Kamaly Development	Klaipedos m. sav. Klaipedos m., Karklu g. 12, Lithuania	Management of collaterals overtaken by the bank	100	100
AS Pils Pakalpojumi	Smilšu iela, Riga, Latvia	Real estate development	100	100
Foxtran Management Ltd	Suite 102, Blake Building, Corner Eyre & Huston Str., Belize	Management of collaterals overtaken by the bank	100	100
SIA Jēkaba 2	Jēkaba iela, Riga, Latvia	Real estate development	100	100
Darzciems Entity SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100
Mazirbe Estate SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100
Lielie Zaķi SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100
Pulkarne Entity SIA	Kr. Valdemara 149-405, Riga, Latvia	Real estate development	100	100

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

Investments in associated companies (the Group):

Company	Country of incorporation, address	Line of business	Holding (%) 30.06.2023	Holding (%) 31.12.2022
AS Termo biznesa Centrs	Kr. Valdemāra iela 149, Riga, Latvia	Real estate development	26.15	26.15

2. BASIS OF PREPARATION

(1) Statement of Compliance

These interim financial statements are prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting as adopted by European Union (EU) on a going concern basis.

(2) Functional and presentation currency

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

(3) Basis of measurement

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(1) Basis for consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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

(ii) Loss of control

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

(iii) Interest in equity-accounted investees

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

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

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

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

(iv) Transactions eliminated on consolidation

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

(v) Group's unified accounting policy

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

(2) Foreign currency

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in the income statement.

Foreign operations

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

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

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

(3) Financial instruments

a) Classification

Financial instruments are classified into the following categories:

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

— It is held within a business model whose objective is to hold assets to collect contractual cash flows, and

— Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

— It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

— Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

Financial liabilities carried at amortized cost are initially measured at fair value less directly attributable transaction costs and are subsequently remeasured to amortized cost using the effective interest rate.

Due from other credit institutions

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

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

Business model assessment

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

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

- how the performance of the portfolio is evaluated and reported to the Bank's and the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's and the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Solely payments of principal and interest (SPPI) assessment

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

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

b) Recognition

The Group and the Bank initially recognize loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the settlement date at which the Group and the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group and the Bank becomes a party to the contractual provisions of the instrument.

c) Measurement

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

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

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

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

- a gain or loss on a financial asset classified as at fair value through profit or loss is recognised in profit or loss;

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

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised including the instances where the terms change substantially or impaired.

d) Amortized cost measurement

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

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

e) Derecognition

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

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

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

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

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

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

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

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

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

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

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

f) Offsetting

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

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

(4) Identification and measurement of impairment of financial assets

Identification and measurement of impairment:

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

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

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

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

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

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

— Stage 1 – Performing loans: when loans are first recognized, the Bank and the Group recognize an allowance based on twelve months expected credit losses.

— Stage 2 – Loans with a significant increase in credit risk: when a loan shows a significant increase in credit risk since initial recognition, the Bank and the Group recognize an allowance for the lifetime expected credit loss.

In addition, a significant increase in credit risk is assumed to have taken place, if an alarm signal is reported concerning the loan that indicates a significant increase in credit risk, the Bank and the Group expect to grant the borrower forbearance or when forbearance measures have already taken place, or the facility is included in watch list , and if the borrower falls more than 30 days past due in making its contractual payments. The Bank has joined the moratorium announced by the Finance Latvia Association on deferring principal loan payments for both legal and natural persons. The granting of relief under the conditions of the moratorium was not considered as a significant indication of an increased credit risk, unless other indications were identified.

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

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

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

Limitation of estimation techniques

The models applied by the Bank and the Group may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to be needed until the base models are updated. Although the Bank and the Group use data that are as current as possible, models used to calculate ECLs are be based on data that are one year in arrears and adjustments will be made for significant events occurring prior to the reporting date. The Bank's management has developed an off-model estimate, taking into account the changes in the GDP during the first nine months of the year 2020, which increased the PD, respectively.

(5) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group and the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in the profit and loss statement depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

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

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

- Verifying that equity broker or pricing service is approved by the Group and Bank for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;

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

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

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

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group and the Bank recognize transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. The Group and the Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. For further analysis of the basis for fair value refer to Note 45.

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

Loans

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

Shares and other non-fixed income securities

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

The fair value of S.W.I.F.T shares was determined based on the "transfer amount", approved for the respective year by the shareholders' meeting, representing the price for new share allocation and the participants' quit price.

Derivatives

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

Liabilities to other credit institutions and customers

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

(6) Derivatives

Derivatives include foreign currency swaps and forwards. As at 30 June 2022 and 31 December 2021 all derivatives of the Group and the Bank were classified as financial instruments held for trading.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

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

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

(7) Repo transactions

Repo transactions are recognized as financing transactions. When the Bank or the Group is the seller of securities, securities continue to be recognized on the statement of financial position. Proceeds from the sale are recognized as a liability to the purchaser of the securities. When the Bank or the Group is the purchaser of securities, the purchased securities are not recognized in the statement of financial position. The amount paid for securities is recognized as a loan provided to the seller. The Group is involved in two types of such transactions – classic *repo* and *buy/sell-back* transactions. The result of *repo* and *buy/sell-back* transactions is recognized in the income statement on an accrual basis as interest income or expense.
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.

(8) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.
If the use of the property has been changed, investment properties are reclassified to property and equipment.
Investment property is initially measured at cost. Subsequently investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

(9) Repossessed assets

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

(10) Property and equipment

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

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

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

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation is calculated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

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

Land and buildings

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

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

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

Leasehold improvements

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

Useful lives of vehicle and other property and equipment

The annual depreciation percentages are as follows:

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

(11) Intangible assets

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

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

(12) Recognition of income and expenses

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

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

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

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

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

(13) Off-balance sheet items

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

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

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

(14) Taxes

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

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

The Bank 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 profit or loss statement 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 profit and loss statement line item "Corporate income tax for the reporting year" and disclosed by the components in the notes to the financial statements.

(15) Cash and cash equivalents

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

(16) Leases

the Group and Bank as a lessee

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

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

the Group as lessor

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

(17) Provisions

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

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(18) Short-term employee benefits

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

(19) Loans and advances to customers

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

(20) Assets under management

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

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

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

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

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

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

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

4. RISK MANAGEMENT

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

1) General guidelines observed by the Group and the Bank in their activities aimed at decreasing risks associated with their activities which might lead to losses;
2) Description of risk transactions and other risks to which the Group and the Bank are exposed;

3) Identification and management of the significant risks, including measurement, evaluation, control, and preparation of risk reports;
4) The procedure for setting limits and restrictions for risk transactions together with regular control and development;
5) Measures for the regular assessment of capital adequacy and maintenance of sufficient capital to cover the inherent risks and risks to which the Bank might be exposed to;
6) Updating of normative documents regarding the risk management process according to market changes.

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

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

(1) Credit risk

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

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

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

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

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

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

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

As of the end of 2022, no significant deterioration has been detected for customers; however, the Bank is cautious about the near term, especially with regard to customers, whose own costs of production are significantly driven by energy consumption (food industry, manufacturers of building materials, other manufacturing enterprises with high energy consumption). The Bank continues to closely monitor the situation and supervise the conditions of these loans, working proactively with the client to identify in a timely manner any signs of deterioration in the financial situation. It should be noted that the concentration of any industry in the Bank's loan portfolio does not exceed 20%, while each borrower is assessed individually.

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

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

Impairment policies

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

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

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

- the criteria for assessing the significance of an increase in credit risk and the criteria for granting the Stage 1, Stage 2 or Stage 3 loans that meet the requirements of IFRS9, including the EBA guidelines for classification of loans due to the impact of COVID-19;

- assessing the accounting interpretations and modelling assumptions used to build the ECL calculation models, including various formulas and choice of inputs;

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

- determining the macro-economic indicators and incorporating forward-looking information into the ECL model, as described below;

- estimating the above-mentioned indicators for individually assessed loans for a credible future period and calculation of ECL based on cash flow.

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

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

- The balance of the principal amount of loans granted to one customer or a group of related customers is not less than 3 million EUR;

- The balance of the principal amount of loans issued to one customer or a group of related customers exceeds 500 thousand EUR and the total risk rating set in accordance with the "Methodology for assessing the credit risk of borrowers" is 4 or lower;

- The risk profile of a customer (a group of related customers) is quite different from the groups for which impairments are calculated collectively.

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

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

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

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

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

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

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

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

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

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

1) Performs statistical calculations that take into account historical correlations between macroeconomic indicators and the observed probability of default, and, based on forecasts of macroeconomic indicators, determines the applicable adjustments for future PD rates;

2) Uses an expert assessment based on historical data or publicly available source data, or uses information provided by third-party assessment experts.

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

To calculate ECL and forecast future PD rates, a baseline scenario is used, supplemented by one or more alternative scenarios reflecting at least one pessimistic scenario, for example, with a probability of occurrence of 85% and 15%, respectively. Alternative scenarios do not necessarily include less likely extreme or stressful scenarios. The macroeconomic scenarios used for the end of 2022 include forecasts that take into account the impact of negative geopolitical and macroeconomic events.

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

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

Collectively assessed loans, represent 18% of the Bank's total credit portfolio by volume, of which 87.4% are classified as Stage 1 loans, 12.2% as Stage 2 loans, and 0.4% as Stage 3 loans.

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

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

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

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

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

(2) Currency risk

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

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

(3) Interest rate risk

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

For controlling the interest rate risk, the Investment Committee performs regular analyses of assets and liabilities by maturity and type of interest.

(4) Debt securities price risk

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

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

(5) Liquidity risk

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

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

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

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

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

(6) Country risk

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

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

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

(7) Operational risk

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

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

- Organizational structure, division of powers and the principles of delegation, functional duties, procedure for the exchange of information among the structural units and employees;

- Rules, regulations and procedures for operations and other transactions, the accounting procedure and the organisation of internal processes;
- Control over the compliance with the limits set for bank operations and other transactions;
- Rules, regulations and procedures for the functioning of information systems (technical, informational, etc.);
- Procedure for granting rights of access to information and material assets;
- Procedure for preparing and issuing reports and other information;
- Procedure for motivating employees, and other matters.

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

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

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

The Bank has also developed Action plans for various crisis situations. The Bank and the Group have set up an independent Internal Audit Service (IAS), whose primary function is to ensure that the activities of the Bank and the Group comply with the applicable laws and regulations, approved plans, policies and other internal documents of the Bank, and with the internal control procedures governing the functions of the Group's and the Bank's structural units.

(8) Management of money laundering and terrorist financing risk and the Customer Policy

(a) General Policy

The existing business model of the Group and the Bank is aimed at providing financial services to clients, therefore its activities are related to the risk of money laundering and terrorist and proliferation financing, as well as sanctions. Accordingly, the Group and the Bank devote significant efforts to ensure compliance with the requirements of the laws and regulations of the Republic of Latvia, recommendations of international organisations, best practices, as well as other binding regulations in the area of anti-money laundering and combating the financing of terrorism and proliferation (hereinafter – AML/CFTP), as well as prevention of possible violation, circumvention or attempted violation of National, International and OFAC sanctions (hereinafter – Sanctions).

The Bank has approved the AML/CFTP Policy, which establishes:

- The key principles of customer due diligence, client transaction monitoring, enhanced due diligence, including the analysis of personal or business activities of clients and their counterparties;
- The key principles of identification and due diligence of beneficial owners of clients;
- The key principles of client risk assessment, identification and management. Based on the information

generated during the client's initial due diligence, the client's initial risk is established, which is automatically assigned by the client risk scoring system based on a number of risk factors. Client risk is regularly reviewed in the light of changes in risk factors.

The Bank has approved the Sanction risk management policy, which defines the tasks and procedures of the Bank's structural units in the area of client acquisition and servicing, the general terms for initiating business relationship with clients, carrying out the client due diligence and client risk identification measures, including the general procedure for terminating business relationship with clients who do not meet the requirements of the Sanction risk management policy.

Throughout the business relationship between the client and the Bank, the Bank continues to collect information on the client's economic activities and personal activities as far as it is necessary to meet the requirements set out in the regulations. Client files are regularly supplemented and updated with the results of studying client activity and their transactions, as well as documents supporting transactions. In the opinion of the Bank's management, through gaining the understanding about the client business activities and their geographical coverage, monitoring their transactions and refraining from the execution of suspicious financial transactions, the Group and the Bank minimize the risk of being involved in potential money laundering and terrorism and proliferation financing activities, as well as reduce the risk of being involved in violation or circumvention of sanctions or such attempts.

The Bank has approved the money laundering and terrorist and proliferation financing risk and sanctions risk management strategy, which sets out the key principles for managing the risks of money laundering, terrorism and proliferation financing and sanctions (hereinafter – ML/TPF and Sanctions risk), development of internal control system, risk identification measures, and risk mitigation and control mechanisms. Taking into account the Bank's strategy, the ability of the Bank to manage the ML/TPF and Sanctions risk, and the available resources, the ML/TPF and Sanctions Risk Management Strategy sets out the ML/TPF risk exposure rates and their maximum permissible limits.

The ML/TPF and Sanctions Risk Management Strategy, AML/CFTP Policy and Sanctions Risk Management Policy establish requirements for such organisational structure fundamentals, which are based on the following principles of three-tier protection and control:

— Tier 1 controls — employees of business structural units in charge of acquiring and servicing customers, ensuring compliance with the 'Know Your Customer' (KYC) and 'Know Your Customer's Customer' (KYCC) principles both when entering into a business relationship with the client and during business relationship. Each employee of the Bank's structural units is responsible for knowing and complying with ML/TPF and Sanctions risk requirements in cooperation with clients, as well as for promoting and respecting the professional internal culture in accordance with the Corporate Ethics Standards Code.
— Tier 2 controls — structural units in charge of client acceptance and due diligence prior to establishing business relationship, monitoring of client transactions and support function, that provide independent research and acceptance of clients, supervision of servicing, analysis of client transactions, issue of opinions on planned client transactions, and, through the use of automated tools, carry out transaction monitoring, reporting (Financial Intelligence Unit, the State Revenue Service, the State Security Service, the Finance and Capital Market Commission, the Register of Enterprises of the Republic of Latvia), as well as risk management and operational compliance directors and heads of departments responsible for supervision. In addition to monitoring the Sanctions risk, the Bank has appointed a responsible employee in charge of considering matters related to International, OFAC and National sanctions at the Bank, consulting other employees of the Bank and issuing opinions on Sanctions-related matters.
— Tier 3 controls are implemented by the Internal Audit Service through independent and regular management of ML/TPF and Sanctions risk and assessment of controls.

The Bank has appointed a Board member in charge of ML/TPF and Sanctions risk management, as well as the employee responsible for the compliance with AML/CFTP requirements.

The Bank's internal control system in the area of ML/TPF and Sanctions risk management is based on the principle of distribution of certain duties and responsibilities between structural units and employees; it defines the criteria for decision-making, establishes a certain responsibility for monitoring the client activities and lays the foundations for the activity of compliance units. To ensure general control and organisation of supervisory measures related to the internal control system, the Bank has established the Client Activity Compliance Committee.

(9) Management of compliance risk

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

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

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

Compliance of the activities of the Bank characterises the Bank's ability to act pursuant to the applicable laws, regulations and standards in the area of compliance, which can further be subdivided in 2 levels:

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

Pursuant to the changes in regulatory enactments, an internal whistleblowing system was introduced providing for reporting on deficiencies and other violations of the internal control system and ensuring the protection guarantees for whistleblowers pursuant to the Whistleblowing Law.

In scope of corporate governance, the process of identifying and managing situations of conflict of interest was improved, and a systematic approach to collecting information on situations that may create conflicts of interest for the Bank was developed.

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

5. NET INTEREST INCOME

	6m 2023		6m 2022	
Interest income	**Group EUR'000**	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Interest income from financial assets at amortized cost	15 373	15 373	10 090	10 090
Loans and receivables	*12 666*	*12 666*	*9 341*	*9 341*
Interest income from financial assets measured at fair value through other comprehensive income	46	46	46	46
Other interest income	32	32	846	846
Total interest income	**15 451**	**15 451**	**10 982**	**10 982**
Interest expense				
Interest expense from liabilities measured at amortized cost:	3 326	3 326	1 299	1 299
Payments to the Deposit Guarantee Fund and other funds	485	485	600	600
Other interest expense	425	582	1 018	1 183
Total interest expense	**4 236**	**4 393**	**2 917**	**3 082**
Net interest income	**11 215**	**11 058**	**8 065**	**7 900**

6. NET FEE AND COMMISSION INCOME

	6m 2023		6m 2022	
	Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Fee and commission income				
Money transfers	538	538	537	538
Commissions on loans monitoring and service	452	452	252	252
Securities transactions	470	470	569	569
Assets management	109	109	174	174
Client service	3 759	3 759	1 304	1 304
Payment card service	674	674	687	687
Total fee and commission income	**6 002**	**6 002**	**3 523**	**3 524**
Fee and commission expense				
Money transfers	25	25	41	41
Payment card service	634	634	658	658
Securities transactions	202	202	250	250
Other	8	8	57	57
Total fee and commission expenses	**869**	**869**	**1 006**	**1 006**
Net fee and commission income	**5 133**	**5 133**	**2 517**	**2 518**

7. NET PROFIT FROM TRADING AND REVALUATION OF FINANCIAL INSTRUMENTS

	6m 2023		6m 2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Net profit from trading with financial assets at fair value through profit or loss	(353)	(353)	1 181	1 181
Net profit/(loss) from revaluation of financial assets and liabilities	38	38	(23)	(23)
Net profit from trading and revaluation of financial instruments	**(315)**	**(315)**	**(1 204)**	**(1 204)**

8. NET FOREIGN EXCHANGE INCOME

	6m 2023		6m 2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Net profit from foreign exchange transactions	67	67	866	866
Net loss from revaluation of foreign exchange	(58)	(58)	174	174
Net foreign exchange income	**9**	**9**	**1 040**	**1 040**

9. ADMINISTRATIVE EXPENSES

	6m 2023		6m 2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Salaries to the members of the Board and Council	313	313	280	280
Staff remuneration	3 566	3 509	3 102	3 048
Compulsory state social security contributions	913	900	797	784
Other staff costs	18	18	19	19
Communications and transport	124	119	117	113
Professional services	200	195	494	488
Rent, public utilities and maintenance	361	325	324	267
Depreciation costs	621	510	690	540
Amortization costs	69	69	94	94
Computer network	241	241	237	237
Advertisement and marketing expenses	154	154	135	135
Other taxes	340	235	281	186
Insurance	45	43	44	42
Other	105	99	46	39
Total administrative expenses	**7 070**	**6 730**	**6 660**	**6 272**

10. OTHER OPERATING EXPENSES

	6m 2023		6m 2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Membership fees	142	142	161	161
Fees for real estate management	-	-	1	1
Royalties for the use of a trademark	604	604	597	597
Other	299	301	106	106
Total other operating expenses	**1 045**	**1 047**	**865**	**865**

11. CORPORATE INCOME TAX

	6m 2023		6m 2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Corporate income tax for the conditionally distributed profit	(278)	(278)	(5)	(5)
Total corporate income tax	**(278)**	**(278)**	**(5)**	**(5)**

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

12. CASH AND DEMAND DEPOSITS WITH CENTRAL BANK

	30/06/2023		31/12/2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash	1 091	1 091	652	652
Balance with the Bank of Latvia (including the minimum reserve deposit)	135 776	135 776	119 875	119 875
Total	**136 867**	**136 867**	**120 527**	**120 527**

13. LOANS AND RECEIVABLES FROM BANKS

	30/06/2023		31/12/2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Demand deposits with credit institutions				
Credit institutions registered in Latvia	-	-	1	1
Credit institutions registered in OECD countries	20 691	20 680	23 967	23 953
Credit institutions of other countries	2 943	2 943	1 338	1 338
Total demand deposits with credit institutions	**23 634**	**23 623**	**25 306**	**25 292**
Term deposits with credit institutions	**1 395**	**1 395**	**-**	**-**
Total deposits with credit institutions	**25 029**	**25 018**	**25 306**	**25 292**

14. TRADING FINANCIAL ASSETS

Financial assets at fair value through profit or loss

	30/06/2023		31/12/2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Derivatives	14	14	3	3
Total	**14**	**14**	**3**	**3**

15. INVESTMENT SECURITIES

	30/06/2023		31/12/2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Non- fixed income securities				
SWIFT	18	18	18	18
VISA INC	351	351	320	320
Non- fixed income securities	**369**	**369**	**338**	**338**
Fixed income securities				
At fair value through other comprehensive income	34 588	34 588	25 971	25 971
At amortised cost	126 305	126 305	136 659	136 659
Fixed income securities	**160 893**	**160 893**	**162 630**	**162 630**
Investment securities total	**161 262**	**161 262**	**162 968**	**162 968**

16. LOANS AND RECEIVABLES

(a) Analysis of loans by type

	30/06/2023		31/12/2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Loan portfolio				
Corporate loans	182 851	182 851	150 612	150 612
Industrial loans	5 679	5 679	6 684	6 684
Payment cards loans	882	882	889	889
Mortgage loans	120 169	120 169	141 099	141 099
Finance lease	4 495	4 495	4 609	4 609
Trade finance	2 536	2 536	2 006	2 006
Other loans	2 750	2 750	3 440	3 440
Securities-backed financing	675	675	2 366	2 366
Total loans and receivables	**320 037**	**320 037**	**311 705**	**311 705**
Impairment allowance	(4 083)	(4 083)	(3 395)	(3 395)
Net loans and receivables	**315 954**	**315 954**	**308 310**	**308 310**

(b) Geographical segmentation of loans

	30/06/2023		31/12/2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Loans to residents of Latvia	229 801	229 801	242 245	242 245
Loans to residents of OECD countries	41 029	41 029	41 083	41 083
Loans to residents of non-OECD countries	49 207	49 207	28 377	28 377
Total loans and receivables	**320 037**	**320 037**	**311 705**	**311 705**
Impairment allowance	(4 083)	(4 083)	(3 395)	(3 395)
Net loans and receivables	**315 954**	**315 954**	**308 310**	**308 310**

c) Loans by stages 30/06/2023

Group and Bank, EUR'000	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	**287 906**	**23 858**	**8 273**	**320 037**
(Less) impairment allowance	(311)	(157)	(3 615)	(4 083)
Net	**287 595**	**23 701**	**4 658**	**315 954**

Loans by stages 31/12/2022

Group and Bank, EUR'000	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL for credit-impaired)	Total
Gross	**258 686**	**48 067**	**4 952**	**311 705**
(Less) impairment allowance	(479)	(345)	(2 571)	(3 395)
Net	**258 207**	**47 722**	**2 381**	**308 310**

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

	30/06/2023 EUR '000	31/12/2022 EUR '000
Water transport	60 038	41 236
Financial services	1 243	2 242
Wholesale	38 048	43 872
Real Estate	89 548	91 258
Overdrafts	37 931	30 133
Transport and storage	8 492	9 666
Private customers – mortgage loans and consumer loans	10 497	11 228
Manufacture of food products	15 610	15 065
Processing factory	11 327	15 725
Forestry	169	697
Other services	43 051	47 188
Net loans and receivables	**315 954**	**308 310**

17. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

(a) Investments in subsidiaries (Bank)

Company	*Ownership share*	Carrying amount at 30/06/2023 EUR'000	Carrying amount at 31/12/2022 EUR'000
SIA BluOr International	*100%*	5 709	5 709
Impairment allowance		*(2 249)*	*(2 249)*
SIA Zapdvina Development	*100%*	10 474	10 474
Impairment allowance		*(806)*	*(806)*
SIA CityCap Service	*100%*	565	565
Impairment allowance		*(158)*	*(158)*
UAB Kamaly Development	*100%*	3	3
AS Pils Pakalpojumi	*100%*	15 281	15 281
Impairment allowance		*(548)*	*(548)*
Non-reciprocal capital contribution by a parent into subsidiary		*(2 400)*	*(2 400)*
SIA Jēkaba 2	*100%*	4 049	4 049
Impairment allowance		*(106)*	*(106)*
SIA Darzciems Entity	*100%*	73	73
SIA Mazirbe Estate	*100%*	92	92
SIA Lielie Zaki	*100%*	88	88
SIA Pulkarne Entity	*100%*	199	199
		30 266	**30 266**

Investments in subsidiaries (Bank)

	30/06/2023 EUR'000	31/12/2022 EUR'000
Investments in subsidiaries	36 533	36 533
Non-reciprocal capital contribution by a parent into subsidiary according to IFRS 10 (AS „Pils pakalpojumi”)	(2 400)	(2 400)
Impairment allowance	(3 867)	(3 867)
Investments in subsidiaries net	**30 266**	**30 266**

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

Company	Capital contribution	Carrying amount at 30/06/2023 EUR'000 Group	Carrying amount at 31/12/2022 EUR'000 Group
AS Termo biznesa Centrs	26.15%	1 848	1 848
Impairment allowance		(1 021)	(1 021)
Total		**827**	**827**

18. DUE TO CREDIT INSTITUTIONS ON DEMAND

	30/06/2023		31/12/2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Credit institutions registered in Latvia	3 477	3 477	6 586	6 586
Credit institutions registered in non-OECD countries	10	10	10	10
Credit institutions registered in OECD countries	-	-	27	27
Total due to credit institutions on demand	**3 487**	**3 487**	**6 623**	**6 623**

19. FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST: DEPOSITS

	30/06/2023		31/12/2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Current accounts:				
Financial institutions	106 048	106 048	91 059	91 059
Corporate entities	165 550	167 731	178 910	180 926
Individuals	48 601	48 601	57 229	57 229
	320 199	**322 380**	**327 198**	**329 214**
Term deposits:				
Subordinate liabilities	2 527	2 527	1 984	1 984
Other financial institutions	59 860	59 860	55 397	55 397
Corporate entities	4 738	4 738	1 661	1 661
Individuals	209 481	209 481	189 451	189 451
	276 606	**276 606**	**248 493**	**248 493**
Total deposits	**596 805**	**598 986**	**575 691**	**577 707**

Geographical segmentation of the deposits

	30/06/2023		31/12/2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Deposits of residents registered in Latvia	200 590	202 771	172 031	174 047
Deposits of residents registered in OECD countries	345 041	345 041	356 697	356 697
Deposits of residents registered in other countries (non-OECD)	51 174	51 174	46 963	46 963
Total deposits	**596 805**	**598 986**	**575 691**	**577 707**

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

	30/06/2023		31/12/2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Additional Tier 1 debt securities	1 177	1 177	1 177	1 177
Issued subordinated bonds (listed on the stock exchange)	4 882	4 882	4 882	4 882
Total	**6 059**	**6 059**	**6 059**	**6 059**

21. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Group and Bank	30/06/2023 EUR'000		31/12/2022 EUR'000	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Assets				
Forward contracts	14	7 403	3	5 960
Total derivative financial assets	**14**	**7 403**	**3**	**5 960**
Liabilities				
Forward contracts	2	5 117	-	-
Total derivative liabilities	**2**	**5 117**	**-**	**-**

22. SHARE CAPITAL AND RESERVES

As of 30 June 2023, the authorized share capital comprised 31 781 081 ordinary shares. Nominal value of one share is EUR 1.40. The structure of shareholders holding ordinary shares did not change. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the shareholders' meetings. All shares rank equally with regard to the Bank's residual assets.

Dividends

During 2023, 5 million EUR dividends were distributed, 0.16 EUR per share.

23. CASH AND CASH EQUIVALENTS

	30/06/2023		31/12/2022	
	Group EUR'000	Bank EUR'000	Group EUR'000	Bank EUR'000
Cash and balances due from central banks	136 867	136 867	120 527	120 527
Due from credit institutions on demand and within 3 months	16 218	16 207	16 799	16 785
Due to credit institutions on demand and within 3 months	(3 487)	(3 487)	(6 623)	(6 623)
Total cash and cash equivalents	**149 598**	**149 587**	**130 703**	**130 689**

24. CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

	30/06/2023		31/12/2022	
	Group EUR'000	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Unused loan facilities	55 497	55 497	55 821	55 824
Unused credit card facilities	812	815	936	936
Guarantees and other	3 196	3 196	2 367	2 367
	59 505	**59 508**	**59 124**	**59 127**
Provisions	*(523)*	*(523)*	*(129)*	*(130)*

25. LITIGATION

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

26. ASSETS AND LIABILITIES UNDER MANAGEMENT

	30/06/2023		31/12/2022	
Assets under management	**Group EUR'000**	**Bank EUR'000**	**Group EUR'000**	**Bank EUR'000**
Due from credit institutions registered in Latvia	601	601	1 191	1 191
Loans to customers	165	165	165	165
Non fixed income securities	16 072	16 072	16 228	16 228
Fixed income securities	3 045	3 045	1 382	1 382
Other assets	-	-	1	1
Total assets under management	**19 883**	**19 883**	**18 967**	**18 967**
Liabilities under management				
Non-resident trust liabilities	6 596	6 596	5 368	5 368
Resident trust liabilities	13 287	13 287	13 599	13 599
Total liabilities under management	**19 883**	**19 883**	**18 967**	**18 967**

The largest share of assets under management were invested in non-fixed income securities and due from credit institutions registered in Latvia.

27. CAPITAL ADEQUACY CALCULATION (BANK)

	30/06/2023 EUR '000	31/12/2022 EUR '000
Equity	**82 894**	**82 785**
Total Tier 1	**76 021**	**76 424**
Tier 1	**74 921**	**75 324**
Share capital	44 493	44 493
Statutory reserves	24	24
Retained earnings for the previous periods	35 377	29 915
Profit for the reporting period	-	10 462
Dividends proposed	-	(5 000)
Changes on application of IFRS 9	-	554
Revaluation reserves	(4 339)	(4 545)
Intangible assets	(228)	(256)
Other deductions	(36)	(26)
Insufficient coverage for non-performing exposures	(6)	-
Reduction of Tier 1 capital (Pillar 2 adjustments)	(364)	(297)
Additional Tier 1	1 100	1 100
Tier 2 capital	**6 873**	**6 361**
Subordinate capital	6 873	6 361
Risk-weighted value		
Banking portfolio	436 995	409 723
Operating risk	45 554	45 554
Total risk exposure amount loan adjustment	46	16
Total risk weighted assets	**482 595**	**455 293**
Total capital as a percentage of risk weighted assets (total capital ratio)	**17.18%**	**18.18%**
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	**15.75%**	**16.79%**

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

As at 30 June 2023, the Bank's capital adequacy ratio was 17.18% (2022: 18.18%) which corresponds to the requirements set in the Basel Capital Accord and the regulations of the FCMC of Latvia.

Under the capital requirements introduced by Regulation (EU) No 575/2013 of the European Parliament and of the Council and the FCMC banks need to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level.

Although the minimum required level as at 30 June 2023 was 8%, according to a special request by the LB the Bank was required to ensure a higher capital adequacy of 11.60% during the period from 1 January 2023. In addition to the above capital requirement for the overall risk coverage, the Bank is required to maintain compliance with the total capital reserve requirement calculated in accordance with Section 35[22], 35[23], 35[24] or 35[25] of the Credit Institution Law -2.86% (Capital conservation buffer – 2.50%, institution-specific countercyclical capital buffer – 0.11% (as at 30.06.2023), other capital buffer - 0.25% (as at 30.06.2023). The requirements of the total capital reserve should be met using Tier 1 capital.

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

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

28. EVENTS AFTER THE REPORTING PERIOD

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