Reģionālā Investīciju Banka

AS Reģionālā investīciju banka

Annual Report 2024*

* This version of Annual report is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of Annual report takes precedence over this translation.

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Management Report

Dear shareholders, customers and partners,

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

The year of 2024 has been the year of steady growth and development for the Bank. In spite of challenging economic and geopolitical conditions, as well as the downward trend of interest rates, which has emerged by the end of the year, we not only managed to adapt to the changes of the external environment, but also stably continued to implement our development strategy, reaching good financial indicators in 2024.

We proudly note that the income from the key areas of our business demonstrated stable growth, while the net profit of the Bank amounted to EUR 10.3 million according to the results of 2024. These achievements became possible due to the coordinated work of our professional team, deep understanding of market trends and the thought-through development strategy. In 2024, the Bank hit a number of records: according to the data of the Finance Latvia Association ('FLA'), we have demonstrated the highest growth rate of the credit portfolio among all banks operating in Latvia. Moreover, during the entire 2024, the Bank has been showing the best return on assets (ROA) indicator, which amounted to 3.4-3.8%. The Bank's assets as at the end of 2024 amounted to 472.8 million euros, remaining at the level of 2023.

Development of lending

Lending remains the primary area of the Bank's activity. In recent years, the banking sector of Latvia has received a lot of critics for the insufficient rate of financing of the Latvian economy and passive participation in its development. We do not take these critics as referring to us: from the beginning of 2022, over 3 years of active work in the lending segment, the Bank has financed projects of Latvian companies for the total amount of approximately 148 million euros, more than tripling our credit portfolio with the Latvian risk over this period: from 35 million euros at the beginning of 2022 to 109 million euros at the end of 2024. Simultaneously, individual attention was paid to the quality of funded projects, which allowed ensuring the high quality of the credit portfolio and the low level of NPL (Non-performing loans) (for the portfolio with the Latvian risk 0.5%).

In 2024, the Bank demonstrated the growth rate of the credit portfolio significantly above the average market rate: in 2024, the volume of the Bank's credit portfolio increased by 57%, while the average growth of portfolios in the banking sector amounted to 4.2%. Due to our expertise in the area of corporate financing and individual approach to customers, in 2024, the Bank issued new loans for the total amount of 91.4 million euros, including 68.2 million euros diverted to the financing of projects in Latvia. During 2024, the total volume of the Bank's credit portfolio increased up to 155.5 million euros. This shows the Bank's active work on developing this area of business, high demand for our credit products and the competitiveness of our offer. Interest income from loans in 2024, compared to the results of 2023, increased by 9.6% or 0.71 million euros, but interest income from loans issued to Latvian residents increased by 18.7% or 0.84 million euros and reached 5.32 million euros or 65% of the Bank's total interest income from loans in 2024.

Development of lending *(cont'd)*

One of the important achievements of 2024 was a number of successfully implemented projects related to the financing of the leading companies in such sectors of Latvian business as production of foodstuffs, pharmacy, forestry and wood processing. We have provided support to entrepreneurs and companies in implementing their strategic incentives, providing them with access to reliable and flexible financial solutions. We have once again gained assurance that the Bank's offer fully corresponds to the demand of representatives of Latvian large and medium enterprises, thus confirming the correctness of the chosen development strategy. In the upcoming years, we see a good development potential of Latvian business in the sectors of the national economy prior for the Bank, which will ensure the stable demand for the credit products offered by the Bank in future.

Development of customer service and technologies

In 2024, the Bank continued its work focusing on the high quality of customer service and attentive attitude to the needs of customers. We understand that in the modern financial world the customer-oriented approach is the key to success.

Under the conditions of high competition in the market of financial services, it is highly crucial not only to identify your niche, but also to become the best in the chosen area. We position ourselves as the Bank that specialises in the financing of business development projects in the key sectors of the Latvian economy: production with an exportation potential; forestry and wood processing; pharmacy and medical services; wholesale trade and logistics. We are constantly developing our expertise and competence in these areas and aspire for becoming a reliable financial partner for Latvian enterprises in these sectors.

The Bank offers its customers not only standard lending products, but also consultations and an independent competent opinion on the project financing structure. Such approach allows developing an efficient individual solution for financing projects for every customer. In the modern digital world, customers value meaningful dialogue with the Bank that allows finding optimal solutions for business development. We are a platform for such a dialogue and are always ready to provide support to entrepreneurs, who are searching for ways to grow and develop their business. In 2024, the Bank upgraded its website, which is a convenient resource for receiving basic information about the products offered by the Bank, while our team of professional managers and analysts is ready to offer promptly the most efficient solution for financing projects to potential customers.

Personal communication with the customer and an individual approach to every project remain the key priority for us; however, we are actively investing in the development of modern technologies and integration of *fintech* solutions in the everyday process of work with customers.

In 2024, we have successfully completed the transfer to a new technological platform of our Internet Banking system and mobile application, providing customers with a more convenient, functional and modern solution for daily financial operations. The new Internet Banking system is adapted to the needs of corporate customers, ensuring direct integration with accounting programmes, which significantly eases the work with finances and payments. Moreover, our customers have access to the Payment Gateway service, which makes the processing of a large volume of payments more convenient and efficient.

Operating in the European market of financial services, the Bank pays due attention to ensuring high standards of compliance, investing in modern IT solutions for risk management and customer

Development of customer service and technologies *(cont'd)*

monitoring. In 2024, a number of significant projects was implemented in this field: in cooperation with a large European partner *Wolters Kluver,* the Bank worked on automating the calculation of the interest risk and the submission of regular reports in line with the ECB standards, as well as integrated AI-based technological solutions in customer monitoring processes.

Financial stability, capital, liquidity and deposits

In 2024, just as in previous years, the Bank demonstrated good financial stability indicators. The liquidity ratio as at December 31, 2024 remained at the comfortable level of 76.86%. Certain decrease in the liquidity level as compared to the end of 2023, when this indicator was 87.04%, is explained by the significant growth of the Bank's credit portfolio in 2024: from 99 million euros at the end of 2023 to 155 million euros at the end of 2024.

The volume of deposits at the end of 2024 was slightly above the indicators of 2023: 342.0 million euros against 338.3 million euros at the end of 2023. The budget plan for deposits in 2024 was fulfilled by 113%, whereas the plan for the volume of deposits of Latvian residents was fulfilled by 123%.

The capital adequacy indicator at the end of 2024 amounted to 26.19%, while the normative requirement determined by the regulator was 11.4%. During 2024, the Bank confidently retained its place in TOP4 leaders in terms of capital adequacy, respectively taking the 2nd and 3rd place among Latvian banks in terms of this indicator in the 1st and 2nd quarter of 2024.

With ECB and FRS rates being high, we have successfully adapted our asset management strategy, which allowed maintaining the stable growth of income and profitability of assets. In our strategy, we take into consideration the fact that in 2025 ECB and FRS rates will be decreasing, and we concentrate on working on increasing the credit portfolio, which should ensure the required level of profitability of the Bank's operation in the upcoming years.

Aspiration for the future

We are confidently looking into the future and keep developing our competences, expanding our expertise and adapting to new challenges, always setting the interests of our customers and partners as a top priority.

We also keep integrating the principles of sustainability (ESG) in our activities, aspiring for not only the financial success, but also responsible business. We analyse ESG risks on a regular basis, assess the impact of these risks on the activity of our customers and integrate sustainability factors in the decision-making process concerning financing.

We are proud of the results we achieved in 2024 and we express gratitude to everyone who makes their contribution to the success of our Bank – employees, customers, shareholders and partners. There are new challenges waiting for us ahead, and we are confident that by joint efforts we will path the way to perfection in servicing our customers.

Aleksandrs Jakovļevs Chairman of the Board	Yuriy Rodin Chairman of the Council

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Management report *(cont'd)*

Council and Board of the Bank

As at 31 December 2024 and up to the date of signing the financial statements:

Supervisory Council

		Appointment date
Yuriy Rodin	Chairman of the Council	Re-elected – 28.06.2022
Mark Bekker	Deputy Chairman of the Council	Re-elected – 28.06.2022
Alla Vanetsyants	Member of the Council	Re-elected – 28.06.2022
Maksym Tsymbal	Member of the Council	03.05.2023
Margot Kahr Jacobs	Independent Member of the Council	24.05.2022

Management Board

		Appointment date
Aleksandrs Jakovļevs	Chairman of the Board	Re-elected - 05.08.2019
Andrejs Gomza	Member of the Board	Re-elected – 05.11.2021
Vita Matvejeva	Member of the Board	20.01.2020
Edgars Vadzītis	Member of the Board	11.07.2022
Maksym Kalichava	Member of the Board	16.08.2024

The following changes took place in the composition of the Management Board of AS Reģionālā investīciju banka: Dace Gaigala resigned on 15 April 2024 and Maksym Kalichava became a Member of the Management Board of the Bank on 16 August 2024.

Aleksandrs Jakovļevs
Chairman of the Board

Yuriy Rodin
Chairman of the Council

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Statement of Management Responsibility

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

The Bank's financial statements on pages 8 through 81 are prepared in accordance with the source documents and present fairly the financial position of the Bank as at 31 December 2024 and the results of its operations and cash flows for the reporting year 2024.

The financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter - IFRS) Accounting Standards as adopted in the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

The management of the Bank is responsible for the maintenance of proper accounting records, the safeguarding of the Bank's assets and the prevention and detection of fraud and other irregularities in the Bank. They are also responsible for operating the Bank in compliance with the Law on Credit Institutions, regulations of the Bank of Latvia and other normative acts of the Republic of Latvia applicable for credit institutions.

Aleksandrs Jakovļevs Chairman of the Board	Yuriy Rodin Chairman of the Council

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Financial Statements

Statement of Comprehensive Income

	Notes	2024 EUR	2023 EUR
Interest income calculated using effective interest rate method	5	21,754,279	21,988,670
Interest expense	5	(3,023,441)	(2,498,446)
Net interest income	5	**18,730,838**	**19,490,224**
Expenses of allowances for loan impairment	12,13,18,25	(405,839)	(392,570)
Net interest income after allowances for loan impairment		**18,324,999**	**19,097,654**
Fee and commission income	6	3,752,719	2,801,959
Fee and commission expense	6	(351,016)	(378,863)
Net fee and commission income	6	**3,401,703**	**2,423,096**
Gain/(loss) from disposal of debt instruments at fair value through other comprehensive income, net		(1 050)	-
Gain/(loss) from securities at fair value through profit or loss, net		633,912	28,490
Gain from trading in foreign currencies, net		82,924	274,169
Gain/(loss) from foreign exchange translation, net		1,880	(313)
Dividend income		10,398	8,958
Other operating income	8	457,039	409,900
Total operating income		**22,911,805**	**22,241,954**
Administrative expense	7	(9,060,617)	(9,904,274)
Amortization and depreciation charges	16,17	(537,475)	(379,723)
Other income	9	3,486	23,228
Other expense	9	(351,880)	(498,147)
Profit before corporate income tax		**12,965,319**	**11,483,038**
Corporate income tax	10	(2,665,973)	(2,338,678)
Net profit for the year:		**10,299,346**	**9,144,360**
Other comprehensive income			
Items that can be reclassified subsequently to profit or loss:			
Gain on debt instruments at fair value through other comprehensive income		21,806	119,149
Other comprehensive income, total		**21,806**	**119,149**
Total comprehensive income:		**10,321,152**	**9,263,509**
Earnings per share	26	0.31	0.29

The financial statements on pages 8 through 81 have been approved by the Council and Board of the Bank and signed on their behalf by:

Aleksandrs Jakovļevs
Chairman of the Board

Yuriy Rodin
Chairman of the Council

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The accompanying notes on pages 12 through 81 form an integral part of these financial statements.

Statement of Financial Position

	Notes	31.12.2024 EUR	31.12.2023 EUR
Assets			
Cash and balances with the Bank of Latvia	11	165,472,104	210,303,734
Balances due from banks	12	12,135,799	5,208,289
Financial assets at fair value through profit or loss	14	846,171	248,679
Debt instruments at fair value through other comprehensive income	15	122,855,811	138,195,572
Loans and advances to customers	13	155,474,073	99,023,036
Other assets	18	2,021,817	1,872,332
Prepaid expense		306,153	244,638
Property and equipment, and right-of-use assets	17	12,931,967	12,631,546
Intangible assets	16	792,487	721,935
Total assets		**472,836,382**	**468,449,761**
Liabilities			
Balances due to banks	20	63,523,317	70,595,213
Deposits from customers	21	341,986,783	338,330,004
Other financial liabilities	23	476,910	149,699
Provisions	27	460,020	302,270
Accrued expenses and other liabilities	22	2,673,061	2,866,782
Current income tax liabilities	24	2,578,960	2,289,614
Total liabilities		**411,699,051**	**414,533,582**
Equity			
Share capital	26	32,334,756	32,334,756
Reserves		6	6
Revaluation reserve on debt instruments at fair value		166,327	144,521
Retained earnings		28,636,242	21,436,896
Total equity and reserves		**61,137,331**	**53,916,179**
Total liabilities and equity		**472,836,382**	**468,449,761**
Off-balance sheet items			
Contingent liabilities	27	11,116,729	3,479,864
Financial commitments	27	36,229,425	18,336,123
Assets under management	34	71,096,794	65,347,861

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Statement of Changes in Equity

	Share capital	Reserves	Retained earnings	Revaluation reserve on debt instruments at fair value	Total
	EUR	EUR	EUR	EUR	EUR
Balance as at 31 December 2022	**32,334,756**	**6**	**12,292,536**	**25,372**	**44,652,670**
Profit for the year	-	-	9,144,360	-	9,144,360
Change in revaluation reserve	-	-	-	119,149	119,149
Total comprehensive income for the year	**-**	**-**	**9,144,360**	**119,149**	**9,263,509**
Balance as at 31 December 2023	**32,334,756**	**6**	**21,436,896**	**144,521**	**53,916,179**
Profit for the year	-	-	10,299,346	-	10,299,346
Change in revaluation reserve	-	-	-	21,806	21,806
Total comprehensive income for the year	**-**	**-**	**10,299,346**	**21,806**	**10,321,152**
Dividends declared	-	-	(3,100,000)	-	(3,100,000)
Balance as at 31 December 2024	**32,334,756**	**6**	**28,636,242**	**166,327**	**61,137,331**

The accompanying notes on pages 12 through 81 form an integral part of these financial statements

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Statement of Cash Flows

	Notes	2024 EUR	2023 EUR
Cash flows from/(used in) operating activities			
Interest received		21,459,097	22,309,231
Interest paid		(2,993,230)	(2,305,142)
Fees and commissions received	6	3,752,719	2,801,959
Fees and commissions paid	6	(351,016)	(378,863)
Gain/(loss) from disposal of debt instruments at fair value through other comprehensive income (FVOC)		(1,050)	-
Income received from foreign exchange		82,924	274,169
Other operating income received		457,039	409,900
Personnel expense paid		(6,958,835)	(7,813,892)
Administrative and other operating expense paid		(2,273,825)	(2,537,889)
Income tax paid		(2,376,626)	(53,123)
Cash flows generated from operating activities before changes in operating assets and liabilities		**10,797,197**	**12,706,350**
Changes in operating assets and liabilities			
Decrease in financial assets measured at fair value through profit or loss (FVPL)		37,432	13,897,051
(Increase)/decrease in debt instruments measured at FVOCI		23,045,515	(12,374,260)
(Increase)/decrease in balances due from banks		4,433	(6,972)
(Increase) /decrease in loans and advances to customers		(56,153,160)	11,117,043
(Increase)/decrease in other assets		(560,911)	972,619
Increase/(decrease) in deposits from customers		(4,964,263)	(21,415,653)
(Decrease)/increase in balances due to banks		(7,071,896)	66,593,483
Increase/(decrease) in other liabilities		291,245	1,578,226
Net cash flows from/(used in) operating activities		**(34,574,408)**	**73,067,887**
Cash flows from/(used in) investing activities			
Dividends received		10,398	8,958
Purchase of intangible assets	16	(249,473)	(353,109)
Purchase of property and equipment	17	(585,735)	(118,319)
Net cash flows from/(used in) investing activities		**(824,810)**	**(462,470)**
Cash flows from/(used in) financing activities			
Dividends paid		(3,100,000)	-
Repayment of the principal amount of lease liabilities		(87,891)	(27,995)
Net cash flows from/(used in) financing activities		**(3,187,891)**	**(27,995)**
Effect of exchange rates on cash and cash equivalents		679,250	644,797
Net increase/(decrease) in cash and cash equivalents		**(37,907,859)**	**73,222,219**
Cash and cash equivalents at the beginning of the year	19	215,533,497	142,311,278
Cash and cash equivalents at the end of the year	**19**	**177,625,638**	**215,533,497**

The accompanying notes on pages 12 through 81 form an integral part of these financial statements

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Chairman of the Board

Yuriy Rodin
Chairman of the Council

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Notes to the Financial Statements

1. Incorporation and principal activities

AS Reģionālā investīciju banka (hereinafter – the Bank) provides financial services to corporate customers and private individuals. In 2005, the Bank established a representative office in Odessa (Ukraine). In 2010, a representative office was established in Brussels, the capital of Belgium.

The legal address of the Bank's principal place of business is:
J.Alunāna iela 2
LV-1010, Riga
Latvia

The Bank has no other representative offices, subsidiaries or other entities, except for the above mentioned.

These financial statements were approved for issue by the Bank's Council and Board on 4 March 2025.

2. Operating environment of the Bank

In 2024, the Latvian economy was stagnating. The economy continued to be negatively affected by the geopolitical situation and uncertainty as well as by the slow recovery of export target markets, therefore overall the economy remained at the previous year's level. The external environment led to a decline in exports and imports, and volatile investment dynamics. Government debt, while still relatively among the lowest in the EU, continued to rise slowly, reaching 47% of GDP in 2024. Private consumption grew marginally as the political instability in Europe, events in Ukraine, the US and elsewhere in the world weighed on sentiment, encouraging savings rather than consumption growth. Meanwhile, public consumption continued to grow, largely at the expense of the budget deficit, in order to finance the government's priority measures. According to current estimates, Latvia's GDP growth in 2024 was 0.1%. Inflation reached 1.3% in 2024, with the biggest impact on average consumer prices coming from price increases for food and services. Price falls were observed for home-related energy sources - heat, electricity, natural gas and solid fuels.

In 2024, the Latvian banking sector was stable and profitable, with deposits continuing to grow. However, lending growth remained weak. To motivate credit institutions to increase lending, a bank solidarity contribution or excess profits tax has been introduced from 2025, providing rebates if credit institution's lending grows significantly.

Stronger growth is expected in Latvia in 2025, driven by private consumption, exports and investment. Latvia's GDP is currently forecast at 2.1% in 2025. Inflation in the near future will be affected by rising global energy and food prices, government decisions to increase excise duties, the gradual introduction of a national emissions trading scheme for fuel and gas, and more moderate wage growth. The inflation forecast for 2025 is 1.4%.

The Bank's operations are influenced by trends and events in the Ukrainian market as the Bank cooperates closely with Pivdennij Bank, a Ukrainian public joint stock company. In addition, some of the Bank's loans are issued to companies whose business activities are related to Ukraine, and part of the Bank's customer deposit portfolio consists of deposits from Ukrainian residents.

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

The table below presents the total assets and liabilities of the Bank subject to the Ukraine country risk as at 31 December 2024 and 31 December 2023:

	31.12.2024 EUR	31.12.2023 EUR
Assets subject to the Ukraine country risk:		
Balances due from banks	7,045,136	5,029,249
Loans issued and other receivables	3,467,576	3,357,812
Other assets	394,213	534,516
Total	**10,906,925**	**8,921,577**
Liabilities subject to the Ukraine country risk:		
Balances due to banks	63,518,315	70,595,213
Deposits from customers	61,065,806	63,445,945
Total	**124,584,121**	**134,041,158**
Off-balance sheet items subject to the Ukraine country risk:		
Financial commitments	7,994	732,453
Total	**7,994**	**732,453**

The Bank complies with the limit set by the Regulator on the concentration of exposures in Ukraine equal to the Bank's Tier 1 capital (Tier 1 capital is determined according to Article 25 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013) and is not actively granting loans subject to the Ukraine country risk on account of the geopolitical situation. In addition, the Bank sets limits on the concentration of assets by countries, counterparties and transaction types, sectors, and types of collateral.

In 2024, the Ukrainian economy continued to recover, mainly driven by strong domestic consumer demand. Ukraine's GDP growth was forecast at 3.4% in 2024. The economic growth was also boosted by significant public capital expenditure, especially in the defense industry as well as export growth, given the robust performance of seaports and the expansion of the metallurgical and mining industries. However, the continuation of active hostilities and air strikes is dampening investment sentiment in the private sector. There is also a risk of continuous attacks on port infrastructure, while labor shortages and structural imbalances in the labor market holding back output growth. There are also risks of further damage to the energy sector. Annual inflation rose to 12.0% in December, significantly affected by price increases in the food industry, higher electricity costs, rising labor costs and the weakening of the hryvnia during the year. Despite all the challenges, Ukraine's GDP growth is forecast to accelerate to 3.6% in 2025, driven by the reconstruction of energy infrastructure, government fiscal policy and strong domestic and external demand. Inflation is likely to remain in double digits in the first half of 2025, and return to the 5% target only in 2026.

Taking into account the ECL (Expected Credit Losses), the results of the downside scenario that includes the geopolitical aspect and the results of the other scenarios described in more detail in Note 4(a), the Bank considers that the estimated ECL amount at the end of 2024 is sufficient.

3. Summary of significant accounting principles

(a) Going concern

The financial statements are prepared in accordance with IFRS Accounting Standards as adopted by the European Union, on a going concern basis. Preparing the financial statements on a going concern basis, the management considered the Bank's financial position, the availability of financial resources and an analysis of the direct and indirect effects of the war of Russia and Ukraine on the Bank's future operations.

(b) Correction of comparative financial information

In 2024, no corrections were made to the comparative figures of financial statements.

(c) Currency used in the preparation of the financial statements

The financial statements are prepared in the euros (EUR), rounded to the nearest euro, unless stated otherwise. The functional and presentation currency of the Bank is the euro (EUR).

(d) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for the following:

- financial assets at fair value through profit or loss are stated at fair value;
- financial assets at fair value through other comprehensive income are stated at fair value;
- buildings and land are stated at revalued amounts being the fair value at the date of valuation less subsequent accumulated depreciation and any accumulated impairment losses;
- the repossessed real estate is stated at the lower of cost and net realizable value.

The preparation of financial statements in conformity with IFRS Accounting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of incomes and expenses during the reporting period. Although these estimates are based on the management's best knowledge of current events and actions, the actual results ultimately may differ from those estimates. The same accounting policies were used consistently in the preparation of the financial statements for the year 2024, if compared to those of 2023.

(e) 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

(e) Fair value measurement *(cont'd)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(f) Financial assets and liabilities

Date of recognition

Regular way purchase or sale of financial assets or liabilities is recognized on a trade date, i.e., on the date when the Bank commits itself to purchase an asset or liability. Regular way purchase or sale is a purchase or sale of a financial asset or liability under a contract whose terms require delivery of the asset or liability within the time frame established generally by regulation or convention in the marketplace concerned.

Initial measurement

The classification of financial instruments at initial recognition depends on the financial instrument's contractual terms and the business model selected for managing them. Financial instruments, except financial assets and financial liabilities stated at fair value through profit or loss, are initially measured at fair value plus or minus transaction costs.

Measurement categories of financial assets and liabilities

In accordance with IFRS 9, all debt-based financial assets which do not meet the 'solely payments of principal and interest' criterion, at initial recognition are measured at fair value through profit or loss. Under this criterion, the debt instruments which are not in line with 'basic lending arrangement', e.g., instruments which contain embedded conversion options or non-recourse loans, are measured at fair value through profit or loss.

Debt-based financial assets which do meet the 'solely payments of principal and interest' criterion, at initial recognition are measured on the basis of a business model under which the instruments are managed:

- instruments managed under the 'hold to collect' business model are measured at amortized cost;
- instruments managed under the 'hold to collect and sell' business model are measured at fair value through other comprehensive income (FVOCI);
- instruments managed under other business models, including financial assets held for trading, are measured at fair value through profit or loss (FVPL).

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

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

Measurement categories of financial assets and liabilities (cont'd)

Equity instruments are measured at fair value through profit or loss, unless the financial asset not held for trading is irrevocably designated at fair value through other comprehensive income.

Regarding investment in equity instruments at fair value through other comprehensive income, all realized and unrealized gains and losses, excluding income from dividends and foreign exchange gains/losses, are recognized in other comprehensive income as items that cannot be reclassified subsequently to profit or loss.

The Bank classifies all financial assets depending on the business model selected for managing assets and the asset's contractual terms, which are measured:

- at amortized cost;
- at fair value through other comprehensive income (FVOCI);
- at fair value through profit or loss (FVPL).

The Bank classifies and measures derivative financial instruments and financial assets held for trading at FVPL. This category also includes instruments that would otherwise be classified at fair value through other comprehensive income or at amortized cost if they were initially recognized at fair value through profit or loss (using the fair value option). Under the fair value option the Bank may measure financial instruments at FVPL if such measurement eliminates or significantly reduces a measurement or recognition accounting mismatch. Debt instruments acquired in the liquidity portfolio and providing the Bank's liquidity reserve both by collecting contractual cash flows and selling them are classified and measured by the Bank at FVOCI.

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

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

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

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

The Bank only measures the balances due from banks, loans to customers and other financial investments at amortized cost when both of the following conditions are met:

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

A more detailed information on the above conditions is provided below.

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

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

Business model assessment

The Bank determines the business model at a level that reflects the way groups of financial assets are managed together to achieve a particular business objective.

The business model of the Bank is not determined on an instrument-by-instrument basis, rather it is assessed at a higher level of aggregated portfolios and is based on observable evidence, for example:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed;
- how managers of the business are compensated – e.g., whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- the expected frequency, volume and timing of sales also are significant aspects to be considered in the assessment carried out by the Bank.

The assessment of a business model is performed on the basis of scenarios that are reasonably expected to occur, excluding 'worst case' or 'stress case' scenarios. If cash flows, subsequent to initial recognition, are realized in a way that is different from the Bank's initial expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but considers this information in assessing the business model for newly generated or newly acquired financial assets.

SPPI test

As a second step in determining the appropriate classification category the Bank assesses the financial asset's contractual terms in order to determine whether the financial asset meets the SPPI test. For the purpose of this test, a principal is defined as fair value of a financial asset at initial recognition, which may change over the life of a financial instrument (for example, if there are repayments of principal or amortization of premium/discount).

In a lending arrangement, most significant interest components usually are consideration for the time value of money and credit risk. For the SPPI test purposes, the Bank applies judgment and consider relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. In such cases the financial asset is measured at FVPL.

Financial assets at fair value through profit or loss (FVPL)

The Bank has introduced the following two sub-categories within this category: financial assets held for trading and those designated at fair value through profit or loss. Financial assets at fair value through profit or loss comprise debt securities held by the Bank for trading purposes or if they do not meet the criteria to be classified under the amortized cost method. They are accounted for at fair value with all gains and losses from revaluation and trading reported in profit or loss. Interest earned while holding trading securities is reported as interest income.

Debt instruments measured at fair value through other comprehensive income (FVOCI) (*cont'd*)

The Bank, in accordance with IFRS 9, applies a classification to debt instruments measured at FVOCI when both of the following conditions are met:

- an instrument is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and sell financial assets;

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

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

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

- the financial asset's contractual terms meet the SPPI test.

Debt instruments designated at FVOCI are subsequently measured at fair value recognizing gain or loss resulting from changes in the fair value in other comprehensive income. For debt instruments at fair value through FVOCI, interest income and foreign exchange gain or loss are recognized in profit or loss and computed in the same manner as for financial assets measured at amortized cost. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

Expected credit loss (ECLs) on debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to an allowance, which would be established if the assets were measured at amortized cost, is recognized in other comprehensive income as 'accumulated impairment amount', with a corresponding amount debited to profit or loss. Total accumulated gains/losses recognized in other comprehensive income are recycled to profit or loss upon derecognition of the respective asset.

Equity instruments measured at FVOCI

The Bank, upon initial recognition, often elects to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of comprehensive income when the right of payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment. Upon disposal of these instruments, any remaining balance in the revaluation reserve relating to the asset disposed of is transferred directly to retained earnings.

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees represent irrevocable commitments to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees, namely, premiums received, are initially recognized in the financial statements at fair value. After initial recognition, the Bank's liabilities arising from guarantees are measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of comprehensive income, and the ECL as defined under IFRS 9.

Undrawn loan commitments and letters of credit are liabilities whereby the Bank, during the commitment period, must issue a loan to the customer under agreed upon terms and are not recognized in the statement of financial position. However, in accordance with IFRS 9, the Bank calculates and recognizes ECL on these exposures which are booked as a provision in the statement of financial position.

(g) Derecognition of financial assets and liabilities

Financial assets (or, where applicable, a portion of a financial asset or a part of a group of similar assets) are recognized when:

- the contractual rights to the cash flows from the financial asset have expired or;
- the Bank has transferred the contractual rights to the cash flows from the financial asset or retained the contractual rights to the cash flows from the financial asset, but assumed an

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

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

obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and

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

Financial assets are written off, in full or in part, only when the Bank has no reasonable expectation of recovery. If the amount to be written off exceeds the cumulative loss amount, the difference is first considered as an increase in allowance which then is set off against the gross carrying amount. Any further recovery is included in credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities are derecognized when the obligation specified in the contract is either discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

(h) Income and expense recognition

Interest income and expense are recognized in the statement of comprehensive income for all interest-bearing instruments on an accrual basis using the effective interest method.

The effective interest method is a method for calculating the amortized cost of a financial asset or a financial liability based on the recognition of interest income or interest expense over the relevant period.

The Bank calculates interest income on debt financial assets measured at amortized cost or at FVOCI by applying the EIR (Effective interest rate) to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired, the Bank calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cure and are no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Commissions received or incurred in respect of origination of financial assets or funding are deferred and recognized as an adjustment to the effective interest rate applied to the asset or liability. Commissions on servicing of settlement accounts are recognized in the statement of comprehensive income on a regular basis throughout the duration of the customer contract. Other fees and commissions, including those related to trust activities, are credited and/or charged to the statement of comprehensive income as earned/incurred.

(i) Revaluation of foreign currencies

Functional and presentation currency

The functional currency of the Bank is the currency of the primary economic environment in which the Bank operate. The financial statements are presented in the euros (EUR), which is the Bank's functional presentation currency.

Transactions and balances

Foreign currency transactions have been recalculated into the euro applying the rate determined by the concertation procedure between the European System of Central Banks and other central banks, which is published on the European Central Bank's website. For those foreign currencies, for which the ECB does not publish the EUR reference rate, the foreign currency exchange rates published by Bloomberg are applied. Any gain or loss resulting from a change in exchange rates is included in the statement of comprehensive income as profit or loss from revaluation of foreign currency positions.

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

(i) Revaluation of foreign currencies *(cont'd)*

Transactions and balances (cont'd)

During the preparation of the financial statements of the Bank, the most commonly used currency exchange rates (foreign currency units against EUR 1) were as follows:

Reporting date	USD
31 December 2024	1.0389
31 December 2023	1.1050

(j) Income taxes

Income taxes include current taxes and deferred tax.

Current and prior period corporate income tax assets and liabilities are measured at the amount expected to be paid to or recovered from the tax authority, in accordance with the tax rates and laws that are enacted or substantively enacted as of the reporting date.

Legal entities have not been required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions. Both distributed profits and deemed profit distributions are subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the statement of comprehensive income as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

No provision is recognized for income tax payable on a dividend distribution before dividends are declared but information on contingent liabilities is disclosed in the notes to the financial statements.

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

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with the Bank of Latvia and other credit institutions, due to and from other credit institutions with an original maturity of three months or less.

(l) Balances due from other banks

Balances due from banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Balances due from banks are carried at amortized cost.

(m) Loans and provisions for bad debts

Overview

Impairment is determined using the expected credit loss model. The Bank groups its financial assets into Stage 1, Stage 2, Stage 3 and POCI, as described below:

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

(m) Loans and provisions for bad debts *(cont'd)*

Overview (cont'd)

Stage 1 applies to financial assets whose credit risk has not increased significantly since initial recognition, 12m ECL are recognized.

Stage 2 applies to financial assets with a significant increase in credit risk since initial recognition and is not considered low, lifetime ECLs are recognized.

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

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

Significant increase in credit risk

At the end of each reporting period, the Bank determines whether there has been any significant increase in credit risk since initial recognition. In case of a significant increase, quantitative and qualitative indicators are analyzed. The assessment requires the use of both historical and forward-looking information.

Irrespective of the quantitative indicator, the following *backstop* indicators trigger a significant increase in credit risk:

- contractual payments are more than 30 days but less than 90 days past due;
- financial assets are included on the "List of Early Warning Signs of Deterioration in Credit Quality" (Watch List);
- forborne financial assets (modifications or concessions to the original terms of loans as a response to the borrower's financial difficulties have been granted). Prior *backstop* indicators usually overlap with the quantitative indicator of a significant increase in credit risk.

If credit risk has increased significantly since initial recognition, a lifetime ECL is recognized and the financial instrument is moved to Stage 2. If in subsequent reporting periods the credit quality of the financial instrument improves so that it is no longer credit-impaired, the financial asset is transferred back to Stage 1. If the credit quality continues to deteriorate, the financial instrument is moved to Stage 3.

Definition of default

Defaulted financial instruments are included in Stage 3. For accounting purposes, the Bank applies the definition of default in the Capital Requirements Regulation (Article 178 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012), i.e. financial assets that are past due for more than 90 days.

Forborne exposures

Forborne exposures refer to loans where forbearance measures have been applied. Forbearance measures consist of concessions to a debtor that is experiencing or about to experience difficulties in meeting its financial commitments ('financial difficulties'). Forborne exposures are classified under Stage 2 for the ECL assessment purposes unless they meet definition of default. The Bank derecognizes a financial asset, e.g., a loan to customer, if a new agreement has been reached on such terms and conditions of the loan that it actually becomes a new loan.

Once an exposure has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;

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

(m) Loans and provisions for bad debts *(cont'd)*

Forborne exposures (cont'd)

- The probation period of two years has passed from the date forborne contract was considered performing;
- Regular payments of more than insignificant amount of principal or interest have been made during all the probation period;
- The customer does not have any contracts that are more than 30 days past due.

In order to decide whether forborne loans are to be classified as Stage 3 assets for ECL assessment purposes, the Bank assesses the following:

- The adequacy and observance of the loan payment schedule (initial and further payment schedules), which, inter alia, includes a repeated non-observance of the payment schedule, changes in the payment schedule in order to avoid any delays, or the payment schedule is based on forecasts which are not based on macroeconomic forecasts or realistic assumptions regarding the borrower's capability of repaying debt obligations;
- Whether the loan agreement includes terms which postpone the deadline of regular repayments in a way that hinders the assessment of conformity to the set classification, for example, if the repayment periods of the principal amount are postponed for more than two years.

Other criteria for forborne loans to be classified as Stage 3 assets are:

- Loan forbearance which will most likely diminish financial commitments;
- New forbearance measures are set for a forborne exposure;
- The number of days past due for a forborne exposure exceeds 30 days;
- An exposure has met any criteria of unlikely to pay list.

If there are modifications that do not result in derecognition, the Bank also reassesses whether there is no significant increase in credit risk and whether the assets should be classified as credit-impaired assets. If the assets are classified as credit-impaired assets, they will remain under Stage 3 at least for a 12-month trial period to be reclassified to Stage 2, and 24 months to be reclassified to Stage 1. The forborne exposure is reclassified from Stage 3 if, during the review period, the borrower has made regular payments to the amount equivalent to all previous arrears (if there were arrears at the time the relief was granted) or to that written off under the relief (if there were no arrears), or the borrower has otherwise demonstrated the ability to comply with the forbearance measures.

(n) Sale and repurchase agreements

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

(o) Derivative financial instruments

Derivative financial instruments comprise various derivatives, inter alia, options, forwards, futures and foreign currency and capital market transactions. Such financial instruments are held for trading and stated at fair value. Fair values are based on quoted market prices or pricing models where the actual market or contractual prices of the existing instruments as well as other factors are considered.

All derivatives are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative. Any gain or loss arising from these instruments is taken to the statement of comprehensive income as net gain/(loss) from financial instruments designated at fair value through

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

(o) Derivative financial instruments *(cont'd)*

profit or loss or as net foreign currency exchange gain/(loss) depending on the nature of the respective instrument.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative cause some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

This is the way in which the Bank accounts for derivatives embedded in financial liabilities and non-derivative host contracts. The classification of financial assets is based on the business model and SPPI assessment, without separation of embedded derivatives (see also Note 3(f)).

(p) Repossessed collateral

Repossessed collateral represents real estate repossessed by the Bank for the purpose of selling as collateral for the outstanding loans and is disclosed under other non-financial assets. The repossessed real estate is stated as inventories at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(q) Intangible assets

The acquired computer software licenses are recognized as intangible assets at cost less accumulated depreciation and impairment. The cost includes expenditure, directly attributable to preparing the asset for its intended use. Intangible assets are amortized over their estimated useful lives, not exceeding five years, on a straight-line basis.

(r) Property, plant and equipment

The items of property and equipment are stated at cost less accumulated depreciation and impairment, except buildings and land that are measured at a revalued amount. The cost includes expenditure directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

Such costs are depreciated over the asset's remaining useful life. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset to write down the cost of property and equipment to their residual values at the end of the useful life, applying the following rates defined by the management:

Land	Not depreciated
Building	50 years
Office equipment	10 years
Computers	3 years
Vehicles	5 years

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

(r) Property, plant and equipment *(cont'd)*

Buildings and land under the property and equipment category are measured at a revalued amount. The revalued amount is the fair value at the revaluation date less subsequent accumulated depreciation and impairment loss. The fair value of land and buildings is determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers with sufficient regularity. Revaluation gains are recorded under the heading of revaluation surplus and recognized in other comprehensive income. A revaluation loss is initially taken to the revaluation surplus (and recorded in other comprehensive income) related to these assets, if any, and subsequently included in profit or loss for the reporting period (see also Note 17).

The carrying amounts of property and equipment (except for the buildings and land) are reviewed for impairment on a periodical basis according to the principles described in the 'Impairment of non-financial assets' paragraph . Where the carrying value of an asset exceeds the estimated recoverable amount and the respective changes in the value are not considered to be temporary, the value of the corresponding asset is written down to its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income.

(s) Leases

The Bank as a lessee

At the contract inception, the Bank assesses whether it contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. Low-value assets – any assets with a new value of less than EUR 5,000. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, which for the lease of premises is 3 to 5 years.

If ownership of the leased asset transfers to the Bank at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment (see Note 17).

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate.

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

(s) Leases *(cont'd)*

The Bank as a lessee *(cont'd)*

Lease liabilities (cont'd)

Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the interest expense and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Bank's lease liabilities are disclosed under other financial liabilities (see Note 23).

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The Bank as a lessor

As a lessor, the Bank determines at lease inception whether the lease is a finance lease or an operating lease. If the Bank determines that the lease transfers substantially all of the risks and rewards of ownership of the underlying asset, the lease is a finance lease. Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in income in the statement of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.

(t) Deposits from customers

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

(u) Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

(v) Dividends

Dividends are recorded in equity in the period in which they are declared. Dividends declared after the reporting date and before the financial statements are authorized for issue are disclosed in the subsequent events note. Profit distribution and other appropriations are carried out according to the Group and Bank's financial statements. The legislation of the Republic of Latvia stipulates retained earnings to be the basis of dividend payment.

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

(w) Employee benefits

The Bank makes statutory social insurance contributions for state pension insurance and to the state funded pension scheme in accordance with the legislation of Latvia The state funded pension scheme is a defined contribution plan under which the Bank must pay fixed contributions determined by the law and will have no legal or constructive obligations to pay further contributions if the state pension insurance system or the state funded pension scheme is not able to settle the liabilities to employees. Short-term employee benefits, including salaries and statutory social insurance contributions, bonuses and paid vacation benefits, are included in administrative expense on an accrual basis.

(x) Trust operations

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

Accounting for trust operations is separated from the Bank's own accounting system, thus ensuring separate accounting in a separate trust balance sheet for assets of each customer, by customers and by types of assets under management.

(y) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(z) Significant accounting estimates and assumptions

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities, as disclosed in the statement of financial position, cannot be established using quoted market prices in an active market, the fair value is estimated using various valuation techniques, including mathematical models. The data used in such models are obtained from observable markets, if possible, in case it is not possible a certain judgment is required for determining the fair value (see also Note 3(f)).

Impairment loss on financial instruments

The Bank assesses its financial instruments for impairment on a regular basis. Impairment loss is calculated taking into account only financial instruments measured at amortized cost and after corresponding write-offs (except for equity instruments measured at fair value through other comprehensive income, FVOCI). The determination of impairment loss requires careful consideration of future cash flows, collateral values and time estimates as well as an examination of the increase in credit risk (see also Note 3(n)).

Given the on-going war in Ukraine and the global geopolitical situation, the Bank continuously analyzes credit portfolio data, carefully assessing the financial situation and solvency of borrowers. The Bank's portfolio is split into Latvian resident and non-resident customer portfolios, which includes exposures to Ukrainian country risk. Loans exposed to Ukrainian country risk account for mere 2% of the Bank's total credit portfolio and the provisioning rate for these loans is 52%. The Bank closely monitors the Ukrainian customer credit portfolio by carrying out more frequent financial analysis and assessing the possibility of fulfilling the respective obligations, making additional allowances as necessary.

This geopolitical crisis did not have a significant impact on the quality of the loan portfolio of Latvian and European customers. Owing to a sound credit risk management policy, customers were able to meet their credit commitments in time. The impact of rising interest rates that contributed to an increase in the level of risk, particularly in the commercial and mortgage segments, had no significant effect on the Bank's loan portfolio this year.

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

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

Impairment loss on financial instruments (cont'd)

Impairment losses on the Bank's assets are calculated based on an expected credit loss allowance model that takes into account a number of assumptions about different variables and their interrelationships. The following assumptions and estimates are used in determining impairment of financial assets:

- assessment of the criteria for a significant increase in credit risk and classification of loans in Stage 1 or Stage 2;
- identification of default criteria and reclassification of loans to Stage 3;
- information on forborne exposures and customers subject to watch list screening;
- interpretation of records and development of modelling assumptions, including formulae and input data;
- modelling and calculation of key parameters, including probability of default (PD), loss given default (LGD), and exposure at default (EAD);
- identification of macroeconomic indicators and incorporating forward-looking information into the model;
- to estimate macroeconomic indicators for future periods, a weighted average of two official and publicly available data sources is used for each group of countries separately:

► in Latvia, data are obtained from the publications of the Ministry of Finance and of the Bank of Latvia and are updated twice a year;
► in Ukraine, data are obtained from the publications of the National Bank of Ukraine and the Ministry of Finance of Ukraine and are updated twice a year or, in force majeure circumstances like war, even day by day, when the required data are available;

- for the individual impairment loss assessment of Stage 3 assets, the weighted average probability of two scenarios is used: a base case and a downside case, each scenario being weighted according to different parameters and available information;
- for assessing individual impairment losses of purchased or originated credit-impaired (POCI) assets, four scenarios are used, and the probability of the scenario occurrence is calculated.

Grouping financial assets measured on a collective basis

Depending on the factors below, the Bank calculates ECLs either on a collective (Stages 1 and 2 assets) or on an individual basis. Asset classes where the Bank calculates ECL on an individual basis include:

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

Whenever impairment of financial assets is recalculated, the inputs and parameters are reviewed and, if necessary, changed, taking into account the macroeconomic situation, etc.

The Bank calculates ECL according to the *Weibull* model approach:

1) the Bank's loan portfolio is split into two groups according to country and PD is calculated for each portfolio separately;
2) PD is determined using historical data for the last 10 years, adjusted to reflect the current macroeconomic situation and future projections;
3) LGD is calculated based on a 10-year history accordingly to each group of loan.

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

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

Impairment of non-financial assets

An assessment of any possible indicators of impairment of non-financial assets is done at each reporting date or more frequently if events or changes in circumstances indicate to feasible impairment of a non-financial asset. If any such indication exists, an estimate of the asset's recoverable amount is made. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. This written down amount constitutes an impairment loss.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increase will effectively be the reversal of an impairment loss.

Determining the lease term of contracts with renewal and termination options – the Bank as a lessee

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

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

The Bank included the renewal period as part of the lease term for leases of premises with shorter non-cancellable periods (i.e., three to five years). The Bank typically exercises the option to renew for these leases because there will be a significant negative effect on operations if a replacement asset is not readily available. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Leases – Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and are required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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

(aa) Adoption of new or revised standards and interpretation

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS Accounting Standards' amendments which have been adopted by the Bank as of 1 January 2024. The newly adopted IFRS Accounting Standards and IFRS Accounting Standards' amendments have had no material impact on the Bank's accounting policy.

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

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, and are applied retrospectively. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied within twelve months after the reporting period. The management's assessment reveals that the adoption of these amendments has no impact on the Bank's financial statements.

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2024. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. Under the amendments, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. The amendments apply retrospectively to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The management's assessment reveals that the adoption of these amendments has no impact on the Bank's financial statements.

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2024. The amendments supplement requirements already in IFRS Accounting Standards and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The management's assessment reveals that the adoption of these amendments has no impact on the Bank's financial statements.

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

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

The standards/amendments that are not yet effective, but have been endorsed by the European Union

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique. The management's assessment reveals that the adoption of these amendments will have no impact on the Bank's financial statements.

The standards/amendments that are not yet effective and have not yet been endorsed by the European Union

IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures - Classification and Measurement of Financial Instruments (Amendments).

The amendments are effective for annual reporting periods beginning on or after January 1, 2026. Early adoption of amendments related to the classification of financial assets and the related disclosures is permitted, with the option to apply the other amendments at a later date. The amendments clarify that a financial liability is derecognised on the 'settlement date', when the obligation is discharged, cancelled, expired, or otherwise qualifies for derecognition. They introduce an accounting policy option to derecognise liabilities settled via electronic payment systems before the settlement date, subject to specific conditions. They also provide guidance on assessing the contractual cash flow characteristics of financial assets with environmental, social, and governance (ESG)-linked features or other similar contingent features. Additionally, they clarify the treatment of non-recourse assets and contractually linked instruments and require additional disclosures under IFRS 7 for financial assets and liabilities with contingent event references (including ESG-linked) and equity instruments classified at fair value through other comprehensive income. The amendments have not yet been endorsed by the EU.

IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures - Contracts Referencing Nature-dependent Electricity (Amendments).

The amendments are effective for annual reporting periods beginning on or after January 1, 2026, with earlier application permitted. The amendments include clarifying the application of the 'own-use' requirements, permitting hedge accounting if contracts in scope of the amendments are used as hedging instruments, and introduce new disclosure requirements to enable investors to understand the impact of these contracts on a company's financial performance and cash flows. The clarifications regarding the 'own-use' requirements must be applied retrospectively, but the guidance permitting hedge accounting have to be applied prospectively to new hedging relationships designated on or after the date of initial application. The amendments have not yet been endorsed by the EU.

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

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

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

The standards/amendments that are not yet effective and have not yet been endorsed by the European Union (cont'd)

IFRS 18 Presentation and Disclosure in Financial Statements.

IFRS 18 introduces new requirements on presentation within the statement of profit or loss. It requires an entity to classify all income and expenses within its statement of profit or loss into one of the five categories: operating; investing; financing; income taxes; and discontinued operations. These categories are complemented by the requirements to present subtotals and totals for 'operating profit or loss', 'profit or loss before financing and income taxes' and 'profit or loss'. It also requires disclosure of management-defined performance measures and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements and the notes. In addition, there are consequential amendments to other accounting standards. IFRS 18 is effective for reporting periods beginning on or after January 1, 2027, with earlier application permitted. Retrospective application is required in both annual and interim financial statements. The amendments have not yet been endorsed by the EU.

IFRS 19 Subsidiaries without Public Accountability: Disclosures.

IFRS 19 permits subsidiaries without public accountability to use reduced disclosure requirements if their parent company (either ultimate or intermediate) prepares publicly available consolidated financial statements in compliance with IFRS Accounting Standards. These subsidiaries must still apply the recognition, measurement and presentation requirements in other IFRS Accounting Standards. Unless otherwise specified, eligible entities that elect to apply IFRS 19 will not need to apply the disclosure requirements in other IFRS Accounting Standards. IFRS 19 is effective for reporting periods beginning on or after January 1, 2027, with early application permitted. The amendments have not yet been endorsed by the EU.

Annual Improvements to IFRS Accounting Standards – Volume 11.

The IASB's annual improvements process deals with non-urgent, but necessary, clarifications and amendments to IFRS Accounting Standards. In July 2024, the IASB issued Annual Improvements to IFRS Accounting Standards — Volume 11. An entity shall apply those amendments for annual reporting periods beginning on or after January 1, 2026. The Annual Improvements to IFRS Accounting Standards - Volume 11, includes amendments to IFRS 1, IFRS 7, IFRS 9, IFRS 10, and IAS 7. These amendments aim to clarify wording, correct minor unintended consequences, oversights, or conflicts between requirements in the standards. The amendments have not yet been endorsed by the EU.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

4. Financial and other risk management

Risk management

Risk management is one of the Bank's strategic tasks. The Risk Management Strategy has been developed for the Bank's risk management, which covers management of the following key risks: credit risk, market risk, operational risk, interest rate risk, foreign currency risk, liquidity risk, concentration risk, country risk, money laundering and terrorism financing risk and other risks.

For the purpose of managing these risks, internal risk management policies and procedures have been developed, which are approved by the Council and/or Board of the Bank and implemented by the responsible units of the Bank.

The Board of the Bank is responsible for the development and effective functioning of the risk management system as well as ensuring the identification and management of the Bank's risks, including risk estimation, evaluation, oversight and preparation of reports through implementing the risk identification and management policy set by the Council of the Bank and other documents relating to risk management.

The Risk Director is responsible for the risk control function in the Bank, oversees the risk management system and co-ordinates actions of all structural units of the Bank related to risk management. The main unit responsible for determination, evaluation and oversight of risks is the Risk Management Department, which is an independent unit whose functions are separated from the functions of the business units.

The risk management system is being constantly improved in accordance with changes in the Bank's activities and external conditions influencing these activities. The regular oversight of this process is performed by the Internal Audit Department.

(a) Credit risk

Credit risk is the risk of incurring losses in the event that a borrower (debtor) or a business partner is unable to fulfil its obligations to the Bank in accordance with the provisions of the contract. Credit risk is present in the Bank's operations where the Bank makes claims against another person and which are reflected in the Bank's statement of financial position and under off-balance sheet items.

The Bank's principles for evaluation, oversight and acceptance of credit risk are described and approved in their Credit Risk Management Strategy, Loan Policy, Business Partner Risk Policy and Investment Portfolio Policy.

The Bank divides up and oversee their credit risk by setting limits of various types and categories: acceptable risk limits for each borrower, a group of related borrowers, geographical regions, business sectors, type and value of collateral, currency, term and ratings granted by international agencies.

Credit risk exposures are monitored on a continuous basis through regular assessments of borrowers' ability to meet interest and principal maturities and limits are adjusted as appropriate. The Bank's exposure to credit risk is managed and minimized by obtaining collateral and guarantees against credit exposures that are registered in the name of the Bank. The fair values of both collateral and guarantees are also reviewed on a regular basis.

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

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

Credit–related commitments risks

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

	31.12.2024 EUR	31.12.2023 EUR
Assets subject to credit risk:		
Balances with the Bank of Latvia	165,181,519	210,303,734
Balances due from banks	12,135,799	5,208,289
Financial assets at FVPL	846,171	248,679
Debt instruments at FVOCI	122,855,811	138,195,572
Loan and advances to customers	155,474,073	99,023,036
Other financial assets	1,760,986	1,446,255
Total	**458,254,359**	**454,425,565**
Off-balance sheet items subject to credit risk:		
Contingent liabilities	11,116,729	3,479,863
Financial commitments	36,229,425	18,336,123
Total	**47,346,154**	**21,815,986**

The Bank calculates expected credit losses (ECLs) to measure the potential cash shortfall which is discounted to reflect the ECL.. The cash shortfall is the difference between the cash flows contractually due to the entity and the cash flows it actually expects to receive.

The ECLs are calculated by taking into account the probability of default (PD), exposure at default (EAD), loss given default (LGD) and timing of the loss.

PD *Probability of Default*. This is an estimate of the likelihood of default over a given time horizon.

EAD *Exposure at Default*. This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, notwithstanding whether based on a contract or otherwise, and expected drawdowns on committed facilities.

LGD *Loss Given Default*. This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the estimate of losses that result from all possible default events over the period of 12 months (12m ECL), unless credit risk has increased significantly since the initial recognition of exposure, in which case the allowance is based on the risk of default over lifetime (lifetime ECL). 12-month ECLs are the portion of the lifetime ECLs that represents the credit losses associated with possible defaults within the next 12 months after the reporting date.

Both lifetime ECLs and 12-month ECLs are measured on an individual or collective basis depending on the type of underlying portfolios of financial instruments. The Bank also takes into account the potential future use of undrawn loans and credit card balances by applying a credit conversion factor, which is currently 75%. This factor reflects the amount of unused commitments that are expected to be used in the future. The credit conversion factor is determined using relevant historical information and forecasts.

The Bank has a policy of assessing at the end of each reporting period whether there has been a significant increase in credit risk since initial recognition, considering the change in the risk of default occurring over the expected life of the respective financial instrument.

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

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

Impairment assessment

The Bank is continuously monitoring all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12m ECL or lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

During each reporting period, the Bank assesses whether the credit risk with regard to the particular exposure has increased significantly since its initial recognition. The assessment of a significant increase is based on the following two elements:

- quantitative element;
- qualitative element.

The main quantitative criterion is the number of days past due (more than 30 days past due) as well as significant deterioration of the internal creditworthiness of the customer/borrower.

Other quantitative criteria that signal about an increase in credit risk can be used, if these criteria are applicable and significant with regard to the borrower.

The Bank uses quantitative information in 12m PD or LTPD (lifetime probability of default) measurement models and includes it in the quantitative measurement. In cases when quantitative information cannot be included in the quantitative measurement, qualitative factors are examined individually to determine whether credit risk has increased significantly since initial recognition.

The Bank determines the following absolute and relative limits, for significant PD changes, it shall be the grounds to transfer an exposure at least to Stage 2:

- If the 12-month PD exceeds 20% for a financial asset on the reporting date, the asset is automatically transferred to Stage 2 (absolute criterion) or
- If the increase of the lifetime PD has been doubled for a financial asset on the reporting date since initial recognition, the asset is automatically reclassified to Stage 2 (relative PD SICR criterion).

The list of qualitative indicators and characteristics whose deterioration signals about a significant increase in credit risk, if they are applicable to the borrower:

- the exposure is included on the "List of Early Warning Signs of Deterioration in Credit Quality" of the Bank (Watch List);
- the terms of the contracts have been amended to improve debt recovery, without significantly reducing the amount of financial commitments;
- the Bank considers the potential factors that suggest potential violations of terms even if the borrower is formally observing the contractual terms;
- overdue payments or other type of default in other banks (verification of the Credit Register data);
- assigned external rating and trends;
- other negative information regarding the key customers/counterparties/area of activity of the borrower/suppliers.

When calculating ECLs on a collective basis within a similar asset group, the Bank applies uniform measurement principles whether or not there has been a significant increase in credit risk since its initial recognition. The asset classes where the Bank calculates ECL on a collective basis include all Stage 1 and 2 assets.

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

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

Impairment assessment (cont'd)

Under the above procedure, the Bank groups its loans into the following categories: Stage 1, Stage 2, Stage 3 and POCI as described below:

Stage 1	Upon initial recognition of a loan, the Bank recognizes loss allowance based on 12-month ECLs. Stage 1 can also include exposures moved from Stage 2 if seeing a decrease in the respective credit risk.
Stage 2	Assets with a significant increase in credit risk since initial recognition. For these assets the Bank recognizes loss allowance based on lifetime ECL. Stage 2 can also include exposures moved from Stage 3 if seeing a decrease in the respective credit risk.
Stage 3	Financial assets that have objective evidence of impairment at the reporting date. For these assets the Bank recognizes loss allowance based on lifetime ECL.
POCI:	Purchased or originated as credit-impaired financial instruments. The classification of POCI assets remains unchanged, i.e., a financial asset that is classified as POCI remains in that group until the asset is derecognized. The classification as POCI is determined at the level of the financial instrument.

Event of default and cure

The Bank takes into account financial instruments that meet the definition of default for ECL calculations if the borrower is more than 90 days past due according to the contractual terms.

The Bank considers the amounts due from banks in default and act, without delay, if the demanded daily payments are not made by the end of the business day as specified in individual contracts. In performing a qualitative assessment as to whether a customer complies with their obligations, the Bank also considers various circumstances that can indicate an inability to pay.

In such cases, the Bank carefully assesses whether the event is likely to result in a default by the customer and thus determines whether the financial instrument should be classified as Stage 3 asset according to the estimated ECLs or whether it requires the application of Stage 2 criteria.

Such events are:

- internal rating of the borrower indicating default or potential default;
- a borrower asks an emergency funding from the Bank;
- significant decrease in the value of underlying collateral if recovery of the loan is expected from collateral;
- significant decrease in the borrower's turnover or loss of their key customer;
- breach of the contractual terms not repudiated by the Bank;
- a bankruptcy petition filed by the debtor (or any legal entity within the debtor's group;
- debtor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties.

The Bank's policy is that a financial instrument can be classified as "cured" and transferred from Stage 3 to Stage 2 if none of the default criteria (other than restructuring) have been in place for at least 12 consecutive months. Conversely, for a financial instrument to be reclassified from Stage 3 to Stage 1, there must be a period of at least 24 months during which these criteria are not valid.

Event of default and cure (cont'd)

A decision on whether the cured asset should be classified as Stage 1 or Stage 2 asset depends on the updated credit category over the cure period and whether it indicates a significant increase in credit risk in comparison with initial recognition.

Internal rating and PD estimation including forward-looking information (FLI)

The number of days past due is used as the principal indicator for calculating PD and the internal credit rating for calculating provisions. The PD rates are calculated for each of the following groups of delay:

- past due for less than 30 days;
- past due for 31-60 days;
- past due for 61-90 days.

The Bank calculates PD rates using the *Weibull* approach that is widely used by credit institutions of all sizes in both domestic and external markets. The *Weibull* approach is particularly well suited to the calculation of PD rates for portfolios with a small number of defaults in the past.

Taking into account the specific nature, size, geographic and geopolitical risks of the Bank's portfolio, PDs are calculated separately for each group of loans using an adjustment factor. It is done to replicate the cumulative default curve based on historically observed defaults in each period since the financial instrument was issued with the objective of obtaining the best possible curve fit to historically observed defaults with the fewest possible number of parameters/observations.

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

- private individuals and legal entities – residents of Latvia;
- private individuals and legal entities – residents of other countries.

The PD ratios are recalculated at least quarterly for each group separately.
The PD calculation is based on data for at least the last 10 years before the end of the reporting period.

Depending on the stage of the financial asset, the PD rate is calculated as the difference between the cumulative PD rate at maturity of the asset and the one attributable to the period for which the asset has been in the portfolio:

- for Stage 1 financial assets, a cumulative PD rate that applies no more than 12 months ahead for the relevant period of time that the asset has already been held in the portfolio;
- for Stage 2 financial assets, the PD rate is calculated as the difference between the cumulative PD rate at maturity of the asset and the one attributable to the period for which the asset has been in the portfolio;
- for Stage 2 forborne financial assets, the PD rate is calculated as the difference between the cumulative PD rate at maturity of the asset and the cumulative original PD rate attributable to that period of time assuming that the asset has started its life cycle in the portfolio.

Exposure at default

An exposure at default (EAD) equals the gross carrying amount of the financial instruments subject to impairment assessment, and it refers both to the customer's ability to increase risk, while approximating to a default event, and to the potential early repayment. In order to measure EAD for Stage 1 exposure, the Bank assesses the possible defaults over 12 months to calculate 12m ECL. For Stage 2 and Stage 3, in case of default, events over the lifetime of the respective instruments are considered.
For off-balance sheet items, the EAD is estimated by applying the Credit Conversion Factor (CCF) which is currently 75% to the undrawn portion of the exposure. The CCF reflects the likelihood of off-balance

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

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

Exposure at default (cont'd)

sheet exposures being drawn before default and is an essential component in assessing the total risk exposure.

For POCI assets, losses are calculated over the life of the asset. Losses expected at initial recognition are referred to as initial impairment. In successive periods, only the cumulative change in the lifetime ECL of the asset since initial recognition is recognized in profit or loss.

The Bank determines EAD by modeling the range of possible outcomes over various horizons in several scenarios. Each of these scenarios is assigned an appropriate PD indicator that is determined in accordance with the requirements of IFRS 9. PDs are calculated and assigned taking into account the results of the Bank's model reflecting different economic scenarios and their impact on potential exposures.

Loss given default

The Bank assesses the LGD values at least quarterly as well as whenever the Bank becomes aware of information indicating significant deterioration in the quality of an asset or contingent liability; the values are reviewed and approved by the Bank's Asset and Liability Committee.

The credit risk assessment is based on a standardized LGD assessment approach as a result of which a certain LGD rate is obtained for each type of loan, taking into account the statistics on the number of defaults over the last ten years. Such LGD rates consider the expected EAD in comparison with the amount expected to be recovered or obtained from collateral discounted at the original effective interest rate.

Forward-looking information

In order to accurately determine the PD and calculate the ECL accordingly, the Bank uses macroeconomic indicators from two official and publicly available data sources in each country for each customer group. These indicators are used to calculate a weighted average value applied to each group separately. The weighted average is determined by taking into account the relevant macroeconomic indicators that are tailored individually for each group of countries.

The historically calculated PD for each group is correlated with key macroeconomic indicators, such as GDP at real prices, GDP at constant prices, inflation rate, unemployment rate, average gross wages and consumer price index. These indicators are chosen to provide the most accurate correlation with historical credit risk growth, thus reflecting the economic factors that may affect the ability of customers to meet their obligations.

The Bank applies to each group those macroeconomic indicators whose quarterly growth in relation to the previous period correlates better with the historically calculated PD. Given the correlation of historical PD data with macroeconomic data, the Bank uses the inflation rate and the unemployment rate for the group of legal entities and private individuals - residents of Latvia and GDP and the average gross monthly wage growth for the group of legal entities and private individuals non-residents.

At least annually, the Bank reviews the correlation with key macroeconomic indicators on a group-by-group basis to assess whether the correlation remains valid or whether there is a need to adjust the macroeconomic indicators used for future ECL calculations. This allows the Bank to dynamically adjust its approach and ensure that the calculations are in line with current economic trends.

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

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

Forward-looking information (cont'd)

As part of this process, the Bank assesses:

- the economic sectors where it has significant credit exposures, this allows the identification of sector-specific risks and their impact on the Bank's loan portfolio;
- macroeconomic data at national level: the Bank takes into account macroeconomic indicators for each region where it has significant credit exposures;
- real estate market trends as real estate is one of the most important forms of collateral for loans, so market fluctuations can affect the recoverable amount;
- other relevant information, such as political and social developments, global events or sector-specific problems.

This approach allows the Bank to accurately assess the level of credit risk and adopt the necessary measures to maintain the effectiveness of risk management and ensure that credit risk calculations are appropriate to current economic trends.

Key macroeconomic variable assumptions for the ECL measurement

The Bank uses publicly available current macroeconomic forecasts from various official data sources as forward-looking information included in the ECL measurement. To provide an objective ECL estimate under IFRS 9, the Bank uses at least three scenarios. One is the base case scenario, which describes the most likely outcome, and it is applied in the Bank's strategy planning and is based on up-to-date forecasts. The other scenarios predict optimistic and pessimistic outcomes (upside and downside scenarios). Each scenario is assigned a probability weight based on expert judgement.

The assumptions regarding macroeconomic variables for the base case used as at 31 December 2024 are set out below.

	2024	2025
Latvian portfolio:		
Inflation rate	1.25%	1.80%
Unemployment rate *	0.37%	-3.75%
* change from the previous period		
Other countries' portfolio (based on macroeconomic forecasts for Ukraine)		
GDP (gross domestic product)	4.00%	4.30%
Nominal gross wage (annual changes, %)	21.00%	16.00%

Source: Macroeconomic forecasts in the baseline scenario are expressed as the average of publicly available data sources: for the Latvian portfolio are based from the Bank of Latvia and the Ministry of Finance, for the portfolio of other countries forecasts are based from the National Bank of Ukraine, the Ministry of Finance of Ukraine, etc.

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

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

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

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

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

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

In measuring ECL as at 31 December 2024, the probability of the base case scenario is estimated at 60%, the probability of the upside scenario at 15% and that of the downside scenario at 25%.

	LV portfolio EUR '000	Other countries' portfolio EUR '000	Total EUR '000
ECL			
Base case scenario (100%)	1,558	582	2,140
Base case scenario (60%)	935	350	1,285
Upside scenario (15%)	233	85	318
Downside scenario (25%)	402	140	542
Total	**1,570**	**575**	**2,145**

Based on the results of the scenarios, the Bank's ECL model shows low sensitivity to changes in macroeconomic indicators. The base case scenario is used for strategic planning and budgeting process of the Bank.

(b) Concentration risk

Transaction concentration risk

Transaction concentration risk is the risk that any exposure or group of exposures might cause the Bank to incur losses that might threaten its solvency or ability to continue as a going concern, or a significant change in the Bank's risk profile. Concentration risk arises from significant risk transactions with customers or groups of inter-related customers or risk transactions with customers with common risk factors (e.g., economy sector, geographical region, currency, the instrument used for decreasing credit risk (one type of collateral or one provider of collateral, etc.).

In order to control transaction concentration risk, the Bank has set limits on investments into various types of assets, instruments, markets, etc. Limit is a numerical threshold applied to various types of investments serving as an instrument for limiting and controlling the risk.

In order to manage concentration risk, the Bank has set and controls the following limits:

- country risk limits;
- credit rating group limits;
- financial market operations risk limits;
- limits on open currency positions and cash, limits on allowable loss on trading with foreign currencies;
- limits on allowable loss from trading with financial instruments portfolios;
- limits on large exposures;
- limits on related party transactions;
- various limits for portfolio transactions.

Country risk

Country risk is one of significant transaction concentration risks. Country risk is the possibility of incurring losses if the Bank's assets are located in a country where, due to changes in its economic and political factors, the Bank may experience problems in recovering their assets within the agreed time and amount.

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

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

Country risk (cont'd)

The reasons of default by partners and issuers are primarily currency devaluation, unfavorable legislative changes, creation of new restrictions and barriers as well as other factors, including force majeure.

Basis of the country risk management:

- setting internal limits by regions, countries, and by transaction types in individual countries;
- monitoring of adherence to internal limits;
- analysis and monitoring of country risk;
- review of internal limits.

The country risk of transactions reflected in assets, liabilities and off-balance-sheet items is attributable to the country which is considered to be the primary country where the customer conducts its business activities. If a loan is granted to a resident of another country using collateral which is physically located in a country other than the resident country of the legal entity, the country risk is transferred to the country where the loan collateral is actually located.

International rating agency data (including credit ratings and their dynamics), economic indicators of the country and other relevant information sources are used for country risk analysis. The table below presents composite ratings of Latvia and the TOP 3 foreign countries (OECD and non-OECD separately) in which the Bank had exposures.

Latvia – Composite rating (Moody's/Fitch and S&P)		OECD – Composite rating (Moody's/Fitch and S&P)		Non-OECD – Composite rating (Moody's/Fitch and S&P)	
Country	Rating	Country	Rating	Country	Rating
Latvia	A3/A-	USA	Aa1/AA+	Ukraine	SD*
-	-	Lithuania	A2/A	United Arab Emirates	Aa3/AA-
-	-	Spain	A3/A	Georgia	Ba2/BB

* A 'SD' (Selective Default) rating is assigned if the debtor has defaulted on a specific obligation but continues to meet its other payment obligations in time. Ukraine was assigned the SD rating after the Ukrainian government decided to restructure its debt by swapping its existing bonds for other newly issued bonds in August 2024 instead of making the current coupon payment.

The top countries were selected on the basis of country risk transfer.

The table below shows the breakdown of financial assets by groups of countries as at 31 December 2024.

	Latvia EUR	OECD EUR	Non-OECD EUR	31.12.2024 EUR
Financial assets				
Cash and balances with the Bank of Latvia	165,472,104	-	-	165,472,104
Balances due from banks	-	5,089,548	7,046,251	12,135,799
Loans and advances to customers	107,735,565	39,330,713	8,407,794	155,474,072
Financial assets at FVPL	-	837,565	8,606	846,171
Debt instruments at FVOCI	-	122,855,811	-	122,855,811
Other financial assets	127,917	1,613,885	19,186	1,760,987
Total financial assets	**273,335,586**	**169,727,522**	**15,481,837**	**458,544,944**

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

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

Country risk (cont'd)

The table below shows the breakdown of financial liabilities by groups of countries as at 31 December 2024.

	Latvia EUR	OECD EUR	Non-OECD EUR	31.12.2024 EUR
Financial liabilities				
Balances due to banks	-	-	63,523,317	63,523,317
Deposits from customers	93,718,616	105,305,711	142,962,456	341,986,783
Other financial liabilities	278,502	192,778	5,630	476,910
Provisions	324,419	75,497	60,104	460,020
Total financial liabilities	**94,321,537**	**105,573,986**	**206,551,507**	**406,447,030**

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

	Latvia EUR	OECD EUR	Non-OECD EUR	31.12.2023 EUR
Financial assets				
Cash and balances with the Bank of Latvia	210,303,734	-	-	210,303,734
Balances due from banks	-	177,480	5,030,809	5,208,289
Loans and advances to customers	66,310,307	27,044,645	5,668,084	99,023,036
Financial assets at FVPL	-	160,190	88,489	248,679
Debt instruments at FVOCI	-	138,195,572	-	138,195,572
Other financial assets	149,785	1,249,538	46,932	1,446,255
Total financial assets	**276,763,826**	**166,827,425**	**10,834,314**	**454,425,565**
Financial liabilities				
Balances due to banks	-	-	70,595,213	70,595,213
Deposits from customers	97,938,940	84,954,297	155,436,767	338,330,004
Other financial liabilities	137,324	10,181	2,194	149,699
Provisions	203,313	58,084	40,873	302,270
Total financial liabilities	**98,279,577**	**85,022,562**	**226,075,047**	**409,377,186**

(c) Market risk

The Bank manage market risks by diversifying the financial instruments portfolio, setting limits on different types of financial instruments and applying sensitivity tests which show the impact of particular risks on the Bank's assets and equity. Basis of the market risk management:

- assessment and analysis of securities portfolio;
- analysis and monitoring of issuers' financial position;
- establishing internal limits/diversification (stop-loss to issuers, countries, regions, terms, credit rating categories);
- monitoring of compliance with internal limits.

The results of sensitivity analysis show that if the value/price of all the positions of securities in the portfolio falls by 1%:

- the value for portfolio of financial assets designated at fair value through profit or loss will fall by EUR 8.5 thousand (EUR 2.5 thousand in 2023);
- the value for portfolio of Financial assets at fair value through other comprehensive income (US government securities) will fall by EUR 1 228.6 thousand (EUR 1 382 thousand in 2023).

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

(c) Market risk *(cont'd)*

Currency risk

The Bank is exposed to the risk of changing foreign currency exchange rates, which impacts both the financial performance and the cash flows of the Bank. The Bank controls assets and liabilities denominated in foreign currencies to avoid unreasonable foreign currency risk. Currency risk is calculated for each currency separately, taking into account the amount of liabilities and assets of the Bank. The Board determines the Bank's open position limits on certain currencies, which are monitored daily. The Latvian banking legislation requires that open positions in each foreign currency may not exceed 10% of the Bank's equity but the total foreign currency open position may not exceed 20% of the equity. In 2024 and 2023, the Bank complied with these limits (see Note 29). The Bank has no significant open positions in 'exotic' currencies.

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

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

Basis of the currency risk management:

- assessing currency risk;
- setting limits and restrictions;
- monitoring of adherence to internal limits;
- performing exchange rate stress tests and analyzing the obtained results;
- entering into hedge relationships, if necessary.

The Bank defines and controls daily and weekly maximum loss limits via involving in currency trading.

As part of a quarterly currency risk management process, assessment of foreign currency risk is performed (assessment of how the Bank's assets, liabilities and off-balance sheet items change as a result of exchange rate fluctuations; how the Bank's income/costs change with exchange rate fluctuations) and the results of such evaluation are submitted to the management of the Bank. Once a year a currency risk stress testing and the analysis of its results are performed, serving as the basis of proposals for changes in the foreign currency risk management policy which are made to the management of the Bank, if necessary.

The table below presents the sensitivity of the Bank's profit/loss to currency exchange rate fluctuations at the end of the reporting period with all other variables held constant (in thousand EUR):

31.12.2024	Effect on net profit/loss and equity		**31.12.2023**	Effect on net profit/loss and equity	
	+10%	-10%		+10%	-10%
USD	16	(16)	USD	(24)	24
Total	**16**	**(16)**	**Total**	**(24)**	**24**

Interest rate risk

Interest rate risk is the sensitivity of the Bank's financial position to a change in market interest rates. In the normal course of business, the Bank encounters interest rate risk as a result of differences within maturities or interest re-fixing dates of respective interest-sensitive assets and liabilities. The risk is controlled by the Bank's Asset and Liability Committee, which sets limits on the level of mismatch of interest rate repricing and evaluates interest rate risk undertaken by the Bank (see Note 31).

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

(c) Market risk *(cont'd)*

Interest rate risk (cont'd)

Basis of the interest rate risk management:

- assessing sensitivity of interest rate risk;
- setting internal limits and monitoring adherence to them;
- performing interest rate stress tests and analyzing the obtained results;
- entering into hedge relationships, if necessary.

Interest rate risk identification and assessment are made in a way as to further address all types of interest rate risks. To limit the interest rate risk, limits are set to both impairment of economic value and the modified duration of the securities portfolio.

As part of interest rate risk assessment, impact of interest rate changes on the economic value of the Bank is performed regularly, including interest rate risk assessment from income perspective and interest rate risk assessment from the perspective of economic value, and on that basis, follow-up control of the set limits is carried out. Moreover, interest rate risk stress testing is performed, and the results further used for proposing changes in the interest rate risk management policies, if needed. The results of interest rate risk assessment are reported to the management of the Bank.

Assets/liabilities/off-balance sheet items with specified maturities are split into maturity groups as follows:

- shorter of the remaining repayment/settlement/maturity term – for financial instruments with fixed interest rates;
- for a period until the next interest rate change date or interest repricing date – for financial instruments with variable interest rates;
- the Bank exercises the option to set the prepayment rate at 0% for retail or SME loans exposed to prepayment risk and set term deposit early redemption rate at 0% for retail or SME term deposits exposed to early redemption risk, as the materiality of these exposures does not meet the thresholds set by the EBA.

Assets/liabilities/off-balance sheet items with no specified maturity are split into maturity groups as follows:

- for the purpose of determining the stable portion of open-ended deposits, an analysis is carried out in accordance with the requirements of Commission Delegated Regulations (EU) 2024/856 and (EU) 2024/857;
- Off-balance-sheet loan commitments and undrawn credit lines are presented as a combination of long off-balance-sheet positions and short off-balance-sheet positions.

As part of the interest rate risk assessment, the Bank shall calculate the change in the economic value of equity due to sudden and unexpected changes in interest rates in each of the six supervisory stress tests and the change in net interest income due to sudden and unexpected changes in interest rates in each of the two supervisory stress tests applied to interest rates in accordance with the requirements of Commission Delegated Regulations (EU) 2024/856 and (EU) 2024/857.

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

(c) Market risk *(cont'd)*

Interest rate risk (cont'd)

The table below presents the results of the Bank's stress test analysis against the changes in interest rates at the end of the reporting year described above with all other variables held constant (in thousand EUR):

31.12.2024	Effect on net profit/loss and equity	31.12.2023	Effect on net profit/loss and equity
Major negative changes in economic value	(1,412)	Major negative changes in economic value	(1,412)
Major negative changes in interest income	(1,220)	Major negative changes in interest income	(445)

(d) Liquidity risk

The Bank is exposed to daily calls on their available cash resources from short-term liquid investments. The relationship between the maturity of assets, liabilities and off-balance sheet items is indicative of liquidity risk and the extent to which it may be necessary to raise funds to meet outstanding obligations. The Bank sets limits on cash and short-term liquid assets in an appropriate proportion to its projected close-to-maturity liabilities to ensure that it has sufficient cash to meet its liabilities in full and in time, while also allowing for situations where it may need to meet demands for funds in excess of its initial projections. The Bank regularly assesses and plans the maturity structure of its assets and liabilities (see Note 30).

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

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

To manage and control the funding structure (positions), the Bank:

- regularly assesses its funding structure, i.e., the Bank's dependence on certain types of borrowed resources, in particular on borrowings on interbank lending, money and capital markets;
- evaluates funding sources and its ability to quickly raise funds, if necessary;
- ensures efficient diversification of funding sources and their maturities, incl. sets concentration limits.

On a daily basis, the Bank monitors both the liquid asset and deposit structure and their changes to ensure high liquidity ratios. The Bank assesses the deposit situation as stable. The Bank's liquidity coverage ratio (LCR that reflects the liquidity available to cover estimated future net liquidity outflows and is calculated in accordance with Regulation (EU) 575/2013 was 169.34% as at 31 December 2024 (171.69% as at 31 December 2023), significantly above the minimum ratio requirement of 100%. The detailed procedure for calculating the LCR is laid down in Commission Delegated Regulation (EU) 2015/61.

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

(e) Capital adequacy

Capital adequacy refers to the sufficiency of the Bank's own funds to cover credit and market risks related to assets and off-balance sheet items.

To calculate the capital amount for covering the risks for which the minimum capital requirements are set by the Regulator, the following approaches and methods are used:

- credit risk capital requirements are calculated using the standardized approach;
- the Financial Collateral Simple Method is used in order to decrease credit risk;
- the Bank calculates the own funds requirements for credit valuation adjustment (CVA) risk applying the standardized method specified in Article 384 of EU Regulation No 575/2013;
- foreign currency risk capital requirements, commodities risk capital requirements and capital requirements for position risk of debt securities and equities are calculated using the standardized approach;
- capital requirements for general risk of debt securities are calculated using the maturity method;
- capital requirements for operational risk are calculated using the basic indicator approach.

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

Moreover, the Bank has developed internal documentation and regulations according to which it determine the amount of necessary capital for substantial risks for which minimal capital requirements are not set (e.g., interest rate risk, liquidity risk, concentration risk, and other substantial risks).

In accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council and the existing global bank capital adequacy standards (Basel III), the Bank's capital adequacy ratio was calculated at 26.19% as at December 2024 (36.05% as at 31 December 2023), exceeding the Regulator's requirement of 11.4% (11.5% for 2023) (see also Note 28).

The Bank also complies with the leverage ratio requirement of 3% stated by Regulation (EU) No 575/2013 of the European Parliament and of the Council. The Bank's leverage ratio as at 31 December 2024 was 12.22% (31 December 2023: 11.12%). The leverage ratio provides an indication of the Bank's solvency based on a simple non-risk-weighted ratio. A detailed calculation of the leverage ratio can be found in Regulation (EU) No 575/2013 of the European Parliament and of the Council.

(f) Operational risk

Operational risk is the possibility of incurring losses as a result of inadequate or unsuccessful developments in the Bank's internal processes, human and systemic actions, or influence of external conditions. Operational risk is defined as the risk of a reduction in the Bank's income/of additional costs incurred (and a resulting reduction of the equity) due to erroneous transactions with customers/business partners, information processing, adoption of ineffective decisions, insufficient human resources or insufficient planning for the influence of external conditions.

The Bank has established and maintain an Operational Risk Event and Loss database, in which internal data on operational risk events and associated losses are collected, processed and organized.

Basis of the operational risk management:

- monitoring of operational risk;
- management and minimizing of operational risk:
- development of internal regulations which eliminate/reduce the possibility of operational risk
- events;
- compliance with the principle of separation of duties;
- monitoring of compliance with internal limits;

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

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

(f) Operational risk *(cont'd)*

- compliance with the procedure for using IT and other resources of the bank;
- adequate staff training;
- review of transactions and account documentation on a regular basis.

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

The Bank places a high priority on maintaining and continuously developing an effective system of anti-money laundering and countering the financing of terrorism and proliferation (AML/CFTP), creating an internal risk management culture with zero tolerance for intentional violations of AML/CFTP laws and regulations, and compliance with international and national sanctions.

To ensure the functioning of a comprehensive and effective internal control system for managing ML/FTP/sanctions risk (hereinafter - ICS), the Bank has established and continuously improve documented internal policies and procedures, ensuring compliance with the constantly changing requirements of the laws and regulations of the Republic of Latvia and the European Union, recommendations and guidelines of international competent organizations and industry best practice. Clear risk management mechanisms are defined in internal regulatory documents for all ICS elements - ML/FTP and Sanctions Risk Management Strategy 2024-2026, as well as its implementation policies and procedures, which define the structure and operational organization of the Bank's ML/FTP risk management, the distribution of management and employee responsibility and authority for ML/FTP risk management in the field of ML/FTP risk identification and management, including measurement, evaluation, control, preparation and submission of reports to the Bank's management, accounting and documentation of customer information and transactions, etc.

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

The Bank ensures its obligation to justify and document the commensurability of the customer due diligence measures to the risks inherent in relations with customers. The Bank provides an independent assessment of the effectiveness of multi-level ICS in the area of sanctions - an independent assessment by an external auditor and Internal Audit inspections in accordance with the periodicity and risk level set by the Bank of Latvia as well as a regular Quality Assurance process.

The Bank worked closely with regulators and supervisors and makes use of this cooperation to improve systems and processes. In 2024, the Bank continued to improve processes in line with risk appetite and business model requirements.

During the reporting period, the Bank conducted two independent external audits - an independent audit of the functioning of the internal control system for the ML/FTP risk management and an independent assessment of the specialized information technology system for the ML/FTP risk management and its functionality. The results of the two audits confirm the absence of either identified strategic weaknesses or high-risk findings in the Bank's AML/CTPF internal control system.

Throughout the period, the Bank was proactive in building and improving its sanctions compliance programs and monitoring mechanisms as well as adapting to the current requirements of the changing sanctions environment, in order to adhere to sanctions restrictions and mitigate related sanctions risks, using both expertise and new technological solutions to verify business and customer relationships,

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

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

including through ad-hoc assessments. In 2024, the authorities continued to monitor the geopolitical situation and a number of restrictive measures were adopted in response to Russia's aggression against Ukraine. The Bank complies with the procedure for reporting to the authorities possible violations, circumvention or attempts to circumvent the sanctions regime.

The Bank invests in its AML/CFPT capabilities and sanctions compliance, upgrading IT systems and technology, while planning for 2025 IT modernization and several automated ML/FTP and sanctions risk management processes.

The Bank continues to improve its risk culture and conducted various awareness-raising activities during the year, with a particular focus on the management, compliance and governance of ML/FTP and sanctions risks. In addition to ongoing training on various topics in these areas, the Bank implements a number of internal communication projects to promote discussion and a common understanding of risk culture.

The aforementioned ML/FTP risk management elements, the Bank's investment in the creation of the internal control system and its continuous improvement that embraces increasing the competence of employees, regular updating of the ML/FTP risk and sanctions risk assessment and the corresponding improvement of the systems, as well as periodic external and internal audits, incl. the implementation of the quality monitoring function in daily mode confirm the Bank's ability to assume and manage its inherent risks.

(h) Strategic and business risk

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

- failure of taking into account or incomplete identification of potential hazards to the Bank's business;
- incorrect or insufficiently substantiated identification of prospective areas of activity in which the Bank may have an advantage over competitors;
- lack of or insufficient resources (financial, material, human) and organizational arrangements (management decisions) necessary to ensure achieving the Bank's strategic objectives.

Within the Bank, strategic and business risk is managed within the framework of the Bank's Development Strategy 2023-2027 and the budget. Strategic and business risk is mitigated by continuously monitoring the current performance against the Bank's strategic development plan and budget, and by updating the Bank's strategic development plans. The Finance and Resources Department and the Board of the Bank monitor the actual performance against the plan.

One of the key elements of the Bank's Development Strategy 2023-2027 is to increase the volume and share of Latvian business by gradually diversifying the Bank's resources and sources of profit and reducing the share of the Bank's business with non-residential customers.

(i) Climate change and environmental risk (unaudited)

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

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

(i) Climate change and environmental risk (unaudited) *(cont'd)*

The Bank is aware of the importance of climate issues and their impact on its operations and those of its clients, therefore sustainability issues are a key focus. Climate change and environmental risk management takes into account both physical risks and transition risks associated with reducing carbon emissions and with the transition to a net zero economy. These risks may include refinancing and liquidity risks for certain customers in high-risk sectors where financial institutions may seek to reduce their exposures in the future. In the Bank's assessment, the nature and location of the counterparties and the underlying collateral limit the impact of these exposures on the Bank's loan portfolio and results of operations.

In the Bank's assessment, climate change and environmental risks currently have no material impact, and the Bank closely monitors relevant changes and developments and regularly performs stress testing of these risks.

The methodology for assessing climate change and environmental risk is based on the industry and the individual evaluation of the borrower.

The methodology for assessing climate change and environmental risk of RIB borrowers consists of three components:

1.The first factor - assessment of the initial level of risk:
   a. risk assessment of the company's industry.
   b. company's exposure to physical risk

2. The second factor - assessment of risk mitigating factors - assessment of company's specific climate change and environmental risk activities that have the potential to mitigate risk;

3. As a result of these two factors, the remaining climate change and environmental risk is determine.

The climate change and environmental risk assessment covers up to 85% of the Bank's loan portfolio and is rated low/medium risk by sector as at 31 December 2024.

	Very high	**High**	**Medium**	**Low**	**Very low**
	%	%	%	%	%
Industry					
Forestry, wood processing	0.0	0.0	10.6	0.0	0.0
Real estate operations	0.0	0.0	15.1	9.6	0.0
Manufacturing	0.0	0.0	3.1	16.5	0.0
Trade	0.0	0.0	7.7	7.3	0.0
Transport	0.0	0.0	7.7	0.4	0.0
Health care	0.0	0.0	0.6	0.0	0.0
Pharmacy	0.0	0.0	0.0	11.4	0.0
Other	0.0	0.0	0.4	9.6	0.0
	0.0	**0.0**	**45.2**	**54.8**	**0.0**

(i) Climate change and environmental risk (unaudited) *(cont'd)*

Physical risk stress test

Flood risk is reported as the most significant of the physical risks of climate change in Latvia, thus, based on the flood risk map developed by the Latvian Environment, Geology and Meteorology Centre (LEGMC), the Bank has carried out a snowmelt and a wind-surge flooding risk assessment for the loan portfolio, identifying flood-prone real estate assets at the collateral level according to three flood risk scenarios:

- low probability floods - exceptional, extreme floods that occur once every 200 years or less frequently;
- moderate probability floods - floods that occur every 100 years or less frequently;
- high probability floods - frequent floods that occur every 10 years or more frequently.

As at 31 December 2024, two properties were identified as being at risk of snowmelt and wind-surge flooding that corresponds to a low probability flood scenario, i.e. a flood occurring once every 200 years or less frequently.

Applying the collateral loss factor to the flood-prone properties and using the loss factors used in the LEGMC study, the stress test results show that the value of the properties would decrease by EUR 2.2 million. This would lead to a collateral deficiency of EUR 316 thousand. Given that the loans in question are also secured by other types of collateral, it can be concluded that as at 31 December 2024, flood risks had no expected impact on the Bank's loan portfolio.

Transition risk stress test

Companies operating in sectors with higher levels of greenhouse gas (GHG) emissions are exposed to transition risk, thus the Bank has carried out an impact assessment of transition risks by identifying the two sectors (according to NACE Rev.2) with the highest levels of GHG emissions in the loan portfolio, in line with the data publicly available on the Official Statistics Portal.

For the stress test calculation, a 10% increase in PD rates was applied to loans for which the latest available Debt Service Coverage Ratio (DSCR) was less than 1.2.

	Allowances 31.12.2024	**Additional allowances 31.12.2024**
	EUR '000	EUR '000
NACE 2.rev.		
A Agriculture, forestry and fishing	143	14
H49 Land transport and transport via pipelines	292	29
Total	**435**	**43**

The stress test results show that loan provisions would increase by EUR 43 thousand or 2.02%,. Therefore, it can be concluded that the expected impact of transition risk on the Bank's performance is not material.

5. Interest income and expense

	2024 EUR	2023 EUR
Interest income at effective interest rate:		
Loans and advances to legal entities	8,409,390	7,730,166
Loans and advances to private individuals	132,414	115,625
Balances due from banks	7,273,833	7,744,811
Debt securities held for trading	-	30,385
Debt instruments at fair value through other comprehensive income	5,938,642	6,367,683
Total interest income	**21,754,279**	**21,988,670**
Interest expense:		
Deposits from private individuals	(499,001)	(178,097)
Current accounts of private individuals	(137,315)	(78,504)
Deposits from legal entities	(704,609)	(320,491)
Current accounts of legal entities	(718,066)	(961,674)
Current accounts of banks	(605,740)	(596,606)
Other interest and related expense	(354,820)	(362,357)
Interest expense on lease liabilities (see also Note 18)	(3,890)	(717)
Total interest expense	**(3,023,441)**	**(2,498,446)**
Net interest income	**18,730,838**	**19,490,224**

Other interest and related expense include payments to the deposit guarantee fund of EUR 82,610 (2023: EUR 93,427), which are calculated by the Bank and attributed to the period when they are made in accordance with the Deposit Guarantee Law and the Regulator's Regulation on preparing guaranteed deposit reports and determining the adjustment ratio to be applied to the payments into the deposit guarantee fund, and a financial stability fee of EUR 272,210 (2023: EUR 268,930).

6. Fee and commission income and expense

	2024 EUR	2023 EUR
Fee and commission income:		
Account servicing	1,173,236	1,120,379
Commission income on asset management	950,042	220,500
Money transfers	532,850	496,020
Commission income on transactions with securities	379,448	121,510
Commissions on transactions with settlement cards	217,799	222,670
Interbank commission income	149,952	156,539
Commission income on escrow accounts servicing	120,365	149,054
Commissions on letters of credit	110,652	106,812
Income from general services	61,526	113,544
Fees on registration of changes in loan agreements	31,252	29,235
Other commissions (DIGIPAS)	19,456	22,851
Other income	6,141	42,845
Total fee and commission income	**3,752,719**	**2,801,959**
Fee and commission expense:		
Money transfers	(193,426)	(338,702)
Commissions on transactions with settlement cards	(149,813)	(30,853)
Other expense	(7,777)	(9,308)
Total fee and commission expense	**(351,016)**	**(378,863)**
Net fee and commission income	**3,401,703**	**2,423,096**

7. Administrative expense

	2024 EUR	2023 EUR
Remuneration for personnel*	(4,624,371)	(5,102,656)
Statutory social insurance contributions	(1,284,765)	(1,470,680)
Remuneration for the Members of the Council and the Board	(1,049,699)	(1,240,556)
Set-up and maintenance costs of information systems	(546,573)	(494,175)
Communications expense	(386,491)	(356,366)
Consulting and professional fees	(232,578)	(113,969)
Non-deductible VAT	(193,888)	(155,914)
Fee to the certified auditor**	(175,313)	(229,496)
Public utilities	(116,263)	(136,607)
Real estate tax	(82,867)	(69,214)
Health insurance	(52,201)	(41,528)
Business trips	(44,332)	(42,215)
Postal charges	(16,231)	(14,050)
Stationery	(16,023)	(20,973)
Office and equipment maintenance	(15,668)	(33,682)
Transport expense	(9,732)	(9,102)
Advertising and marketing	(4,388)	(35,940)
Security	(1,626)	(1,401)
Sponsorship	-	(66,000)
Other administrative expense	(207,608)	(269,750)
Total administrative expense	**(9,060,617)**	**(9,904,274)**

*The average number of staff employed by Bank in 2024 was 144, including 5 Members of the Board, 5 Members of the Council and 134 other employees (2023: 137, including 5 Members of the Board, 5 Members of the Council and 127 other employees). The remuneration paid to the Members of the Council and the Board is disclosed in Note 33).

** The total fee to the certified auditor by the types of services provided by the auditor was as follows: statutory annual audit of financial statements – EUR 135,737 (2023: EUR 215,020), other audit tasks – EUR 39,576 (2023: EUR 14,476).

8. Other operating income

	2024 EUR	2023 EUR
Rentals	277,409	279,345
Penalties	97,753	20,384
Other income	81,877	110,171
Total other operating income	**457,039**	**409,900**

9. Other income and expense

	2024 EUR	2023 EUR
Income from recovery of written-off loans	3,486	1,996
Profit from loan assignment transactions	-	21,232
Total other income	**3,486**	**23,228**
Impairment of repossessed collateral	(165,245)	(50,708)
Payments to funds and membership fees	(185,007)	(187,376)
Penalties	(1,628)	(260,063)
Total other expense	**(351,880)**	**(498,147)**

10. Corporate income tax

	2024 EUR	2023 EUR
Current corporate income tax	(44,847)	(7,082)
Corporate income tax surcharge*	(2,574,836)	(2,286,091)
Tax paid abroad **	(46,290)	(45,505)
Total corporate income tax	**(2,665,973)**	**(2,338,678)**

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

** The amount of tax paid abroad represents withholding tax paid in Ukraine. Corporate income tax from dividends calculated in Latvia can be reduced to the extent of tax paid abroad, if the payment is certified by documents approved by a foreign tax authority, stating the amount of taxable income and the amount of tax withheld abroad. Tax can be reduced to the extent of tax withheld abroad, which is, however, limited to the amount that would be payable in Latvia on the income generated abroad. Amounts of withholding tax exceeding the tax calculated in Latvia cannot be carried forward and, therefore, are recognized as tax expense in the current period.

11. Cash and balances with the Bank of Latvia

	31.12.2024 EUR	31.12.2023 EUR
Cash	290,585	805,656
Demand deposits with the Bank of Latvia	165,198,040	209,519,032
ECL allowances	(16,521)	(20,954)
Cash and balances with the Bank of Latvia, net	**165,472,104**	**210,303,734**

Demand deposits with the Bank of Latvia represent the Bank's correspondent account balance and includes minimum reserve which is held in accordance with the regulation of the Bank of Latvia. This regulation prescribes the minimum level of the Bank's average correspondent account balance per month, while at any given day these funds can be freely accessed and used by the Bank. The required reserve for the period from 18 December 2024 to 4 February 2025 was set at EUR 3,341,886 (2023: EUR 3,892,670). In 2024 and 2023, the Bank had met the reserve requirement set by the Bank of Latvia.

All cash balances are allocated to Stage 1.

	31.12.2024 EUR	31.12.2023 EUR
Demand deposits with the Bank of Latvia at the beginning of the year	209,519,032	139,821,514
Increase in the reporting year	41,288,441,119	46,262,232,555
Decrease in the reporting year	(41,332,775,532)	(46,192,535,037)
Accrued interest	13,421	-
Demand deposits with the Bank of Latvia at the end of the year	**165,198,040**	**209,519,032**

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

	31.12.2024 EUR	31.12.2023 EUR
Allowances for demand deposits with the Bank of Latvia at the beginning of the year	20,954	13,982
Increase in the reporting year*	4,141,645	4,807,490
Decrease in the reporting year*	(4,146,078)	(4,800,518)
Allowances for demand deposits with the Bank of Latvia at the end of the year	**16,521**	**20,954**

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

12. Balances due from banks

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

	31.12.2024	31.12.2023
	EUR	EUR
On demand	12,137,013	5,208,809
Balances due from banks, gross	**12,137,013**	**5,208,809**
ECL allowances	(1,214)	(521)
Balances due from banks, net	**12,135,799**	**5,208,289**

The table below discloses an analysis of changes in the gross carrying amount and corresponding ECL allowances on balances due from banks for the year ended 31 December 2024:

Balances due from banks	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01.01.2024	**5,208,809**	**-**	**-**	**5,208,809**
New assets originated or purchased	65,205,694	-	-	65,205,694
Assets repaid	(59,313,186)	-	-	(59,313,186)
Foreign exchange adjustments	1,035,696	-	-	1,035,696
Gross carrying amount as at 31.12.2024	**12,137,013**	**-**	**-**	**12,137,013**

Balances due from banks	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2024	**521**	**-**	**-**	**521**
New assets originated or purchased	2,938	-	-	2,938
Change in credit risk	(812)	-	-	(812)
Assets repaid	(1,476)	-	-	(1,476)
Foreign exchange adjustments	43	-	-	43
ECL allowances as at 31.12.2024	**1,214**	**-**	**-**	**1,214**

The table below discloses an analysis of changes in the gross carrying amount and corresponding ECL allowances on balances due from banks for the year ended 31 December 2023:

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

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

The table below discloses the Bank's balances due from banks by their ratings:

	31.12.2024		31.12.2023	
Ratings	**Due from banks**		**Due from banks**	
	EUR	%	EUR	%
A1 to A3	6,458	0.05	20,207	0.39
Caa1 to Caa3	7,045,841	58.06	5,029,754	96.57
	7,052,299	**58.11**	**5,049,961**	**96.96**
Without rating	5,084,714	41.89	158,849	3.04
ECL allowances	(1,214)	-	(521)	-
Balances due from banks, net	**12,135,799**	**100**	**5,208,289**	**100**

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

13. Loans and advances to customers

Analysis of loans by customer profile and type of loans:

	31.12.2024	31.12.2023
	EUR	EUR
Loans to legal entities	157,976,972	103,287,118
Loans to private individuals, except for mortgages	1,298,940	1,283,351
Mortgages	1,959,924	116,194
Total loans and advances to customers, gross	**161,235,836**	**104,686,663**
Allowances for loan impairment	(5,761,763)	(5,663,627)
Total loans and advances to customers, net	**155,474,073**	**99,023,036**

The table below discloses an analysis of changes in the gross carrying amount and corresponding ECL allowances on balances of the Bank's loans and advances to customers for the year ended 31 December 2024.

Loans to legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2024	**84,414,490**	**4,913,719**	**13,958,909**	**-**	**103,287,118**
New assets originated or purchased	52,965,593	-	-	-	52,965,593
Assets increase[1]	171,069,040	851,366	821,385	-	172,741,791
Assets repaid	(167,997,233)	(1,407,579)	(2,091,532)	-	(171,496,344)
Transfers to Stage 1	995,748	(995,748)	-	-	-
Transfers to Stage 2	(633,139)	639,722	(6,583)	-	-
Transfers to Stage 3	-	(656,784)	656,784	-	-
Amounts written off	(124)	-	-	-	(124)
Accrued interest	293,732	17,199	-	-	310,931
Foreign exchange adjustments	164,306	39	3,662	-	168,007
Gross carrying amount as at 31.12.2024	**141,272,413**	**3,361,934**	**13,342,625**	**-**	**157,976,972**

Loans to legal entities	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2024	**1,118,433**	**193,354**	**3,986,170**	**-**	**5,297,957**
New assets originated or purchased	476,621	-	-	-	476,621
Assets increase[1]	1,300,800	21,814	337	-	1,322,951
Change in credit risk	(109,422)	42,395	(15,666)	-	(82,693)
Assets repaid	(1,184,464)	(45,203)	(79,102)	-	(1,308,769)
Transfers to Stage 1	20,324	(20,324)	-	-	-
Transfers to Stage 2	(7,494)	7,494	-	-	-
Transfers to Stage 3	-	(92,161)	92,161	-	-
Impact on ECL of transfers	(3,960)	-	(15)	-	(3,975)
Amounts written off	(124)	-	-	-	(124)
Foreign exchange adjustments	4,628	(7)	(540)	-	4,081
ECL allowances as at 31.12.2024	**1,615,342**	**107,362**	**3,983,345**	**-**	**5,706,049**

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2024	**653,209**	**-**	**630,142**	**-**	**1,283,351**
New assets originated or purchased	1,215,703	-	-	-	1,215,703
Assets increase[1]	442,509	-	42,986	-	485,495
Assets repaid	(1,079,339)	-	(607,424)	-	(1,686,763)
Transfers to Stage 3	(514)	-	514	-	-
Amounts written off	(309)	-	(56)	-	(365)
Accrued interest	1,234	-	-	-	1,234
Foreign exchange adjustments	286	-	-	-	286
Gross carrying amount as at 31.12.2024	**1,232,779**	**-**	**66,162**	**-**	**1,298,941**

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

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

Loans to private individuals, except for mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2024	**1,150**	**-**	**360,764**	**-**	**361,914**
New assets originated or purchased	6,830	-	-	-	6,830
Assets increase[1]	250	-	-	-	250
Change in credit risk	7,700	-	(4,719)	-	2,981
Assets repaid	(8,377)	-	(311,685)	-	(320,062)
Transfers to Stage 3	(11)	-	11	-	-
Impact on ECL of transfers	-	-	502	-	502
Amounts written off	(309)	-	(56)	-	(365)
Foreign exchange adjustments	18	-	-	-	18
ECL allowances as at 31.12.2024	**7,251**	**-**	**44,817**	**-**	**52,068**

Mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 01.01.2024	**48,189**	**-**	**68,005**	**-**	**116,194**
New assets originated or purchased	1,870,000	-	-	-	1,870,000
Assets increase[1]	26,672	-	6,092	-	32,764
Assets repaid	(57,736)	-	(11,236)	-	(68,972)
Accrued interest	5,830	-	-	-	5,830
Foreign exchange adjustments	-	-	4,107	-	4,107
Gross carrying amount as at 31.12.2024	**1,892,955**	**-**	**66,968**	**-**	**1,959,923**

Mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2024	**356**	**-**	**3,400**	**-**	**3,756**
New assets originated or purchased	15,103	-	-	-	15,103
Assets increase[1]	69	-	-	-	69
Change in credit risk	(15,059)	-	-	-	(15,059)
Assets repaid	(173)	-	(257)	-	(430)
Foreign exchange adjustments	-	-	206	-	206
ECL allowances as at 31.12.2024	**296**	**-**	**3,349**	**-**	**3,645**

The table below discloses an analysis of changes in the gross carrying amount and corresponding ECL allowances on balances of the Bank's loans and advances to customers for the year ended 31 December 2023.

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

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

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

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

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

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

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

Mortgages	Stage 1	Stage 2	Stage 3	POCI	Total
ECL allowances as at 01.01.2023	**737**	**615**	**-**	**-**	**1,352**
Assets increase[1]	26	151	-	-	177
Change in credit risk	(325)	806	2,232	-	2,713
Assets repaid	(82)	(93)	(168)	-	(343)
Transfers to Stage 3	-	(1,487)	1,487	-	-
Foreign exchange adjustments	-	8	(151)	-	(143)
ECL allowances as at 31.12.2023	**356**	**-**	**3,400**	**-**	**3,756**

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

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

The Bank's independent Risk Management Department operates its internal rating models in which its customers in its loan portfolio are rated from A (high quality loans) to F (bad quality loans, mostly stage 3 loans internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behavior.

The table below analyzes the gross balance sheet value and the relevant ECL for the Bank's loans and advances on 31 December 2024.

	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers, gross	**144,398,146**	**3,361,935**	**13,475,755**	**-**	**161,235,836**
A	22,034,358	-	-	-	22,034,358
B	84,044,390	2,507,892	-	-	86,552,282
C	36,583,040	326,553	-	-	36,909,593
D	1,735,328	-	-	-	1,735,328
E	-	-	-	-	-
F	-	527,490	13,475,755	-	14,003,245
Without rating	1,030	-	-	-	1,030
Allowances for loan impairment	**1,622,890**	**107,362**	**4,031,511**	**-**	**5,761,763**
A	229,737	-	-	-	229,737
B	928,790	82,687	-	-	1,011,477
C	448,663	7,628	-	-	456,291
D	15,652	-	-	-	15,652
E	-	-	-	-	-
F	-	17,047	4,031,511	-	4,048,558
Without rating	48	-	-	-	48

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

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

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

Risk concentration in the loan portfolio by industry profile:

	31.12.2024		31.12.2023	
	EUR	%	EUR	%
Manufacturing	47,355,213	29.37	7,333,935	7.01
Construction and transactions with real estate	39,367,462	24.42	34,519,209	32.97
Trade and commercial activities	26,154,072	16.22	26,984,216	25.77
Forestry and logging	15,908,191	9.87	8,150,810	7.79
Transport and communications	12,074,522	7.49	8,779,007	8.39
Financial services	9,369,828	5.81	9,521,469	9.10
Private individuals	3,258,864	2.02	1,399,545	1.34
Electricity, gas or heat supply	3,001,410	1.86	3,001,205	2.87
Tourism and hotel services, restaurant business	2,535,123	1.57	4,243,716	4.05
Other	1,904,205	1.18	741,595	0.70
Agriculture and food industry	306,946	0.19	11,956	0.01
Total loans and advances to customers (gross)	**161,235,836**	**100**	**104,686,663**	**100**
Allowances for loan impairment	(5,761,763)	-	(5,663,627)	-
Total loans and advances to customers, net	**155,474,073**	**-**	**99,023,036**	**-**

As at 31 December 2024, the total amount of loans issued to top 10 Bank's customers was EUR 60,445,699 (2023: EUR 47,991,004), which formed 37.49% of the total loan portfolio (2023: 48.85%).

The analysis of the Bank's collateral as at 31 December 2024:

	Assets with collateral value exceeding the loan balance		Assets with insufficient collateral	
	Carrying amount (gross)	Recoverable amount of collateral	Carrying amount (gross)	Recoverable amount of collateral
	EUR	EUR	EUR	EUR
Loans to legal entities	139,445,443	543,705,698	22,782,087	18,540,645
Loans to individuals – consumer loans	1,436,396	1,585,465	93,548	-
Mortgages	2,003,285	2,516,302	-	-
Total	**142,885,124**	**547,807,465**	**22,875,635**	**18,540,645**

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

	Assets with collateral value exceeding the loan balance		Assets with insufficient collateral	
	Carrying amount (gross)	Recoverable amount of collateral	Carrying amount (gross)	Recoverable amount of collateral
	EUR	EUR	EUR	EUR
Loans to legal entities	102,629,212	282,441,237	657,906	642,106
Loans to individuals – consumer loans	1,205,538	13,487,929	77,813	-
Mortgages	116,194	340,124	-	-
Total	**103,950,944**	**296,269,290**	**735,719**	**642,106**

14. Financial assets at fair value through profit or loss

	31.12.2024 EUR	31.12.2023 EUR
Non-OECD government bonds	114,196	80,398
Quoted shares	-	8,253
Unquoted shares	731,975	160,028
Total	**846,171**	**248,679**

The analysis of the Bank's securities by ratings:

Ratings	31.12.2024		31.12.2023	
	EUR	%	EUR	%
Aa3	723,369	85.49	160,190	64.42
Ba1 to Ba3	8,606	1.02	8,091	3.25
Caa1 to Caa3	114,196	13.49	80,398	32.33
Total	**846,171**	**100**	**248,679**	**100**

15. Debt instruments at fair value through other comprehensive income

	31.12.2024 EUR	31.12.2023 EUR
OECD government bonds	122,855,811	138,195,572
Total	**122,855,811**	**138,195,572**

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

Ratings	31.12.2024		31.12.2023	
	EUR	%	EUR	%
Aa1	122,855,811	100	138,195,572	100
Total	**122,855,811**	**100**	**138,195,572**	**100**

The table below shows changes in the carrying amounts of the Bank's debt instruments designated at fair value through other comprehensive income in the year ended 31 December 2024:

	Stage 1	Stage 2	Stage 3	Total
Fair value at 1 January 2024	**138,195,572**	**-**	**-**	**138,195,572**
New assets originated or purchased	259,497,536	-	-	259,497,536
Assets repaid	(282,448,845)	-	-	(282,448,845)
Changes in fair value	23,340	-	-	23,340
Interest accrued	253,015	-	-	253,015
Foreign exchange adjustments	7,335,193	-	-	7,335,193
Fair value at 31 December 2024	**122,855,811**	**-**	**-**	**122,855,811**

The table below shows changes in the ECL allowances for the Bank's debt instruments designated at fair value through other comprehensive income in the year ended 31 December 2024:

	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 1 January 2024	**13,794**	**-**	**-**	**13,794**
New assets originated or purchased	25,798	-	-	25,798
Assets repaid	(28,068)	-	-	(28,068)
Foreign exchange adjustments	736	-	-	736
ECL allowances as at 31 December 2024	**12,260**	**-**	**-**	**12,260**

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

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

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

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

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

16. Intangible assets

Changes in the Bank's intangible assets in 2024 and 2023 can be specified as follows:

	Software 2024 EUR	Pre-payments 2024 EUR	Total software 2024 EUR	Software 2023 EUR	Pre-payments 2023 EUR	Total software 2023 EUR
Cost						
At the beginning of the year	2,440,444	351,926	2,792,370	2,708,332	92,593	2,800,925
Additions	60,920	188,553	249,473	93,775	259,333	353,108
Reclassified	505,730	(505,730)	-	-	-	-
Disposals	(508,100)	-	(508,100)	(361,663)	-	(361,663)
At the end of the year	**2,498,994**	**34,749**	**2,533,743**	**2,440,444**	**351,926**	**2,792,370**
Amortization						
Accumulated amortization at the beginning of the year	2,070,435	-	2,070,435	2,304,861	-	2,304,861
Charge for the year	160,440	-	160,440	127,237	-	127,237
Disposals	(489,619)	-	(489,619)	(361,663)	-	(361,663)
Accumulated amortization at the end of the year	**1,741,256**	**-**	**1,741,256**	**2,070,435**	**-**	**2,070,435**
Net carrying amount at the beginning of the year	**370,009**	**351,926**	**721,935**	**403,471**	**92,593**	**496,064**
Net carrying amount at the end of the year	**757,738**	**34,749**	**792,487**	**370,009**	**351,926**	**721,935**

As at 31 December 2024, a number of assets that had been fully amortized were still in active use. The original cost value of these assets was EUR 1,817,961 (31 December 2023: EUR 1,786,961).

Intangible assets are amortized over their estimated useful lives, not exceeding five years, on a straight-line basis and disclosed under the amortization and depreciation caption of the statement of comprehensive income.

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

17. Property and equipment, and right-of-use assets

Changes in the Bank's property and equipment in 2024 can be specified as follows:

	Land and building EUR	Vehicles EUR	Computers EUR	Office equipment EUR	Other assets EUR	Total EUR
Cost or revalued amount as at 31.12.2023	**13,335,000**	**96,229**	**252,771**	**488,989**	**100,927**	**14,273,916**
Additions	-	138,546	355,885	3,120	-	497,551
Disposals	-	-	-	-	-	-
Prepayments	-	-	88,184	-	-	88,184
Cost or revalued amount as at 31.12.2024	**13,335,000**	**234,775**	**696,840**	**492,109**	**100,927**	**14,859,651**
Depreciation as at 31.12.2023	**905,393**	**72,942**	**125,834**	**461,642**	**91,744**	**1,657,555**
Disposals	-	-	-	-	-	-
Charge for the year	150,899	29,301	150,610	13,954	6,116	350,880
Depreciation as at 31.12.2024	**1,056,292**	**102,243**	**276,444**	**475,596**	**97,860**	**2,008,435**
Net carrying amount as at 31.12.2023	**12,429,607**	**23,287**	**126,937**	**27,347**	**9,183**	**12,616,361**
Net carrying amount as at 31.12.2024	**12,278,708**	**132,532**	**420,396**	**16,513**	**3,067**	**12,851,216**

Changes in the Bank's property and equipment in 2023 can be specified as follows:

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

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

As at 31 December 2024, a number of assets that had been fully depreciated were still in active use. The total original cost value of these assets as at the end of the year was EUR 553,509 (31 December 2023: EUR 540,460).

Depreciation is calculated on a straight-line basis over the estimated useful life of a respective asset category applying depreciation rates established by the management and disclosed under the amortization and depreciation caption of the statement of comprehensive income.

The Bank updated the value of the building on the basis of the opinion drawn up by an independent certified valuator in accordance with international standards. The fair value was determined on the basis of the valuation of 22 November 2021, which used the comparable sales approach and the income approach for defining the market value. Under the income approach, cash flows were discounted and the capitalization rate of 5.7% was used. The forecasts were based on rental income. As a result of the revaluation, the value of the Bank's building was set at EUR 12.848 million. The independent certified valuator confirmed that the value of the property had neither decreased nor increased at the end of 2024 and the value was set at EUR 12.848 million (the acquisition cost in 2015 was EUR 14.825 million).

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

The carrying amounts of right-of-use assets recognized and their movements:

	2024 Premises EUR	2024 Total EUR	2023 Premises EUR	2023 Total EUR
Right-of-use assets as at 1 January	**15,185**	**15,185**	**27,567**	**27,567**
Additions	91,780	91,780	16,212	16,212
Depreciation expense	(26,155)	(26,155)	(28,291)	(28,291)
Foreign exchange adjustments	(59)	(59)	(303)	(303)
Right-of-use assets as at 31 December	**80,751**	**80,751**	**15,185**	**15,185**

The amounts recognized in the statement of comprehensive income:

	2024 EUR	2023 EUR
Depreciation expense of right-of-use assets	(26,155)	(28,291)
Interest expense on lease liabilities	(3,889)	(717)
Total amount recognized in the statement of comprehensive income	**(30,044)**	**(29,008)**

In 2024, the Bank had total cash outflows for leases of EUR 30,044 (2023: EUR 29,008).

18. Other assets

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

	31.12.2024 EUR	31.12.2023 EUR
Financial assets, incl.:	1,776,635	1,488,602
– security deposits	1,374,669	1,260,686
– accounts receivable	34,699	76,005
– other financial assets	367,267	151,911
Non-financial assets	260,831	426,077
– repossessed collateral	260,831	426,077
Total other assets, gross	**2,037,466**	**1,914,679**
Impairment allowances for other financial assets	(15,649)	(42,347)
Total other assets, net:	**2,021,817**	**1,872,332**

18. Other assets *(cont'd)*

The analysis of the changes in other financial assets as at 31 December 2024:

	Stage 1	Stage 2	Stage 3	Total
Financial assets as at 1 January 2024	**1,442,061**	**-**	**46,543**	**1,488,604**
New assets originated or purchased	757,887	-	-	757,887
Assets repaid	(98,011)	-	(234,444)	(332,455)
Transfers to Stage 3	(421,394)		421,394	-
Amounts written off	-	-	(184,664)	(184,664)
Foreign exchange adjustments	80,580	-	(33,317)	47,263
Financial assets as at 31 December 2024	**1,761,123**	**-**	**15,512**	**1,776,635**

The analysis of changes in ECL allowances for other financial assets in the year ended 31 December 2024:

	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 1 January 2024	**124**	**-**	**42,223**	**42,347**
New assets originated or purchased	159,194	-	-	159,194
Assets repaid	-	-	(553)	(553)
Transfers to Stage 3	(159,194)		159,194	-
Amounts written off	-	-	(184,664)	(184,664)
Foreign exchange adjustments	12	-	(687)	(675)
ECL allowances as at 31 December 2024	**136**	**-**	**15,513**	**15,649**

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

	Stage 1	Stage 2	Stage 3	Total
Financial assets as at 1 January 2023	**1,430,401**	**-**	**35,178**	**1,465,579**
New assets originated or purchased	6,772,932	-	-	6,772,932
Assets repaid	(6,706,283)	-	-	(6,706,283)
Foreign exchange adjustments	(54,989)	-	11,365	(43,624)
Financial assets as at 31 December 2023	**1,442,061**	**-**	**46,543**	**1,488,604**

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

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

The Bank treats as non-financial those assets which have been obtained through repossessing collateral that has served as security for loans and is intended for sale. The repossessed assets include private properties in Ukraine. Non-financial assets are stated as inventories at the lower of cost and net realizable value, which is determined on the basis of the valuation carried out by an independent certified valuator in accordance with international standards. According to opinions issued by independent certified valuators, the net realizable value of repossessed collateral exceeds their carrying amount.

The table below summarizes methods used by the Bank in determining the net realizable value of non-financial assets in 2024.

No	Property	Municipality	City	Carrying amount EUR	Methods used in net realizable value measurement
1	Office	Odessa	Odessa	260,831	Market (comparables) approach
Total assets repossessed by the Bank				260,831	

18. Other assets *(cont'd)*

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

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

19. Cash and cash equivalents

	31.12.2024 EUR	31.12.2023 EUR
Cash and balances with the Bank of Latvia (see Note 11)	165,488,625	210,324,688
Balances due from other banks with an original maturity of three months or less	12,137,013	5,208,809
Total	**177,625,638**	**215,533,497**

20. Balances due to banks

	31.12.2024 EUR	31.12.2023 EUR
Credit institution vostro correspondent account	63,523,317	70,595,213
Total	**63,523,317**	**70,595,213**

21. Deposits from customers

(a) Analysis of deposits by customer profile

	31.12.2024 EUR	31.12.2023 EUR
Legal entities		
– current/settlement accounts	200,893,598	216,902,406
– term deposits	40,376,050	24,518,023
Private individuals		
– current/settlement accounts	80,029,530	86,103,733
– term deposits	20,687,605	10,805,842
Total	**341,986,783**	**338,330,004**
Sector:		
Private non-financial companies	215,824,984	191,190,118
Private individuals	100,717,135	96,909,575
Captive financial institutions and money lenders	24,392,991	13,217,480
Other financial intermediaries (OFI), except non-MFI*	677,726	36,762,557
Non-profit organizations serving households	286,350	250,274
Financial auxiliaries	87,597	-
Total	**341,986,783**	**338,330,004**

* non-MFI – clients that are not monetary financial institutions.

(b) Analysis of deposits by place of residence

	31.12.2024 EUR	31.12.2023 EUR
Residents	93,689,697	97,896,631
Non-residents	248,297,086	240,433,373
Total	**341,986,783**	**338,330,004**

In 2024, the average interest rate on term deposits was 2.86% (2023: 2.11%) and the average interest rate on demand deposits was 0.43% (2023: 0.41%). All deposits bear a fixed interest rate.

21. Deposits from customers *(cont'd)*

Deposits from customers by industry can be specified as follows:

	31.12.2024		31.12.2023	
	EUR	%	EUR	%
Private individuals	100,717,135	29.45	96,909,575	28.64
Financial and insurance services	91,051,361	26.62	105,647,426	31.23
Trade and commercial activities	77,246,864	22.59	96,408,225	28.50
Construction and real estate	24,277,545	7.10	22,156,780	6.55
Transport and communications	17,882,274	5.23	7,497,857	2.22
Other	14,785,387	4.33	5,626,787	1.65
Manufacturing	14,065,514	4.11	3,236,422	0.96
Agriculture and food industry	1,960,703	0.57	846,932	0.25
Total	**341,986,783**	**100**	**338,330,004**	**100**

As at 31 December 2024, the total amount of deposits attributable to top 20 depositors was EUR 234,516,796 (31 December 2023: EUR 249,560,723), constituting 68.57% of the Bank's portfolio (31 December 2023: 73.77%).

22. Current income tax liabilities

	31.12.2024	31.12.2023
	EUR	EUR
Corporate income tax liabilities for December	4,124	3,523
Additional payment liabilities of corporate income tax	2,574,836	2,286,091
Total	**2,578,960**	**2,289,614**

23. Other financial liabilities

	31.12.2024	31.12.2023
	EUR	EUR
Liability suspense account*	184,589	3,558
Settlements on behalf of a closed bank	16,586	16,585
Accounts payable	193,321	114,028
Lease liabilities	82,414	15,528
Total	**476,910**	**149,699**

* The liability suspense account as at 31 December 2024 and 31 December 2023 included the amounts erroneously transferred to the Bank, which were returned to the senders at the beginning of 2025 and 2024 respectively.

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

	2024	2024	2023	2023
	Premises	Total	Premises	Total
	EUR	EUR	EUR	EUR
Lease liabilities as at 1 January	**15,528**	**15,528**	**27,849**	**27,849**
Increase	91,780	91,780	18,599	18,599
Payments	(25,050)	(25,050)	(31,055)	(31,055)
Foreign exchange adjustments	156	156	135	135
Lease liabilities as at 31 December	**82,414**	**82,414**	**15,528**	**15,528**

24. Accrued expenses and other liabilities

	31.12.2024 EUR	31.12.2023 EUR
Vacation pay reserve and accrual for bonuses	1,893,884	2,002,213
Accrual for the guarantee fund and Regulator's financing	122,785	159,994
Statutory social insurance contributions	438,832	465,155
Other accrued expense	217,560	239,420
Total	**2,673,061**	**2,866,782**

25. Derivative financial instruments

The Bank uses the following derivative financial instruments: currency forwards – agreements on currency acquisition in the future, currency swaps – commitments to exchange one set of cash flow for another. The Bank's credit risk represents the potential cost to replace forward contracts if the counterparties fail to perform their obligations. To control the level of credit risk taken, the Bank assesses counterparty risk using the same techniques as for its lending activities.

The notional amounts of financial instruments provide a basis for comparison with instruments recognized on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, therefore, they cannot be used for determining the level of the Bank's exposure to credit risk or market risk. Derivative financial instruments become favorable or unfavorable as a result of fluctuations in market interest rates or foreign exchange rates.

As at 31 December 2024 and 31 December 2023, the Bank had no derivative financial instruments.

26. Share capital

As at 31 December 2024, the Bank's issued and fully paid share capital was EUR 32,334,756 (31 December 2023: EUR 32,334,756). The nominal value of one share is EUR 1.00 (31 December 2023: EUR 1.00). All shares are ordinary registered shares with voting rights. One share is one vote.

The shareholders of the Bank as at 31 December 2024 and 31 December 2023:

	31.12.2024 EUR	%	31.12.2023 EUR	%
SIA SKY Investment Holding	14,228,717	44.00	14,228,717	44.00
Yuriy Rodin	8,698,783	26.90	8,698,783	26.90
SIA Villa Flora	4,664,881	14.43	4,664,881	14.43
Mark Bekker	3,418,808	10.57	3,418,808	10.57
Other shareholders (with less than 10% of shares)	1,323,567	4.10	1,323,567	4.10
Total paid share capital	**32,334,756**	**100**	**32,334,756**	**100**

27. Off-balance items and encumbered assets

Contingent liabilities

Contingent liabilities can be specified as follows:

	31.12.2024 EUR	31.12.2023 EUR
Financial guarantees	11,116,729	3,395,883
Non-financial guarantees	-	83,981
Total contingent liabilities	**11,116,729**	**3,479,864**

Financial guarantees are contracts that provide for compensation in the event of a default by another party. Such contracts involve credit risk of default. Financial guarantees are subject to an assessment of expected credit losses. For financial guarantee contracts, the Bank takes into account changes in the risk that the particular debtor might default on its contractual obligations.

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

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

Contingent liabilities *(cont'd)*

The analysis of changes in the granted amounts of financial guarantees in the year ended 31 December 2024:

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
Financial guarantees as at 01.01.2024	**1,934,000**	**-**	**1,461,883**	**3,395,883**
New assets originated or purchased	11,853,613	-	-	11,853,613
Increase[1]	1,547,494	-	293,165	1,840,659
Decrease	(5,410,147)	-	(586,330)	(5,996,477)
Foreign exchange adjustments	23,051	-	-	23,051
Financial guarantees as at 31.12.2024	**9,948,011**	**-**	**1,168,718**	**11,116,729**

The analysis of changes in ECL in the year ended 31 December 2024:

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
ECL allowances as at 01.01.2024	**9,130**	**-**	**58,318**	**67,448**
New assets originated or purchased	11,690	-	-	11,690
Increase[1]	1,327	-	-	1,327
Change in credit risk	(6,097)	-	-	(6,097)
Decrease	(6,497)	-	(18,895)	(25,392)
ECL allowances as at 31.12.2024	**9,553**	**-**	**39,423**	**48,976**

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

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

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

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

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL

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

Contingent liabilities *(cont'd)*

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

	31.12.2024 EUR	31.12.2023 EUR
Non-financial guarantees as at 1 January.	**83,981**	**84,516**
Decrease	(84,107)	-
Foreign exchange adjustments	126	(535)
Non-financial guarantees as at 31 December	**-**	**83,981**

Non-financial guarantees are secured by cash or loans which are blocked or reserved by the Group and the Bank and secure the Group's and Bank's balances due from customers if the guarantee conditions are met.

Financial commitments

The outstanding loan commitments can be specified as follows:

	31.12.2024 EUR	31.12.2023 EUR
Loan commitments	17,133,133	5,647,654
Undrawn credit lines	19,096,292	12,688,469
Total financial commitments	**36,229,425**	**18,336,123**

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being actually funded.

The loan commitments are denominated in the following currencies:

	31.12.2024 EUR	31.12.2023 EUR
EUR	17,120,175	5,647,654
USD	12,958	-
Total loan commitments	**17,133,133**	**5,647,654**

The undrawn credit lines are denominated in the following currencies:

	31.12.2024 EUR	31.12.2023 EUR
EUR	18,858,637	11,003,457
USD	237,655	1,685,012
Total undrawn credit lines	**19,096,292**	**12,688,469**

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

Financial commitments *(cont'd)*

The analysis of changes in the undrawn granted amounts of financial commitments in the year ended 31 December 2024:

Financial commitments	Stage 1	Stage 2	Stage 3	Total
Financial commitments as at 01.01.2024	**17,262,931**	**1,066,190**	**7,002**	**18,336,123**
New assets originated or purchased	108,473,843	-	-	108,473,843
Increase[1]	152,429,344	950,200	77,209	153,456,753
Decrease	(242,798,598)	(1,216,233)	(81,565)	(244,096,396)
Transfers to Stage 2	800,000	(800,000)	-	-
Transfers to Stage 3	(1,630)	4,533	(2,903)	-
Foreign exchange adjustments	58,749	96	257	59,102
Financial commitments as at 31.12.2024	**36,224,639**	**4,786**	**-**	**36,229,425**

The analysis of changes in ECL in the year ended 31 December 2024:

Financial commitments	Stage 1	Stage 2	Stage 3	Total
ECL as at 01.01.2024	**215,314**	**19,508**	**-**	**234,822**
New assets originated or purchased	664,620	-	-	664,620
Increase[1]	787,701	10,048	-	797,749
Change in credit risk	111,608	6	-	111,614
Decrease	(1,379,415)	(19,434)	-	(1,398,849)
Transfers to Stage 1	10,101	(10,101)	-	-
Transfers to Stage 2	(11)	11	-	-
Foreign exchange adjustments	1,088	-	-	1,088
ECL as at 31.12.2024	**411,006**	**38**	**-**	**411,044**

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

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

[1] Assets increase includes additionally issued loan amounts under previously signed agreements and loans that were issued under previously signed credit line agreements and accordingly increases in their ECL.

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

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

Financial commitments *(cont'd)*

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

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

Encumbered assets

The pledged and restricted assets can be specified as follows:

	31.12.2024	31.12.2023
	EUR	EUR
Other assets	1,363,692	1,253,992
Total	**1,363,692**	**1,253,992**

All encumbered assets serve as security for the Bank's financial liabilities as at 31 December 2024 and 31 December 2023. The carrying amount of encumbered assets approximates to their fair value as at both 31 December 2024 and 31 December 2023.

As at 31 December 2024, the encumbered assets of the Bank consisted of the following:

– security deposits of EUR 1,363,692 (31 December 2023: EUR 1,239,128) for potential claims from MasterCard Europe SPRL. The agreement with this organization requires ensuring a sufficient amount of resources available in a deposit account with U.S Bank (MasterCard Europe Sprl), which could cover all potential expenses related to the Bank's participation in this organization;
– security deposits of EUR 0 in other assets (31 December 2023: EUR 14,863) for letters of credit issued.

28. Capital adequacy

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

	31.12.2024 EUR	31.12.2023 EUR
Total own funds	**60,221,144**	**53,055,799**
– Tier 1 capital	60,221,144	53,055,799
– Common equity Tier 1 capital	60,221,144	53,055,799
– Tier 2 capital	-	-
Total risk exposure amount	**229,918,751**	**147,169,195**
– Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	193,207,897	121,997,996
– Total risk exposure amount for position, foreign exchange and commodities risks	1,888,909	723,680
– Total risk exposure amount for operational risk	34,821,945	24,447,519
– Total exposure amounts for credit valuation adjustment	-	-
Capital adequacy ratios		
– Common equity Tier 1 capital ratio	26.19%	36,05%
– Surplus (+) / Deficit (-) of common equity Tier 1 capital (4.5%)	49,874,800	46,433,185
– Tier 1 capital ratio	26.19%	36,05%
– Surplus (+) / Deficit (-) of Tier 1 capital (6%)	46,426,019	44,225,647
– Total capital ratio	26.19%	36,05%
– Surplus (+) / Deficit (-) of total capital (8%)	41,827,644	41,282,263
– Capital conservation buffer (%)	2.5%	2,5%
– Capital conservation buffer	5,747,969	3,679,230

On 15 November 2023, the Regulator set the total capital requirement for the Bank for 2024 at 11.4% (11.5% for 2023), comprising the 8% requirement (Pillar 1) under Article 92(1) of EU Regulation No 575/2013 and an additional requirement (Pillar 2) of 3.4% (3.5% for 2023) set by the Regulator; the Bank's recommended capital buffer requirement (P2G) was set at 2.5% (1.75 for 2023).

The Bank is also required to maintain a capital conservation buffer of 2.5%. (2.5% for 2023).

The Bank meets and complies with the specified capital adequacy requirements for 2024 and 2023.

29. Analysis of assets and liabilities by currency profile

The table below provides the analysis of the Bank's financial assets and financial liabilities as at 31 December 2024:

	USD EUR	EUR EUR	Other EUR	Total EUR
Financial assets				
Cash and balances with the Bank of Latvia	42,232	165,429,872	-	165,472,104
Balances due from banks	11,762,043	144,710	229,046	12,135,799
Financial assets at FVPL	122,802	723,369	-	846,171
Debt instruments at FVOCI	122,855,811	-	-	122,855,811
Loans and advances to customers	3,607,939	151,866,134	-	155,474,073
Other financial assets	1,363,807	397,169	11	1,760,987
Total financial assets	**139,754,634**	**318,561,254**	**229,057**	**458,544,945**
Financial liabilities				
Balances due to banks	2,853	63,520,464	-	63,523,317
Deposits from customers	139,710,391	202,221,239	55,153	341,986,783
Other financial liabilities	183,879	293,031	-	476,910
Provisions	6,133	453,887	-	460,020
Total financial liabilities	**139,903,256**	**266,488,621**	**55,153**	**406,447,030**
Net long / (short) position for statement of financial position items	*(148,622)*	*52,072,633*	*173,904*	*52,097,915*
Off-balance sheet receivables arising from foreign exchange contracts	-	-	-	-
Off-balance sheet liabilities arising from foreign exchange contracts	-	-	-	-
Net long / (short) position on foreign exchange	-	-	-	-
Net long / (short) position	**(148,622)**	**52,072,633**	**173,904**	**52,097,915**

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

	USD EUR	EUR EUR	Other EUR	Total EUR
Financial assets				
Cash and balances with the Bank of Latvia	326,995	209,976,739	-	210,303,734
Balances due from banks	5,087,811	83,348	37,130	5,208,289
Financial assets at FVPL	96,742	151,937	-	248,679
Debt instruments at FVOCI	138,195,572	-	-	138,195,572
Loans and advances to customers	712,893	98,310,143	-	99,023,036
Other financial assets	1,254,100	192,155	-	1,446,255
Total financial assets	**145,674,113**	**308,714,322**	**37,130**	**454,425,565**
Financial liabilities				
Balances due to banks	-	70,595,213	-	70,595,213
Deposits from customers	145,367,890	192,910,932	51,182	338,330,004
Other financial liabilities	2,890	144,615	2,194	149,699
Provisions	27,401	274,869	-	302,270
Total financial liabilities	**145,398,181**	**263,925,629**	**53,376**	**409,377,186**
Net long / (short) position for statement of financial position items	*275,932*	*44,788,693*	*(16,246)*	*45,048,379*
Off-balance sheet receivables arising from foreign exchange contracts	-	-	-	-
Off-balance sheet liabilities arising from foreign exchange contracts	-	-	-	-
Net long / (short) position on foreign exchange	-	-	-	-
Net long / (short) position	**275,932**	**44,788,693**	**(16,246)**	**45,048,379**

30. Analysis of assets and liabilities by maturity profile

The table below provides the analysis of the Bank's financial assets and financial liabilities by contractual maturity as at 31 December 2024.

	Past due EUR	Within 1 month EUR	1 – 3 months EUR	3 – 6 months EUR	6 –12 months EUR	1–5 years EUR	Over 5 years and undated EUR	Total EUR
Financial assets								
Cash and balances with the Bank of Latvia	-	165,472,104	-	-	-	-	-	165,472,104
Balances due from banks	-	12,135,799	-	-	-	-	-	12,135,799
Financial assets at FVPL	-	-	1,012	-	-	60,558	784,601	846,171
Debt instruments at FVOCI	-	9,684,890	51,779,827	33,131,898	18,654,045	9,605,151	-	122,855,811
Loans and advances to customers	356,489	7,795,215	12,265,760	12,643,145	23,177,037	96,168,430	3,067,997	155,474,073
Other financial assets	-	391,764	150	-	5,380	-	1,363,692	1,760,986
Total financial assets	**356,489**	**195,479,772**	**64,046,749**	**45,775,043**	**41,836,462**	**105,834,139**	**5,216,290**	**458,544,944**
Financial liabilities								
Balances due to banks	-	63,523,317	-	-	-	-	-	63,523,317
Deposits from customers	-	281,870,150	11,334,859	9,728,316	36,642,914	2,110,544	300,000	341,986,783
Other financial liabilities	-	394,848	4,467	6,106	11,088	56,952	3,449	476,910
Corporate income tax	-		-		2,578,960	-	-	2,578,960
Total financial liabilities	**-**	**345,788,315**	**11,339,326**	**9,734,422**	**39,232,962**	**2,167,496**	**303,449**	**408,565,970**
Off-balance sheet liabilities	*-*	*30,288,652*	*17,057,502*	*-*	*-*	*-*	*-*	*47,346,154*
Liquidity	**356,489**	**(180,597,195)**	**35,649,921**	**36,040,621**	**2,603,500**	**103,666,643**	**4,912,841**	**2,632,820**

In accordance with the Regulator's requirements, the Bank has to ensure a sufficient amount of liquid assets to settle its liabilities. The Bank's liquidity ratio was 76.86% as at 31 December 2024 (31 December 2023: 87.04%). The liquidity ratio is calculated as the ratio of liquid assets with a maturity of up to 30 days to demand liabilities and liabilities with a maturity not exceeding 30 days.

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

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

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

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

	Past due EUR	Within 1 month EUR	1 – 3 months EUR	3 – 6 months EUR	6 –12 months EUR	1–5 years EUR	Over 5 years and undated EUR	Total EUR
Financial assets								
Cash and balances with the Bank of Latvia	-	210,303,734	-	-	-	-	-	210,303,734
Balances due from banks	-	5,208,289	-	-	-	-	-	5,208,289
Financial assets at FVPL	-	-	-	-	27,005	53,394	168,280	248,679
Debt instruments at FVOCI	-	36,913,047	52,473,002	30,962,545	8,722,153	9,124,825	-	138,195,572
Loans and advances to customers	688,824	7,742,233	8,162,359	6,969,527	13,825,106	61,128,737	506,250	99,023,036
Other financial assets	-	206,979	150	-	-	-	1,239,128	1,446,257
Total financial assets	**688,824**	**260,374,282**	**60,635,511**	**37,932,072**	**22,574,264**	**70,306,956**	**1,913,658**	**454,425,567**
Financial liabilities								
Balances due to banks	-	70,595,213	-	-	-	-	-	70,595,213
Deposits from customers	-	308,878,549	23,491,219	1,848,272	2,878,145	233,819	1,000,000	338,330,004
Other financial liabilities	-	110,694	1,337	2,006	4,011	31,651	-	149,699
Corporate income tax	-	-	-	2,289,614	-	-	-	2,289,614
Total financial liabilities	**-**	**379,584,456**	**23,492,556**	**4,139,892**	**2,882,156**	**265,470**	**1,000,000**	**411,364,530**
Off-balance sheet liabilities	-	*16,168,332*	*5,647,654*	-	-	-	-	*21,815,986*
Liquidity	**688,824.00**	**(135,378,506)**	**31,495,301**	**33,792,180**	**19,692,108**	**70,041,486**	**913,658**	**21,245,051**

The table below presents the Bank's contractual undiscounted cash flows of financial liabilities as at 31 December 2024:

	Past due EUR	Within 1 month EUR	1 – 3 months EUR	3 – 6 months EUR	6 –12 months EUR	1–5 years EUR	Over 5 years and undated EUR	Total EUR
Balances due to banks	-	63,523,317	-	-	-	-	-	63,523,317
Deposits from customers	-	281,903,484	11,437,311	10,017,365	37,544,128	2,341,006	300,000	343,543,294
Other financial liabilities	-	394,848	4,467	6,106	11,088	56,952	3,449	476,910
Corporate income tax	-	-	-	-	2,578,960	-	-	2,578,960
Total financial liabilities	-	**345,821,649**	**11,441,778**	**10,023,471**	**40,134,176**	**2,397,958**	**303,449**	**410,122,481**
Off-balance shee liabilities	-	*30,288,652*	*17,057,502*	-	-	-	-	*47,346,154*

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

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

	Past due	Within 1 month	1 – 3 months	3 – 6 months	6 –12 months	1–5 years	Over 5 years and undated	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balances due to banks	-	70,595,213	-	-	-	-	-	70,595,213
Deposits from customers	-	308,909,959	23,519,513	1,872,933	2,950,319	254,361	1,000,000	338,507,085
Other financial liabilities	-	110,694	1,337	2,006	4,011	31,651	-	149,699
Corporate income tax	-	-	-	2,289,614	-	-	-	2,289,614
Total financial liabilities	-	**379,615,866**	**23,520,850**	**4,164,553**	**2,954,330**	**286,012**	**1,000,000**	**411,541,611**
Off-balance shee liabilities	-	16,168,332	5,647,654	-	-	-	-	*21,815,986*

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

The Bank's financial assets and financial liabilities categorized by the earlier of contractual repricing or maturity dates as at 31 December 2024:

	Within 1 month	1–3 months	3–6 months	6–12 months	1–5 years	Over 5 years	Positions not sensitive to interest rate risk	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Financial assets								
Cash and balances with the Bank of Latvia	165,181,519	-	-	-	-	-	290,585	**165,472,104**
Balances due from banks	12,135,799	-	-	-	-	-	-	**12,135,799**
Financial assets at FVPL	-	1,012	-	-	60,558	52,626	731,975	**846,171**
Debt instruments at FVOCI	9,684,890	51,779,827	33,131,898	18,654,045	9,605,151	-	-	**122,855,811**
Loans and advances to customers	52,922,851	77,067,817	11,691,438	5,764,704	8,027,262	-	-	**155,474,072**
Other financial assets	-	-	-	-	-	-	1,760,986	**1,760,986**
Total financial assets	**239,925,059**	**128,848,656**	**44,823,336**	**24,418,749**	**17,692,971**	**52,626**	**2,783,546**	**458,544,943**
Financial liabilities								
Balances due to banks	63,523,317	-	-	-	-	-	-	**63,523,317**
Deposits from customers	281,870,150	8,334,858	12,718,547	36,352,683	2,410,545	300,000	-	**341,986,783**
Other financial liabilities	-	-	-	-	-	-	476,910	**476,910**
Corporate income tax	-	-	-	-	-	-	2,578,960	**2,578,960**
Total financial liabilities	**345,393,467**	**8,334,858**	**12,718,547**	**36,352,683**	**2,410,545**	**300,000**	**3,055,870**	**408,565,970**
Sensitivity of statement of financial position items to interest rate risk	*(105,468,408)*	*120,513,798*	*32,104,789*	*(11,933,934)*	*15,282,426*	*(247,374)*	*(272,324)*	*49,978,973*

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

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

	Within 1 month EUR	1–3 months EUR	3–6 months EUR	6–12 months EUR	1–5 years EUR	Over 5 years EUR	Positions not sensitive to interest rate risk EUR	Total EUR
Financial assets								
Cash and balances with the Bank of Latvia	209,498,078	-	-	-	-	-	805,656	**210,303,734**
Balances due from banks	5,208,289	-	-	-	-	-	-	**5,208,289**
Financial assets at FVPL	-	-	-	27,004	53,394	-	168,281	**248,679**
Debt instruments at FVOCI	36,913,047	52,588,795	30,962,545	8,722,153	9,009,032	-	-	**138,195,572**
Loans and advances to customers	18,641,978	59,182,921	7,098,830	1,087,595	13,011,712	-	-	**99,023,036**
Other financial assets	-	-	-	-	-	-	1,446,255	**1,446,255**
Total financial assets	**270,261,392**	**111,771,716**	**38,061,375**	**9,836,752**	**22,074,138**	**-**	**2,420,192**	**454,425,565**
Financial liabilities								
Balances due to banks	70,595,213	-	-	-	-	-	-	**70,595,213**
Deposits from customers	308,949,331	23,491,219	1,779,155	2,878,145	532,154	700,000	-	**338,330,004**
Other financial liabilities	-	-	-	-	-	-	149,699	**149,699**
Corporate income tax	-	-	-	-	-	-	2,289,614	**2,289,614**
Total financial liabilities	**379,544,544**	**23,491,219**	**1,779,155**	**2,878,145**	**532,154**	**700,000**	**2,439,313**	**411,364,530**
Sensitivity of statement of financial position items to interest rate risk	*(109,283,152)*	*88,280,497*	*36,282,220*	*6,958,607*	*21,541,984*	*(700,000)*	*(19,121)*	*43,061,035*

32. Related party disclosures

Parties are considered to be related if one party has the ability to control the other party, they are under common control, or one party exercises significant influence over the other party in making financial or operating decisions.

Related parties are defined as shareholders, members of the Council and the Board, key management personnel of the Bank, their close relatives and companies in which they have controlling interest, as well as companies in which they have significant influence.

Transactions with related parties as at 31 December 2024 can be specified as follows:

	Bank's shareholders and entities owned by them	Other related parties
Correspondent account	-	7,032,148
Deposits from customers (contractual interest rate: (3.5% -0.0%)	14,290,669	67,013,481

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

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

Income and expense from transactions with related parties in 2024 can be specified as follows:

	Bank's shareholders and entities owned by them	Other related parties
Interest income	-	133
Interest expense	(223,571)	(688,004)
ECL allowances		
Fee and commission income	162,299	106,912
Fee and commission expense	-	(2,925)
Other income	377	47
Administrative and other operating expense	-	3,056

Off-balance sheet liabilities towards related parties as at 31 December 2024 can be specified as follows:

	Bank's shareholders and entities owned by them	Other related parties
Undrawn credit lines	-	1,700
Assets under management	3,653,451	-

Transactions with related parties during 2024:

	Bank's shareholders and entities owned by them	Other related parties
Deposits accepted from related parties	1,300,000	2,667,000
Deposits repaid to related parties	(900,000)	(100,000)
Loans issued to related parties	312	42,505
Loans repaid by related parties	(312)	(47,047)

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

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

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

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

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

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

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

Transactions with related parties during 2023:

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

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

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

	31.12.2024 EUR	**31.12.2023** EUR
Short-term benefits:		
- salaries	1,048,479	1,240,556
- statutory social insurance contributions	215,434	277,170
Total	**1,263,913**	**1,517,726**

33. Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is quoted prices in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Bank discloses information on fair values of assets and liabilities in such a way as to enable its comparison with their carrying amounts

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

When determining fair values of assets and liabilities, the Bank uses three hierarchical measurement levels of fair value:

> Level 1 – Quoted prices in an active market;
> Level 2 – Valuation techniques for which the input that is significant to the fair value measurement is observable in the market;
> Level 3 – Other valuation techniques for which the input that is significant to the fair value measurement is unobservable.

Instruments within **Level 1** include financial instruments traded on the stock exchange.

Fair value for such financial instruments as quoted equity securities, debt securities and exchange traded derivatives is mainly determined based on publicly available quoted prices (bid prices obtained from the Bloomberg system).

Instruments within **Level 2** include assets for which no active market exists, such as over-the-counter (OCT) derivative financial instruments and currency swaps at fair value through profit or loss.

Level 2 valuation techniques include using discounted cash flows, option pricing models, recent transactions and the price of another instrument that is substantially the same.

Level 3 includes equity instruments measured at FVOCI. There are instruments for which there is currently no active market or binding quotes, such as unlisted equity instruments and private equity holdings.

In the reporting year, the fair value of equity instruments measured at FVOCI was based on an indicative price offer received from a potential buyer, and it is considered to be the best estimate of the fair value.

The Bank conducts assessment of the fair value of financial assets and liabilities which are not presented in the Bank's statement of financial position at their fair value. All financial instruments not measured at fair value are specified at Level 3 in the fair value hierarchy because of unobservable inputs used. When calculating fair value for floating interest rate loans and for fixed interest rate lending, future cash flows are discounted based on the market interest curve, which has been adjusted for applicable margins of new lending. Fixed and floating interest rates for deposits and balances due to banks are calculated similarly.

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

	31.12.2024		**31.12.2023**	
	Carrying amount EUR	Fair value EUR	Carrying amount EUR	Fair value EUR
Assets measured at amortized cost				
Cash and balances with the Bank of Latvia	165,472,104	165,472,104	210,303,734	210,303,734
Balances due from banks	12,135,799	12,135,799	5,208,289	5,208,289
Loans to legal entities	156,763,865	156,880,428	97,989,161	98,082,428
Loans to private individuals, except for mortgages	1,276,270	1,277,723	921,437	922,016
Mortgages	1,958,861	1,960,102	112,438	112,508
Other financial assets	1,760,986	1,760,986	1,446,255	1,446,255
Total assets measured at amortized cost	**339,367,885**	**339,487,142**	**315,981,314**	**316,075,230**

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

	31.12.2024		31.12.2023	
	Carrying amount EUR	Fair value EUR	Carrying amount EUR	Fair value EUR
Liabilities measured at amortized cost				
Balances due to banks	63,523,317	63,523,317	70,595,213	70,595,213
Deposits from customers	341,986,783	342,065,266	338,330,004	338,010,357
Other financial liabilities	476,910	476,910	149,699	149,699
Total liabilities measured at amortized cost	**405,987,010**	**406,065,493**	**409,074,916**	**408,755,269**

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

	31.12.2024			31.12.2023		
	Level 1 EUR	Level 2 EUR	Level 3 EUR	Level 1 EUR	Level 2 EUR	Level 3 EUR
Assets measured at fair value						
Debt instruments measured at FVOCI	122,855,811	-	-	138,195,572	-	-
Financial assets measured at FVPL	-	114,196	731,975	-	88,489	160,190
Total assets measured at fair value	**122,855,811**	**114,196**	**731,975**	**138,195,572**	**88,489**	**160,190**

The Ukrainian government bonds in the Bank's portfolio are specified at Level 2 in the fair value hierarchy and stated at their fair (market) value, taking into account the information about securities price, published by Bloomberg.

The Bank's 3rd level instruments are capital market financial instruments, i.e. shares. The fair value sensitivity analysis of +/-1% for capital market financial instruments is EUR 7.2 thousand. The fair value of equity market capital investments was EUR 7.2 thousand in 2024 and EUR 1.7 thousand in 2023.

34. Assets under management

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

	31.12.2024 (unaudited) EUR	31.12.2023 (unaudited) EUR
Legal entities:		
- residents	4,453,679	4,589,959
- non-residents	41,858,116	36,172,113
Private individuals:		
- residents	65,588	140,762
- non-residents	24,719,411	24,445,027
Total	**71,096,794**	**65,347,861**

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

35. Return on equity and return on assets

	31.12.2024. (unaudited)	**31.12.2023.** (unaudited)
Return on equity (ROE) (%)	17.15%	18.30%
Return on assets (ROA) (%)	2.34%	2.06%

Both ratios are calculated according to the Regulator's regulations on the basis of annual averages month by month. ROE is calculated as annualized net profit for the reporting period divided by the average of total equity. ROA is calculated as annualized net profit for the reporting period divided by the average of total assets.

36. Proposal of the Management Board for profit distribution

Considering the audited financial statements, the Bank's Board proposes to distribute the profit for the year 2024 and the undistributed profit from previous periods as follows::

	31.12.2024 EUR
Net profit for the reporting period, ended as at 31 December 2024	10,299,346
Retained earnings, not distributed	18,336,896
Total retained earnings, not distributed	**28,636,242**
Dividends to pay	5,000,000
Net balance of retained earnings, not distributed	**23,636,242**

37. Events after the reporting date

The Latvian government has enacted Solidarity Contributions Law, which becomes effect from 2025. This law mandates that credit institutions will pay an additional 60% tax on net interest income exceeding 50% of the average from 2018-2022, adjusted for certain items.

As of the last day of the reporting year until the date of signing these financial statements there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto.

Aleksandrs Jakovļevs Chairman of the Board	Yuriy Rodin Chairman of the Council

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Translation from Latvian

INDEPENDENT AUDITORS' REPORT

DOCUMENT DATE IS THE TIME OF ITS ELECTRONIC SIGNATURE

To the Shareholders of Reģionālā investīciju banka AS

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Reģionālā investīciju banka AS (the Bank) set out on pages 8 to 81 of the accompanying Annual Report, which comprise the statement of financial position as at 31 December 2024, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements of the Bank. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements of the Bank.

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Key audit matter	How we addressed the key audit matter
Loan loss impairment	
The carrying amount of loans to corporate and individual customers as at 31 December 2024 amounted to EUR 154 474 thousand in the Bank's financial statements; the total impairment loss allowance as at 31 December 2024 amounted to EUR 5 762 thousand in the Bank's financial statements as disclosed in Note 13 to the financial statements. Loan receivables are significant to the total assets in the Bank's financial statements. The Bank has significant exposures to the borrowers in foreign jurisdictions, including those in Ukraine. On 24 February 2022, Russia launched a large-scale invasion of Ukraine which resulted in the ongoing war with consequences that are not possible predict as of today. The war in Ukraine has created challenges to businesses located and operating there. The stability of the Ukrainian economy is fundamentally impacted by the ongoing events. In 2023, the Bank significantly reduced the portion of portfolio issued to the businesses in Ukraine. The total assets and liabilities of the Bank subject to Ukraine country risk as at 31 December 2024 and 31 December 2023 are presented in Note 2 to the financial statements. The basis of the Bank's loan impairment policy is presented in the accounting policies section in Notes 3(m) and 4(a) to the financial statements. Critical accounting estimates and judgments, disclosures of loans and guarantees and the credit risk management are set out in Notes 3(m), 4(a) and 13 to the financial statements. In order to provide for expected credit losses, management uses a model-based approach and individual assessments to consider factors not captured by the models. We identified this area to be significant for the audit because measurement and recognition of allowances for loan loss impairment reflected in the Bank's expected credit loss model are associated with significant estimation, as it requires the management to exercise judgement and apply complex and subjective assumptions about both the timing and amounts of such impairment. Key areas of judgement include the identification of exposures with a significant increase in credit risk, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward-looking	Our audit procedures included, among others, the following: We updated our understanding and tested key controls over the loan issuance, accounting and monitoring and loan impairment assessment processes. We gained same understanding of how management applied the assumptions and data used to develop accounting estimates used within the Bank's expected credit loss model. We have also tested controls relating to input of data to models and the general IT-controls within the relevant systems. In addition to testing the key controls, we assessed the Bank's accounting policies and the management's assumptions relating to the estimation of expected credit loss and involved our internal IFRS 9 specialists to assess its compliance with the requirements of IFRS 9. For a sample of the loans we assessed the significant expected credit loss model components: staging criteria, including parameters determining a significant increase in credit risk, Loss Given Default, Probability of Default, Exposure at Default and assessed whether the Bank has calculated the estimated expected credit loss in line with the provisioning policy. We assessed whether the borrowers exhibited the significant increase in credit risk or the possible default risk that may affect meeting their scheduled repayment obligations. We selected a sample of loans with higher risk characteristics such as significant exposures arising from the related borrower groups, borrowers in foreign jurisdictions (including Ukraine), exposures arising from delayed payments outstanding on the reporting date and restructured loans, including loans subject to Ukraine country risk. The sample of loans was assessed as to the existence of significant increase in credit risk and default triggers by reviewing the underlying loan documentation and discussing the respective loans with the representatives of the Loan Department and the Debt Collection Department. As concerns non-performing loans, we reviewed the forecasts of future cash flows used in the assessment of loan impairment, evaluated the key assumptions made by the management such as the applied discount rates, collateral values, forecasted business performance and, as applicable, cost to repossess the collateral, collateral sales costs and sales periods. We performed analytical procedures, such as a comparison of loan loss impairment allowance balances to industry levels, comparison to prior year, movements between stages etc. We also assessed the adequacy of the financial statement disclosures in Notes 2, 3 (m), 4(a) and 13.

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information. Individual impairment allowances recognized by the Bank mostly relate to large, individually monitored exposures to corporates and individuals. Therefore, the assessment of the aforementioned exposures is based on the information about each individual borrower and often on the estimated fair value of the relevant collaterals, the assessment of customers which are likely to default, and the future cash flows relating to loans. Due to the above circumstances we considered loan impairment assessment to be a key audit matter.	
Anti-money Laundering (regulatory requirements regarding anti-money laundering)	
As disclosed in Note 4(g) to the financial statements, the Bank is subject to regular Anti-money Laundering related inspections performed by the Bank of Latvia (Regulator). Historically the Bank has been imposed regulatory fines. Given the importance of the matter to the Bank's reputational risk, we have identified this as a key audit matter.	Our audit procedures included, among others, the following: We reviewed the Bank's anti-money laundering and combating the financing of terrorism (AML/CFT) risk management strategy for 2024. We discussed with the Bank's representatives responsible for compliance with anti-money laundering requirements, the adherence to the set targets in the strategy during the year 2024. We reviewed and evaluated the Bank's remediation plan in relation to outstanding Regulator findings and its implementation by inspecting the implementation status reports and correspondence on the implementation with the Regulator. We updated our understanding of the Bank's internal policies and procedures and involved our internal AML specialists in the assessment of policy compliance with AML/CFT laws and regulations. We updated our understanding and tested the key controls for selected largest clients of the Bank over the client onboarding, enhanced due diligence, sanctions screening processes and reviewed their compliance with AML/CFT laws and regulations. We reviewed the communication with the Regulator in order to identify undisclosed or unrecorded violations noted by the regulatory institution and, if such are identified, to assess their possible impact on the financial statements. We discussed the results of the latest Regulator inspections with the Bank's management and representatives of the Regulator. We also assessed the adequacy of the disclosures relating the matter in Note 4(g) to the financial statements.

Reporting on other information

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

- the Management Report, as set out on pages 3 to 6 of the accompanying annual report;
- the Statement on Management Responsibility, as set out on page 7 of the accompanying annual report;

Other information does not include the financial statements and our auditors report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the Other reporting responsibilities in accordance with the legislation of the Republic of Latvia section of our report.

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

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

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

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 21.10.2024 Regulation No. 326 “Regulation on the Preparation of Annual Accounts and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies” of the Bank of Latvia.

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

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Management Report has been prepared in accordance with the requirements of the 21.10.2024 Regulation No. 326 “Regulation on the Preparation of Annual Accounts and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies” of the Bank of Latvia.

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

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

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Other reporting responsibilities and confirmations required by the legislation of the Republic of Latvia and European Union when providing audit services to public interest entities

We were first appointed as auditors of the Bank on 29th September 2017 by Shareholders of the Bank. Our appointment has been renewed annually by Shareholder resolution representing a total period of uninterrupted engagement appointment of 8 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Bank;
- as stipulated in paragraph 37^6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Bank the prohibited non-audit services (NASs) referred to in EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

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The responsible certified auditor on the audit resulting in this independent auditors' report is Dace Negulinere.

ERNST & YOUNG BALTIC SIA
License No. 17

Iveta Vimba
Member of the Board

Dace Negulinere
Latvian Certified Auditor
Certificate No. 175

Riga,

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